

2010 CAFR

Comprehensive Annual Financial Report

AN OVERVIEW

Presented by:

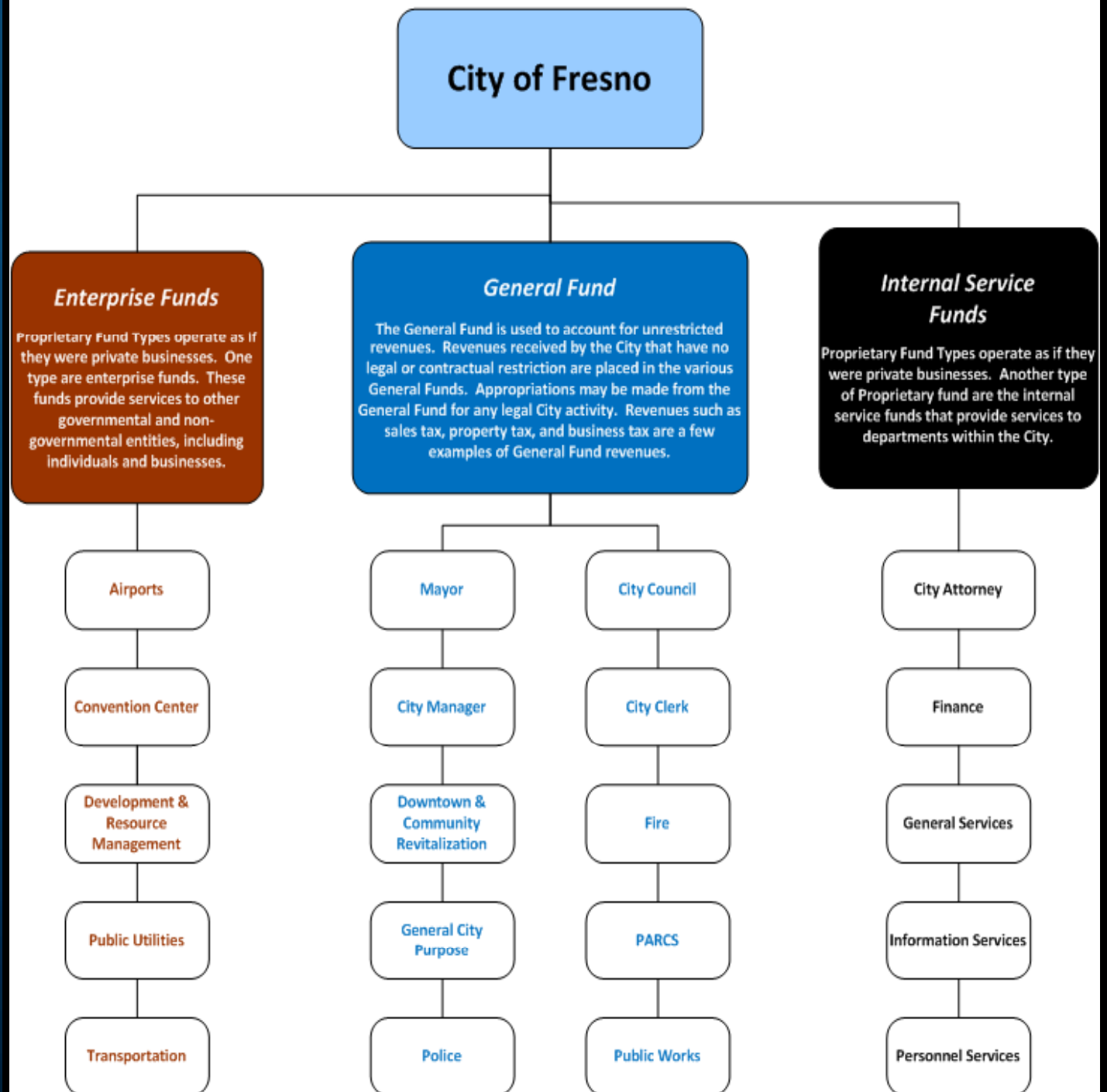
City of Fresno – Finance Department
Financial Reporting Section

