

City of Fresno

Compliance Reports and Other Financial Information
Year Ended June 30, 2006

McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

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City of Fresno

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Entitlement Cluster				
Community Development Block Grants/Entitlement Grants, Direct Program				
FY06 Community Development Block Grant	14.218		B-05-MC-06-001	\$ 8,884,881
FY05 Community Development Block Grant	14.218		B-04-MC-06-001	393,720
FY04 Community Development Block Grant	14.218		B-03-MC-06-001	34,452
FY03 Community Development Block Grant	14.218		B-02-MC-06-001	1,208
Total Direct CDGB Program				<u>9,314,261</u>
Emergency Shelter Grant Program, Direct Program				
FY06 Emergency Shelter Grant	14.231		S-05-MC-001	272,691
FY05 Emergency Shelter Grant	14.231		S-04-MC-001	33,719
Total Direct ESG Program				<u>306,410</u> **
HOME Investment Partnership Program, Direct Program				
FY06 HOME	14.239		R-05-MC-06-0204	1,877,197
FY05 HOME	14.239		R-04-MC-06-0204	1,295,082
FY04 HOME	14.239		R-03-MC-06-0204	880,778
FY03 HOME	14.239		R-02-MC-06-0204	243,425
Total Direct HOME Program				<u>4,296,482</u>
Economic Development Initiative, Direct Program				
EDI-Special Projects	14.246		B-05-SP-CA-0720	72,168
EDI-One by One Leadership	14.246		B-02-SP-CA-0064	11,096
Total Direct EDI Program				<u>83,264</u>
HUD Capital Funding Grant Program and Additional Security and Protection Services, Pass-through Program				
FY05/6	14.872	Housing Authority of Fresno	FY05/6	189,733
FY06/7	14.872	Housing Authority of Fresno	FY06/7	29,365
Total Pass-through HUD Program				<u>219,098</u>
<i>Total U.S. Department of Housing and Urban Development</i>				<u>14,219,515</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
 Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Interior				
Urban Park and Recreation Recovery, Pass-through Program—Development of Victoria West Park	15.919	CA Department of Parks and Recreation	C8939007	\$ 56,075
Total Pass-through UPRRP Program	<i>Total U.S. Department of Interior</i>			<u>56,075</u>
U.S. Department of Justice				
Office of Justice Programs/Office of Juvenile Justice and Delinquency Prevention, Pass-through Program— Juvenile Accountability Block Grant (JABG 05)	16.523	CA Board of Corrections	BDC101-05	17,405
Total Pass-through OJJDP Program				<u>17,405</u> **
Office of Justice Programs/National Institute of Justice, Direct Program National Institute of Justice Research, Evaluation & Development Project Grant (Cold Case DNA)	16.560		2005-DN-BX-K006	157,960
Total Direct NIJ Program				<u>157,960</u>
Office of Justice Programs, Pass-through Program— FY06 Violence Against Women Law Enforcement Specialized Units Program	16.588	CA Office of Emergency Services	LE05036675	62,742
Total Pass-through OJP Program				<u>62,742</u> **
Office of Justice Programs/Bureau of Justice Assistance, Direct Program 2003 Local Law Enforcement Block Grants 2004 Local Law Enforcement Block Grants	16.592 16.592		2003-LB-BX-0099 2004-LB-BX-0404	55,801 148,497
Total Direct BJA Program				<u>204,298</u> **

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Justice, Continued				
Office of Justice Programs/Office of Weed and Seed, Pass-through Program				
2005 Weed and Seed SE	16.595	United Way of Fresno County	2005-WS-Q5-0052	\$ 81,439
2005 Weed and Seed SW	16.595	United Way of Fresno County	2005-WS-Q5-0055	46,538
2006 Weed and Seed SE	16.595	United Way of Fresno County	2006-WS-Q6-0037	13,621
2006 Weed and Seed SW	16.595	United Way of Fresno County	2006-WS-Q6-0045	1,070
Total Pass-through OWS Program				142,668
Office of Justice Programs/Bureau of Justice Assistance, Direct Program				
Bulletproof Vest Partnership Program FY04	16.607		FY04	2,328
Bulletproof Vest Partnership Program FY05	16.607		FY05	24,516
Total Direct BJA Program				26,844
Office of Justice Programs/Bureau of Justice Assistance, Direct Program				
Community Prosecution and Project Safe Neighborhoods	16.609		2005PSN1014	49,999
Total Direct BJA Program				49,999
Office of Community Oriented Policing Services, Direct Program				
COPS Universal Hiring Award	16.711		2002ULWX0061	2,041,502
COPS in Schools Award (Modified)	16.711		2002SHWX0657	32,158
COPS in Schools Award FY04	16.711		2004SHWX0147	52,100
Total Direct OCOPS Program				2,125,760 **
Office of Justice Programs/Office of Juvenile Justice and Delinquency Prevention, Pass-through Program				
ABC FY06	16.727	CA Department of Alcoholic Beverage Control	05G-LA04	100,000
Total Pass-through OJJDP Program				100,000
Office of Justice Programs/Bureau of Justice Assistance, Direct Program				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		2005-DJ-BX-0077	398,440
Total Direct BJA Program				398,440
	<i>Total U.S. Department of Justice</i>			3,286,116

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Transportation				
Federal Aviation Administration, Direct Program—				
Airport Improvement Program:				
AIP-35 FF01 D & E	20.106		DTFA08-01-C-31182	\$ 534,295
AIP-36 FF01 N	20.106		DTFA08-01-C-31179	209,330
AIP-39 FF02 E	20.106		DTFA08-02-C-31263	213,311
AIP-40 FF02 D	20.106		DTFA08-02-C-31274	832,271
AIP-41 FF02 D	20.106		DTFA08-02-C-31317	124,010
AIP-43 FF03	20.106		DTFA08-03-C-31415	470,762
AIP-44 FF03	20.106		DTFA08-03-C-31437	762,000
AIP-45 FF04	20.106		DTFA08-04-C-31476	506,682
AIP-46 FF04	20.106		DTFA08-04-C-31473	(161,533)
AIP-47 FF05	20.106		DTFA08-05-C-31573	127,239
AIP-48 FF05	20.106		DTFA08-05-C-31585	702,756
AIP-06 FY01 D - Master Plan	20.106		DTFA08-01-C-31146	850
AIP-07 FF02 E/D - Des/Const 12R Ext	20.106		DTFA08-02-C-31264	222,498
AIP-08 FF03	20.106		DTFA08-03-C-31417	444,576
AIP-09 FY04	20.106		DTFA08-03-C-31470	279,023
AIP-10 FY05	20.106		DTFA08-05-C-31592	24,286
Total Direct FAA Program				<u>5,292,356</u> **
Highway Planning and Construction Cluster—Federal				
Highway Administration, Pass-through Program—				
Highway Research, Planning and Construction				
Program	20.205	CA Department of Transportation	Master Agreement 06-5060	<u>4,721,788</u>
Total Pass-through FTA Program				<u>4,721,788</u> **
Federal Transit Cluster—Federal Transit Capital				
Investment Grants, Direct Program				
FY04 Federal Transit Capital Investment Grant (Construct CNG Station)	20.500*		CA-03-0773-00	604,122
FY05 Federal Transit Capital Investment Grant Bus Purchase	20.500*		CA-03-0667-00	100,096
FY05 Federal Transit Capital Investment Grant Bus Facility	20.500*		CA-03-0693-00	341
FY06 Urban Mass Transportation Capital, CMAQ	20.500*		CA-90-Y385	<u>5,900,747</u>
Subtotal Direct FTA Cluster Program				<u>6,605,306</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Transportation, Continued				
Federal Transit Cluster—Federal Transit Formula Grants, Direct Program				
FY98 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-X892-00	\$ 73,371
FY99 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-X974-00	49,791
FY00 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y021-00	4,027,917
FY01 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y103-00	126,643
FY03 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y229-00	163,391
FY04 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y309-00	623,247
FY05 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y367-00	224,061
FY06 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y494-00	6,856,307
Subtotal Direct FTA Cluster Program				12,144,728 **
Total Direct FTA Cluster Program				18,750,034
Capital Assistance Program for Elderly and Disabled Persons, Pass-through Program				
FY02-03 Elderly and Disabled Transit Program (Purchase 8 Paratransit Vehicles)	20.513	CA State Transportation Commission	SA 643816-10	358,400
Total Pass-through FTA Program				358,400 **
Highway Safety Cluster—National Highway Traffic Safety Administration, Pass-through Program				
Driving Impaired Motorist Enforcement	20.600	CA Office of Traffic Safety	AL0535	280,271
CA Seat Belt Compliance Campaign FY06	20.600	CA Office of Traffic Safety	IN61002	76,861
Seatbelt Awareness for Everyone (SAFE)	20.600	CA Office of Traffic Safety	OP0504	123,214
Sobriety Checkpoints FY05	20.600	CA Office of Traffic Safety	AM05088	205,862
Fresno Area Illegal Street Racing Task Force Program	20.600	CA Office of Traffic Safety	PT0564	150,329
Driving Under the Influence College Corridor Grant	20.600	CA Office of Traffic Safety	4C052004-1	1,265
Help Eliminate Alcohol Re-offender Team (HEART)	20.600	CA Office of Traffic Safety	AL0536	302,082
CHP Street Racing	20.600	CA Office of Traffic Safety/ Calif Hwy Patrol	AL0511/ 4C435001	4,947
Total Pass-through NHTSA Program				1,144,831