For the fiscal year ended June 30, 2010

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City of Fresno, California
For the fiscal year ended June 30, 2010

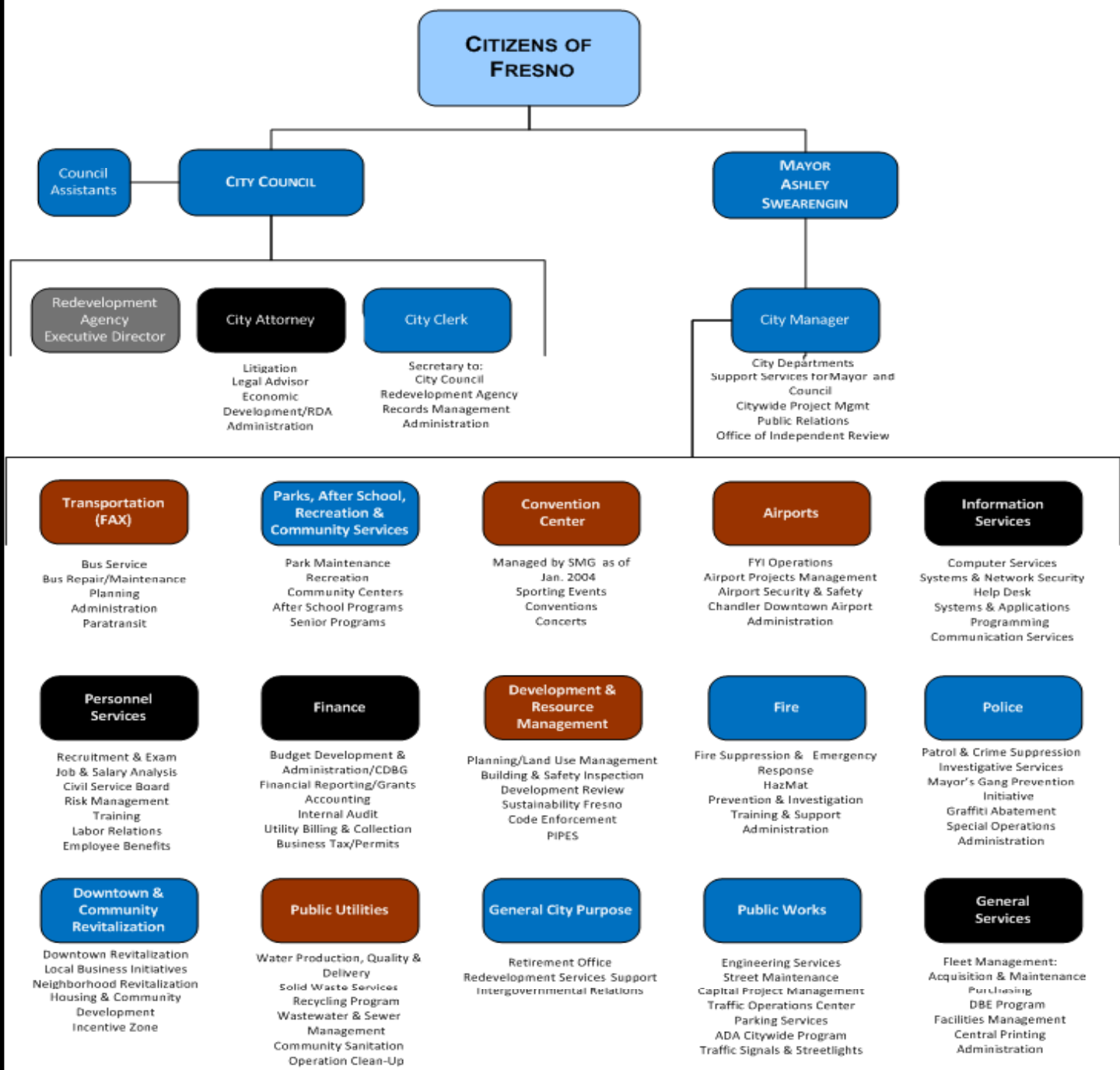
City Operating Fund Structure



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City Organizational Chart



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General Fund Budget Overview