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Transportation, Continued				
Highway Safety Cluster—Office of the Secretary, Direct Program				
Small Community Air Service Development Pilot Program	20.930		OST-2003-15065-47	\$ 857,956
Total Direct SCASD Program				<u>857,956</u>
	<i>Total U.S. Department of Transportation</i>			<u>31,125,365</u>
U.S. Department of Federal Mediation & Conciliation Service—Labor Management Cooperation Grant, Direct Program—Labor, Management Relationship Training	34.002		03-CA/PS-010	24,239
Total Direct LMCP Program				<u>24,239</u>
	<i>Total U.S. Department of Federal Mediation & Conciliation</i>			<u>24,239</u> **
U.S. Department of Environmental Protection Agency Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act, Direct Program				
Water Infrastructure - Surface Water Treatment Facility Supply Pipeline	66.424		XP-96960901-0	919
Total Direct SSDSP Program				<u>919</u>
Solid Waste Management Assistance, Direct Program Green Building Demonstration Project	66.808		X1-96953401	7,438
Total Direct SWMA Program				<u>7,438</u>
	<i>Total U.S. Department of Environmental Protection Agency</i>			<u>8,357</u>
U.S. Department of Health and Human Services Medical Reserves Corp, Direct Program— 2003/2006 Medical Reserve Corp Small Grant Program	93.008		MRCSG020034-03-2	36,109
Total Direct MRC Program				<u>36,109</u>
Administration on Aging, Pass-through Program— Senior Hot Meals on Wheels	93.045	Fresno/Madera Area Agency on Aging	FY06	49,945
Total Pass-through HHS Program				<u>49,945</u> **

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See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S Department of Health and Human Services, Continued Administration for Children and Families, Pass-through Program—Mentoring Children of Prisoners	93.616	Fresno Leadership Foundation dba One by One Leadership	90CV0081/01	\$ 26,009
Total Pass-through ACF Program				<u>26,009</u>
		<i>Total U.S. Department of Health and Human Services</i>		<u>112,063</u>
U.S. Department of Homeland Security State Domestic Preparedness Equipment Support Program, Pass-through Program FY03 Homeland Security Grant (Part 2)	97.004	Fresno Cty/CA Office of Emergency Services	2003-35	3,098
FY04 Homeland Security Grant	97.004	Fresno Cty/CA Office of Emergency Services	2004-45	357,643
Total Pass-through SDPES Program				<u>360,741</u>
State Homeland Security for Urban Preparedness, Pass-through Program FY04 Urban Area Security Initiative	97.008*	CA Office of Emergency Services	2004-14	3,001,607
Total Pass-through UASI Program				<u>3,001,607</u>
Assistance to Firefighters Grant Program, Pass-through Fire Discipline 2004 Homeland Security Grant	97.044	Fresno County/CA Office of Emergency Services	FY04 SHSP	57,155
Fire Discipline 2005 Homeland Security Grant	97.044	Fresno County/CA Office of Emergency Services	2005	175,858
FY05 Fire Prevention and Safety Program	97.044	Fresno County/CA Office of Emergency Services	EMW-2005-FP-00862	6,000
Total Pass-through AFG Program				<u>239,013</u>
Citizen Corps Program, Pass-through Program 2002/2003 Citizen Corps/CERT Grant	97.053	State of CA Governor's Office on Service and Volunteerism	EMF-2003-GR-0315	43,430
Total Pass-through CCP Program				<u>43,430</u>
Metropolitan Medical Response System, Direct Program FY04 Metropolitan Medical Response System	97.071		EMW-2004-GR-0640	245,252
FY05 Metropolitan Medical Response System	97.071			65,592
Total Direct MMRS Program				<u>310,844</u>

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
 Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Homeland Security, Continued				
Buffer Zone Protection Plan (BZPP), Direct Program				
Buffer Zone Protection	97.078		2005-GR-TS-0068	\$ 12,047
Total Direct BZPP Program				<u>12,047</u>
	<i>Total U.S. Department of Homeland Security</i>			<u>3,967,682</u>
Total expenditures of federal awards				<u><u>\$ 52,799,412</u></u>

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

State or Local Grantor/Program and/or Project Title	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	State Expenditures
CA State Department of Conservation—Division of Recycling, Community Outreach Branch, Direct Program			
2004/2005 Recycling Program		2004/2005	\$ 21,626
2005/2006 Recycling Program		2005/2006	15,713
<i>Total CA Dept of Conservation</i>			37,339
CA State Environmental Protection Agency—CA Integrated Waste Management Board, Direct Program			
03/04 Used Motor Oil Block Grant—9th Cycle		UBG9-03-193	83,009
05/07 Used Motor Oil Block Grant—10th Cycle		UBG10-04-124	119,401
2003/2004 Waste Tire Enforcement Program		TEA9-03-6	4,518
2004/2005 Waste Tire Enforcement Program		TEA11-04-9	178,283
2003/2004 Local Gov't Waste Tire Cleanup Matching Grant		TCU11-03-6	40,542
2004/2005 Local Gov't Waste Tire Cleanup Matching Grant		TCU12-04-2	49,539
2003/2004 Local Tire Amnesty Day Grant		TR43-04-18	14,375
2003/2004 Local Tire Amnesty Day Grant		TR34-03-2	12,452
2003/2004 Waste Tire Playground Cover Grant		TR29-03-13	9,745
<i>Total CA Environmental Protection Agency</i>			511,864
CA State Department of Finance, Direct Program			
2005 CA Supplemental Law Enforcement Service Program		FY04/05	102,572
2006 CA Supplemental Law Enforcement Service Program		FY05/06	385,525
<i>Total CA Department of Finance</i>			488,097
CA State Department of Fish and Game Wildlife Conservation Board, Direct Program			
San Joaquin River Parkway Friant Road		WC-2043TC	44,616
<i>Total CA Department of Fish and Game</i>			44,616

* Denotes major program.

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See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2006

State or Local Grantor/Program and/or Project Title	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	State Expenditures
CA State Department of Health Services, Direct Program Kids' Plates		53558BLDCE -0003583	\$ 5,905
<i>Total CA Department of Health Services</i>			<u>5,905</u>
CA State Department of Housing and Community Development, Direct Program Community Code Enforcement Incentive Program CalHome		02-CEGP-8 03-CALHOME-010	160,217 429,514
<i>Total CA Dept of Housing and Community Development</i>			<u>589,731</u>
CA State Department of Parks and Recreation—The Resources Agency, Direct Program Per Capita Grant Program 2002 Murray-Hayden Program - 2000 Bond Act Per Capita Grant Program 2003		C2003063 C2009603 C0207067	72,265 627,275 709,658
<i>Total CA Department of Parks and Recreation</i>			<u>1,409,198</u>
CA State Office of Emergency Services (OES), Pass-through Program CA Multi-Jurisdictional Methamphetamine Enforcement Teams 2005/2006	County of Fresno	05-346	200,064
<i>Total CA State Office of Emergency Services</i>			<u>200,064</u>
CA State Department of Transportation Aeronautics Program of the CA Transportation Commission, Direct Program AIP - State match to Fed Proj #3-06-0088-05 AIP - State match to Fed Proj #3-06-0088-06 AIP - State match to Fed Proj #3-06-0088-08 AIP - State match to Fed Proj #3-06-0088-09 AIP - State match to Fed Proj #3-06-0088-10 Total Direct CTC Program		Fre-2-01-3-Mat Fre-2-01-2-Mat Fre-2-04-1A&B-Mat Fre-2-04-2-Mat Fre-2-05-1-Mat	7,352 506 46,286 13,222 1,169
Total Direct CTC Program			<u>68,535</u>
Division of Local Transportation Assistance, Direct Program Highway Research, Planning & Construction Program [State Portion]		Master Agreement 06-5060	403,434
Total Direct DOT Program			<u>403,434</u>
<i>Total CA Department of Transportation</i>			<u>471,969</u>

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See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
 Year Ended June 30, 2006

State or Local Grantor/Program and/or Project Title	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	State Expenditures
Fresno Metropolitan Flood Control District, Direct Program 2003 Clean Storm Water Grant - Environmental Education Project		2003	\$ 42,279
	<i>Total Fresno Metro Flood Control District</i>		<u>42,279</u>
Pacific Gas & Electric, Direct Program 2005 PG&E Company Local Economic Development Grant		2005	4,000
	<i>Total Pacific Gas & Electric</i>		<u>4,000</u>
SBC, Direct Program SBC Excelsior Grant/Fresno BEST Lab		1	493,634
SBC Excelsior Grant/Fresno BEST Program		2	55,221
	<i>Total SBC</i>		<u>548,855</u>
San Joaquin Valley Unified Air Pollution Control District, Direct Program Bicycle Lane Stripping @ Bullard		002-008	2,702
Bicycle Lane Stripping @ Fruit		002-009	3,968
Incentive Program - Purchase 56 Cleaire Retrofit Kits		C-1247	765,565
Remove II - Electronic Mobility Component		R-013	38,174
Remove II - Reduce Emissions from Motor Vehicles		R-049	1,414
	<i>Total SJV Unified Air Pollution District</i>		<u>811,823</u>
	Total expenditures of state awards		<u>5,165,740</u>
	Total expenditures of federal and state awards		<u>\$ 57,965,152</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

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N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

Notes to Schedule of Expenditures of Federal and State Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) presents the activity of all federal and state award programs of the City of Fresno, California (the City). The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through from other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

The accompanying Schedule is presented on the modified-accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

In addition, the Schedule reflects certain adjustments resulting from grant close-outs and transfers of expenditures between grants. As a result, certain grants could show negative expenditures.

Note 2. Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Program Title Provided	Federal CFDA Number	Amount
Community Development Block Grant Entitlement Program	14.218	\$ 418,146
Emergency Shelter Grants	14.231	289,612
HOME Investment Partnership Program	14.239	966,487

Note 3. Section 108 Loans

The City has four Section 108 loans outstanding at June 30, 2006. Semiannual payments on these Section 108 loans are made from interest earned on the investments of the unspent restricted loan proceeds and from Community Development Block Grant Entitlement funds, and are included in the federal expenditures for the Community Development Block Grant on the Schedule. Principal and interest payments on all four loans totaled \$988,892 for the year ended June 30, 2006, of which \$326,156 was paid from Community Development Block Grant funds.