General Fund (in 000)					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
	Actual	Actual	Estimate	Adopted	Projection
Resources					
One-Time Resources					
Carryover	13,505	18,198	12,753	5,684	11,950
Prior-Year Adjustment	0	12	0	0	0
Total One-Time Resources	13,505	18,210	12,753	5,684	11,950
Operating Revenue					
Sales Tax	78,174	74,734	69,292	69,292	69,292
MRZ Incentive Credit	0	(150)	(150)	(150)	(150)
Prop 172 Sales Tax	2,292	2,568	2,531	2,531	2,531
Property Tax	69,964	71,675	77,342	72,122	68,805
Motor Vehicle In-Lieu	34,963	38,611	38,500	36,659	36,659
Business Tax	16,113	16,255	16,462	16,162	16,162
Franchise Tax	6,077	7,012	6,451	6,451	6,451
Room Tax (TOT)	10,849	10,605	10,912	10,912	10,912
Real Estate Transfer Tax	1,795	1,013	1,145	1,145	1,145
Card Room Receipts	1,432	1,427	1,500	1,500	1,500
Charges for Current Services	19,395	17,550	17,659	15,132	15,132
Enterprise In-Lieu Fees	322	322	322	322	322
Intergovernmental Revenues*	6,403	4,370	5,167	4,580	4,580
Intragovernmental Revenues	3,965	4,917	5,292	5,852	5,852
Bond Sale Proceeds	777	21	273	258	258
All Other**	1,337	2,818	1,001	5,100	694
Total Operating Revenue	253,858	253,748	253,699	247,868	240,145
Transfer between Funds	(25,836)	(13,489)	(16,257)	(14,868)	(19,370)
TOTAL RESOURCES	241,527	258,469	250,195	238,684	232,725
Expenditures					
Operating Expenditures					
Employee Services***	147,259	162,162	166,069	150,157	156,567
Retirement Contribution	4,000	6,571	7,284	12,020	12,020
Pension Obligation Bonds	12,522	12,567	12,504	12,504	12,504
Operations & Maintenance	22,339	21,981	20,977	19,052	18,891
Interdepartmental Charges	34,316	38,770	34,416	29,406	29,406
Bond Capital	777	21	273	258	0
Minor Capital	2,456	3,872	2,427	2,037	2,037
Contingencies****	0	0	561	1,300	1,300
Accrual & Encumbrance Adjustments	(340)	(228)	0	0	0
Total Operating Expenditures	223,329	245,716	244,511	226,734	232,725
TOTAL EXPENDITURES	223,329	245,716	244,511	226,734	232,725
Total Resources less Expenditures*****	18,198	12,753	5,684	11,950	0


- * Intergovernmental Revenues in FY 2009 includes \$1.2 million of Property Tax Administration Fee due from the County
- ** FY 2010 includes the land sales of Blosser and Palm Lakes Properties
- *** Employee Service cost for FY 2010 assumes concessions. Employee Service cost for FY 2011 assumes no concessions
- **** Contingency includes \$600,000 for Prop 1A trigger financing and \$700,000 for Met Museum and Granite Park financing
- ***** Carryover is the total Resources less the total Expenditures that is available to use in the next fiscal year

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CITY OF FRESNO, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2010