City of Fresno

Notes to Schedule of Expenditures of Federal and State Awards

Note 3. Section 108 Loans, Continued

As of June 30, 2006, there was \$592,223 of unspent Section 108 loan proceeds remaining. A summary of Section 108 loans outstanding as of June 30, 2006 is as follows:

<u>CFDA #</u>	<u>Grant Loan Program</u>	<u>Unspent Loan Proceeds as of June 30, 2006</u>	<u>Outstanding Loan Balances as of June 30, 2006</u>
14.218	Section 108 Note, Fresno Pacific Towers	\$ 353	\$ -
14.218	Section 108 Note, Regional Medical Center	541,204	2,275,000
14.218	Section 108 Note, Fresno-Madera Area Agency on Aging	-	1,220,000
14.218	Section 108 Note, Neighborhood Streets/Parks	50,666	1,380,000
		<u>\$ 592,223</u>	<u>\$ 4,875,000</u>

Notes to Schedule of Expenditures of Federal and State Awards

Note 4. Office of Criminal Justice Planning Disclosures

The following schedule represents the detail of expenditures for each Office of Criminal Justice Planning program for the year ended June 30, 2006:

	Federal/ State Match	Local Match	Total
Juvenile Accountability Incentive Block Grant:			
Grant Award Number CSA101-05:			
Personal services	\$ 17,405	\$ 1,934	\$ 19,339
Operating expenses	-	-	-
Equipment	-	-	-
	<u>\$ 17,405</u>	<u>\$ 1,934</u>	<u>\$ 19,339</u>
Violence Against Women Law Enforcement:			
Specialized Units Program—Grant Award Number LE040266675:			
Personal services	\$ 15,686	\$ 5,229	\$ 20,914
Operating expenses	47,057	15,686	62,742
Equipment	-	-	-
	<u>\$ 62,742</u>	<u>\$ 20,914</u>	<u>\$ 83,656</u>
California Multi-Jurisdictional Methamphetamine:			
Enforcement Teams Program—Grant Award Number 05-346:			
Personal services	\$ 185,064	\$ -	\$ 185,064
Operating expenses	15,000	-	15,000
Equipment	-	-	-
	<u>\$ 200,064</u>	<u>\$ -</u>	<u>\$ 200,064</u>
Grand totals for the Office of Criminal Justice Planning Pass-through Programs:			
Personal services	\$ 218,155	\$ 7,163	\$ 225,317
Operating expenses	62,057	15,686	77,742
Equipment	-	-	-
	<u>\$ 280,211</u>	<u>\$ 22,848</u>	<u>\$ 303,059</u>

Note 5. Urban Area Securities Initiative Program

The City of Fresno, along with all other incorporated cities within the County of Fresno, California, has been recognized as a Federal Urban Area for the purpose of the Urban Area Security Initiative Program (UASI), and formed a Fresno Urban Area Work Group (FUAWG) on May 12, 2004 for the purpose of receiving the UASI program funding and administering it as a single participating jurisdiction. All program activities, including procurement, disbursement and reimbursement, shall be upon the prior recommendation of the FUAWG and approved by each party's Point of Contact (POC). The City, the FUAWG's lead entity, has assumed the overall responsibility for ensuring that the FUAWG is compliant with all UASI program requirements, including the receipt, disbursement and accounting of all UASI program. The City is eligible to receive UASI FY 2004 funding through November 30, 2006. For the fiscal year ended June 30, 2006, the City incurred expenditures of \$3,001,607 under UASI FY 2004 program.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Fresno, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fresno, California, (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 2006. We did not audit the financial statements of the Redevelopment Agency of the City of Fresno (the Agency), a blended component unit of the City which represents approximately 5.0%, -10.9% and 5.7%, respectively, of the assets, net assets and revenues of the governmental activities, and we did not audit the financial statements of the City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement System (collectively, the Retirement Systems), blended component units of the City which represent 89.3%, 92.6% and 52.6% respectively, of the assets, net assets and revenues of the City's aggregate remaining fund information. The financial statements of the Agency and the Retirement Systems were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency and the Retirement Systems of the City, are based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item RC# 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's management, Mayor, City Council, federal and state awarding agencies, pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Riverside, California
December 22, 2006

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal and State Awards

To the Honorable Mayor and
Members of the City Council
City of Fresno, California

Compliance

We have audited the compliance of the City of Fresno, California, (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item RC# 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fresno, California, (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Redevelopment Agency of the City of Fresno (the Agency), a blended component unit of the City which represents approximately 5.0%, -10.9% and 5.7%, respectively, of the assets, net assets and revenues of the governmental activities, and we did not audit the financial statements of the City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement System (collectively, the Retirement Systems), blended component units of the City which represent 89.3%, 92.6% and 52.6% respectively, of the assets, net assets and revenues of the City's aggregate remaining fund information. The financial statements of the Agency and the Retirement Systems were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency and the Retirement Systems of the City, are based on the reports of the other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City's management, Mayor, City Council, federal and state awarding agencies, pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Riverside, California
December 22, 2006

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None Reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major program:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.500 & 20.507	Federal Transit Capital Investment and Formula Grants Cluster
97.008	Urban Areas Securities Initiative Program

Dollar threshold used to distinguish between type A and type B programs: \$ 1,583,982

- Auditee qualified as low-risk auditee? X Yes No

II. Financial Statement Findings

A. Reportable Conditions

RC# 2006-1—Inventory and Valuation of Capital Assets

Criteria: The A-102 Common Rule, applicable to state and local governments, requires that capital assets be used in the federal program for which it was acquired or, when appropriate, other Federal programs. Capital assets records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the capital assets records, an appropriate control system shall be used to safeguard capital assets, and capital assets shall be adequately maintained.