	General Fund	Grants Special Revenue Fund	Redevelopment Agency, Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 191,860,709	\$ -	\$ 22,064,724	\$ 19,473,952	\$ 233,399,385
Licenses and Permits	292,423	-	-	-	292,423
Intergovernmental	3,234,735	40,881,541	-	9,040,851	53,157,127
Charges for Services	12,489,545	2,150,933	-	8,005,809	22,646,287
Fines	3,371,904	-	-	-	3,371,904
Use of Money and Property	1,294,213	869,234	408,911	1,115,296	3,687,654
Miscellaneous	2,178,022	26,762	-	12,748,086	14,952,870
Total Revenues	214,721,551	43,928,470	22,473,635	50,383,994	331,507,650
Expenditures					
Current:					
General Government	13,328,455	665,473	15,339,959	1,359,085	30,692,972
Public Protection	165,535,557	10,471,292	-	7,161,214	183,168,063
Public Ways and Facilities	6,101,610	6,484,920	-	12,271,146	24,857,676
Culture and Recreation	17,850,598	1,738,456	-	811,028	20,400,082
Community Development	2,801,594	9,515,537	-	694,391	13,011,522
Capital Outlay	446,932	20,567,961	-	60,106,589	81,121,482
Debt Service:					
Principal	1,484,056	-	902,028	18,925,940	21,312,024
Interest	890,324	-	2,753,853	22,450,483	26,094,660
Total Expenditures	208,439,126	49,443,639	18,995,840	123,779,876	400,658,481
Excess (Deficiency) of Revenue Over (Under) Expenditures	6,282,425	(5,515,169)	3,477,795	(73,395,882)	(69,150,831)
Other Financing Sources (Uses)					
Transfers In	27,808,846	732,274	32,511,385	81,149,717	142,202,222
Transfers Out	(39,344,469)	(16,974,407)	(6,376,463)	(78,973,533)	(141,668,872)
Refunding Bonds Issued	-	-	-	23,395,000	23,395,000
Refunded Bonds Redeemed	-	-	-	(23,286,744)	(23,286,744)
Long Term Debt Issued	-	-	-	23,100,000	23,100,000
Sale of Capital Assets	16,661,000	-	-	-	16,661,000
Total Other Financing Sources (Uses)	5,125,377	(16,242,133)	26,134,922	25,384,440	40,402,606
Net Changes in Fund Balances	11,407,802	(21,757,302)	29,612,717	(48,011,442)	(28,748,225)
Fund Balances (Deficit) - Beginning	28,770,962	65,264,349	(75,494,614)	187,699,287	206,239,984
Fund Balances (Deficit) - Ending	\$ 40,178,764	\$ 43,507,047	\$ (45,881,897)	\$ 139,687,845	\$ 177,491,759

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CITY OF FRESNO, CALIFORNIA BUDGET to CAFR - GENERAL FUND YEAR ENDED JUNE 30, 2010