Condition: In our letter to management for the fiscal years ended June 30, 2004 and 2005, we reported that the City does not consistently perform an inventory of all capital assets owned. Per review of Administrative Order 1-3, each City department is responsible for coordinating a physical inventory of capital assets every four years. With the advent of Governmental Accounting Standards Board (GASB) Statement No. 34, there is an increased emphasis on capital asset accounting and the need to verify asset existence through periodic inventory.

The City's Internal Audit function conducted a comprehensive assessment of the City's capital asset processes and compliance with Administrative Order 1-3. This assessment consisted of evaluating the effectiveness and efficiency of the current capital assets processes, the reliability of the information provided by the City's various departments to the Finance Department, and the City's compliance with applicable policies, procedures, laws and regulations. The Internal Audit function released its report in July 2006 and identified numerous findings along with recommendations to remedy these findings. City management responded to each of the findings and recommendations, and these responses are incorporated in the internal Audit report.

In addition, the Fresno Yosemite International Airport, an enterprise fund of the City, performed a comprehensive valuation and completeness analysis of all capital assets owned. This analysis revealed there were errors in past reporting of Airport capital assets resulting in an adjustment (addition) to the financial statements of approximately \$5.8 million for capital assets and a corresponding \$2.1 million adjustment (addition) to related accumulated depreciation for a net adjustment, or increase, of \$3.7 million.

Cause: The City's noncompliance with the provisions of the A-102 Common rule are due to the following factors: (1) currently operating under an outdated policy on the inventory of capital assets, (2) inconsistencies in the recording, tracking, and properly disposing of City capital assets, (3) communication gaps between the Finance Department and all other City departments regarding the oversight of the capital asset recording process and (4) the Finance Department's difficulty in reconciling capital assets data with data from other City departments.

Effect: Improper recording and tracking of capital assets may affect the accuracy of capital assets recording and reporting, result in misstated financial statements, and possible noncompliance with federal and state regulations.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Recommendation: We recommend that City management work as expeditiously as possible to implement the recommendations in the Internal Audit report of July 2006. Implementation of these recommendations should not be a multiyear task. A timeline for implementation with specified key milestones or benchmarks for measuring progress should be established. This timeline, including key milestones, should be communicated to and frequently updated with the Mayor and City Council. The City's internal audit function should monitor implementation.

City response: Since fiscal year 2002 and the implementation of GASB 34, the City of Fresno has worked diligently and has made great strides toward not only identifying areas of weakness with respect to internal controls surrounding fixed assets, but also minimizing these risks and taking corrective actions to tighten weak controls. Subsequent to the June 2004 audit, Finance engaged the services of Internal Audit to perform a citywide analysis of fixed asset processes in order to determine the areas of greatest risk and identify those departments with the greatest exposure. This was done so that areas with the greatest risk could be targeted first and limited resources could be concentrated in areas where exposure was the greatest.

From planning to final completion, this audit encompassed well over twelve months worth of Internal Audit and Finance Department combined effort. The result was a comprehensive analysis of specific areas in need of correction. The audit was finalized in May 2006 and prior to, but most definitely since that time, Finance has worked tirelessly not only on an extensive plan of corrective action, but has also implemented many of the recommendations suggested by Internal Audit.

Like many other cities, one of the biggest challenges has been the education process for many departments. GASB 34 completely changed the way municipalities account for fixed assets. Each year since GASB 34, Finance has been conducting training sessions for City departments to familiarize them with and reinforce the requirements of GASB 34. Each session has included the five essential framework elements of internal control: (1) establish and maintain a sound control environment; (2) ensure regular, ongoing assessment of risk; (3) design, implement and maintain control-related policies and procedures to compensate for the identified risks; (4) ensure adequate communication; and (5) establish or enhance regular, ongoing monitoring of control related policies and procedures.

The Finance Department/CAFR Team, in December 2006, completed Phase I of its upgrade to the PeopleSoft Fixed Asset Management software and continues to evaluate new functionality that the Team would like to implement in Phase II. Based upon new features that are available as a result of the upgrade to the system, determinations will be made as to what functionality should be pursued to assist Departments in better tracking of assets. In addition new features will enable the streamlining and automation of more of the process. As part of continuing follow-up to the upgrade, Departments will be included in discussions in order to determine how best to use the system to provide as much data as possible in order to meet the numerous and varied user needs.

While the first phase of the upgrade to the Fixed Asset Module is now completed, full integration and adoption of more functionality is expected to transpire over the next eight to twelve months. This timeline, of course, is dependent upon and impacted by the availability of Information Services staff and the availability of financial resources. Like many cities, the City of Fresno has projects that unfortunately compete for the same limited resources. Prioritization of these projects and allocation of resources ultimately rests with City Administration and must be balanced with numerous projects including those dealing with health and safety.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

One of the recommendations made by Internal Audit was that fixed asset information gathered citywide be more consistent and more uniform in nature. This is certainly a goal of the Finance Department on a go forward basis, and where possible will be addressed retroactively as well. However, by no means is it feasible to go back and reenter each and every fixed asset item currently included in the Fixed Asset Module.

Various forms of asset information are needed by distinct and different user groups located throughout the City. Asset data needed by specific departments may or may not be identical to information needed by the Finance Department for financial reporting purposes. For example: the Streets Division may need to know not only the number and location of light standards located throughout the City, but also the component parts making up a light standard. This detailed information assists the Division in maintaining sufficient on hand inventory to insure that the lights remain fully functional. Finance for reporting purposes, focuses on the total count and cost of all complete fixtures at the end of each fiscal year. It must be understood that criteria established by Finance for financial reporting purposes may or may not be consistent or the same as specific or alternative needs of each of the individual departments. The new version of the PeopleSoft Fixed Asset Module provides for more user defined fields which will provide for expanded descriptive asset locations and more diverse asset information. In the case of land, land improvements, easements and right of ways, Finance is also asking that Assessors Parcel Numbers (APNs) or some other common identifier be used to assist in asset location and asset filtering needs in order to provide for and enable additional tools when searching for a particular asset.

In preparation for the close of Fiscal Year 2006, Finance conducted numerous meetings with all City Departments and Divisions regarding their fixed assets. These meetings were also conducted to communicate to departments the adoption of Governmental Accounting Standards Board Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.

These meetings were conducted over several weeks with attendees from each Department/Division which consisted of Department/Division Managers and Property Monitors. The topics of discussion included GASB No. 42 as well as the current Fixed Assets Administrative Order (AO) and suggestions as to what the new improved AO should include. Each department was asked to provide input as to issues they have encountered and how the AO can be improved to enable better compliance. Finance updated their listing of names and contact information for the current property monitors in each Department. In addition, the Citywide Property Monitor, housed in Finance, who is also the lead for the PeopleSoft Asset Management Module was reintroduced to each Department team member.

Each Department was queried about their processes of tracking their own fixed assets; criteria used for determining if an item is capitalized or not capitalized (i.e., sensitive assets). Finance inquired about what special reports and databases each department was using for tracking sensitive assets. Many departments are using Microsoft Excel or Access. For example, the Information Services Department tracks all of the City's computers in the Asset Management Module. Fleet tracks all of the City's vehicles in Fleet Anywhere with the exception of Fire trucks. Public Works does not have many equipment purchases, however they have numerous and substantial infrastructure assets.

Finance conducted a lengthy explanation of the Fixed Assets tagging procedure. City asset tags are maintained by the Citywide Property Monitor and are issued at the request of the individual department Property Monitors. Finance also presented and explained in detail the Fixed Assets Inventory Report which will be available to all Departments in the PeopleSoft "COF" Reports area. Finance is working with departments to gather information necessary to set up User Id's for Property Monitors who do not have access to the Asset Management database for viewing.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Detailed lists were provided to each Department/Division, and Property Monitors were requested to review their fixed assets listings and update the location codes, notate assets no longer held, and to add assets that might be missing.

Pursuant to a triennial audit of the Transit Department, performed by the Federal Transit Administration, a finding was made on the tracking of assets purchased with grant funds. Additional fields needed to be created to record the grant source number which funded the asset along with the Federal percentage, and how disposals were accounted for. A Use, Condition and Vested Title field was also added for tracking purposes. Finance worked with ISD to create a grant funding panel in the Asset Management database for tracking and reporting these grant funded assets.

At the conclusion of each meeting, a current listing of fixed assets as of June 30, 2006 was provided to all departments and divisions. They were asked to review these and notate necessary changes. The procedures for retiring assets and the requirements for completing a revised more user-friendly Fixed Asset 91 Form (F/A 91) were discussed in detail. Finance requested that all departments review and return the list with a completed F/A 91 Form for disposal of fixed assets which are no longer in service.

During the course of the preparation of the City's Comprehensive Annual Financial Statement (CAFR), each Department/Division returned to Finance a listing of not only those assets that were retired in FY06, but also those assets that were impaired and any known assets that were missing. The Finance Department (CAFR Team) has prepared an accounting manual for impaired assets and a form has been developed to facilitate the reporting of impaired assets. Subsequent to the completion of the FY 2006 CAFR, Finance along with the Internal Audit Division will be conducting physical site inspections to verify major assets listed on the fixed asset listings. In addition, Finance is working with each department to incorporate appropriate updates, changes and modifications to the current existing Administrative Order (AO) in order to make it more responsive to GASB 34, 42 and other such related GASB's. A draft copy of the revised AO and the year end fixed asset procedures is attached to this report. These will be reviewed with each department in detail in order to obtain feedback and make modifications where necessary. These documents will be finalized prior to June 30, 2007.

To address issues with Public Work's infrastructure and right of way reporting, the Finance Department implemented a new system in which Public Works, at the time construction is implemented, provides specific required information related to cost and square footage data on a Finance Department designed form. When the housing tracts are subsequently completed and the infrastructure is approved and accepted by the City, all necessary data is available and ready for inclusion on the Asset Management System. This greatly enhances and provides for complete reporting on infrastructure and easements.

Much of the ongoing analysis and determination of fixed assets on hand must be made by individual departments as it is impossible for a City the size and complexity of Fresno to assign this process to one Citywide Fixed Asset Monitor to oversee and physically inspect and account for the entire pool of assets for the City. Finance continues to engage the support of the City Managers' Office and Department Directors to cooperate and assist in the tracking of assets. Finance is and will continue working closely with each Department to coordinate and direct the efforts of their staff to enhance existing asset data as well as data provided on a go forward basis. By June 30, 2008, each department will be responsible for completing a fixed asset "audit" of all of their fixed assets. Department Directors will be required to "certify" by signing an asset audit certification letter that they have accounted for their assets and that they have met the requirements of the Fixed Asset AO.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Each department is working diligently to ascertain the completeness of their fixed asset listings and Finance will continue to engage with each Department to ensure that the momentum continues. Public Works and the Utilities Department (Sewer) are working to bring on line, a "Pavement Management System" (the Hansen system). A consultant has been hired to take pictures of all streets, curbs, gutters, street and traffic lights and various other items of infrastructure. These images can be loaded into the system and will provide a 360 panoramic view of these assets. The system will also compliment I-View which provides location specific information such as addresses and APN numbers. This then lends itself to being able to obtain assessed values where material and useful. Key to the completion of this project will be the ongoing funding and allocation of sufficient resources. When completed, the system will enable better, more comprehensive and detailed tracking of infrastructure assets. This project if funded appropriately in each year and staffed adequately, will take at least 12 to 18 months to fully implement this system.

While Finance wholeheartedly agrees that implementation of these processes and procedures need to occur expediently, realistic resource availability and competing Administration projects could and will significantly impact how quickly some of the process revisions are fully implemented. Finance will continue to work diligently to make enhancements to the systems, processes and procedures and will focus on those areas with the greatest risk of exposure.

B. Compliance Findings

No matters were reported.

III. Findings and Questioned Costs for Federal Awards

A. Reportable Conditions

See RC #2006-1 above.

B. Compliance Findings

No matters were reported.

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2006

I. Financial Statement Findings

A. Reportable Conditions

No matters were reported.

B. Compliance Findings

No matters were reported.

II. Findings and Questioned Costs for Federal Awards

A. Reportable Conditions

CF# 2005-1—Rehabilitation Environmental Reviews (CFDA# 14.239)

Per our subrecipient monitoring testing, we noted that the City's HOME subrecipient, the Housing Authority of the City of Fresno, is not correctly complying with HOME requirements with respect to performing environmental assessments. The City's subrecipient did not complete the Rehabilitation Environmental Review (RER) and Appendix A for each activity undertaken by the subrecipient and the RER was not correctly completed and signed by the City.

A RER is required to be completed and signed by the City and a corresponding Appendix A is required to be completed for each activity and also signed by the City.

It is possible that the City, who is responsible for subrecipient oversight, may have to reimburse HUD if it is deemed by HUD that retroactively completing the RER and corresponding Appendices is unacceptable.

The City initiated correspondence to the Housing Authority in August 2005, explaining the noncompliance, and both the City and the Housing Authority are currently exploring ways to rectify the noncompliance. We recommend that the City coordinate remedial efforts directly with HUD to ensure that any action taken by the City and the Housing Authority of the City of Fresno to comply with the RER requirement is approved by HUD.

Current status: Fully implemented.

B. Compliance Findings

No matters were reported.

Independent Accountant's Report on Applying Agreed-upon Procedures

To the Honorable Mayor and
Members of the City Council
City of Fresno, California

We have performed the procedures enumerated below to the accompanying Appropriations Limit Calculation of the City of Fresno, California, (the City) for the year ended June 30, 2006. These procedures, which were agreed to by the City and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The City's management is responsible for the Appropriations Limit Calculation.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed internal calculations and compared the limit and annual adjustment factors included in those calculations to the limit and annual adjustment factors that were adopted by a resolution of the City Council. We also compared the population and inflation options included in the aforementioned calculations to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit Calculation, we added line A, last year's limit, to line E, total adjustments, and compared the resulting amount to line F, this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information presented in the accompanying Appropriations Limit Calculation to the supporting calculations described in item 1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year Appropriations Limit presented in the accompanying Appropriations Limit Calculation to the prior year Appropriations Limit adopted by the City Council during the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Calculation of the City. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the Mayor, City Council and management of the City, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Riverside, California
December 22, 2006

City of Fresno

Appropriations Limit Calculation
Year Ended June 30, 2006

	Amount	Source
A. Last Year's Limit	<u>\$ 322,760,953</u>	
B. Adjustment Factors:		
1. Population change	1.0189648	State Finance
2. Per capita income change	<u>1.0526000</u>	State Finance
Total adjustment	<u>0.07256235</u>	(B.1. x B. 2.) - 1.0
C. Annual Adjustment	<u>23,420,294</u>	(BxA)
D. Other Adjustments:		
1. Lost responsibility (-)	-	
2. Transfer to private (-)	-	
3. Transfer to fees (-)	-	
4. Assumed responsibility (+)	<u>-</u>	
Subtotal	<u>-</u>	(D1+D2+D3+D4)
E. Total Adjustments	<u>23,420,294</u>	(C+D)
F. This Year's Limit	<u>\$ 346,181,247</u>	(A+E)