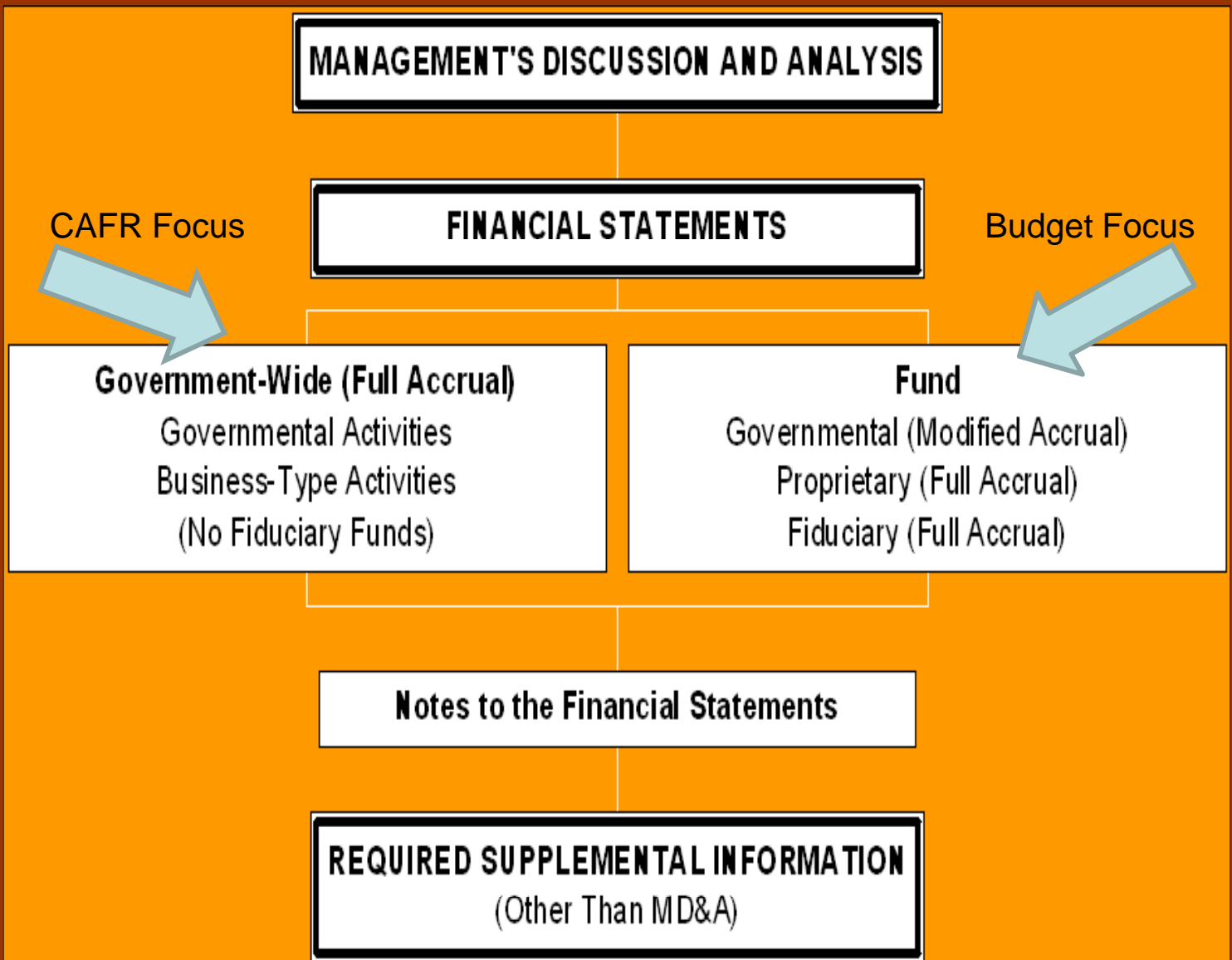
CAFR Categories	Budgetary General Fund Presentation		Addit Funds for CAFR		Final CAFR Total
	Original Budget Fund 10101	Actual Fund 10101	Actual Funds 10201, 10202, 10401, 21501, 21502, 21503, 23001, 46501, 48001, 63527 & 63537	CAFR Adjustments	
One-Time Resources					
Carryover	5,684,600.00	3,833,826.96	16,745,445.70	0.00	20,579,272.66
Revenues					
Taxes	214,935,100.00	193,824,773.33	17.26	(1,964,082.00)	191,860,708.59
Licenses and Permits	226,600.00	292,423.10	0.00	0.00	292,423.10
Intergovernmental	3,732,200.00	3,244,565.71	0.00	(9,831.00)	3,234,734.71
Charges for Services	11,919,500.00	11,271,243.10	1,218,301.82	0.00	12,489,544.92
Fines and Violations	3,546,500.00	3,371,903.93	0.00	0.00	3,371,903.93
Use of Money and Property	680,000.00	270,079.16	(896,558.64)	1,920,892.00	1,294,212.52
Miscellaneous	2,321,800.00	2,517,736.71	7,063.15	(346,777.69)	2,178,022.17
Suspense Revenue	6,105,700.00	7,927,436.34	33,787,980.58	(41,715,416.00)	0.92
Total Revenues	243,467,400.00	222,720,161.38	34,116,804.17	(42,115,416.69)	214,721,550.86
Expenditures					
Current:					
General Government	10,916,700.00	10,159,398.89	28,725,123.83	(25,556,066.97)	13,328,455.75
Public Protection	166,933,000.00	163,988,541.36	1,058,882.02	488,133.26	165,535,556.64
Public Ways and Facilities	11,406,000.00	10,048,256.53	743,010.90	(4,689,657.79)	6,101,609.64
Culture and Recreation	19,381,600.00	17,980,353.94	0.00	(109,755.72)	17,850,598.22
Community Development	2,478,800.00	2,729,512.96	0.00	72,080.85	2,801,593.81
Capital Outlay	2,295,400.00	2,012,683.24	5,121,705.69	(6,687,456.96)	446,931.97
Debt Service:					
Principal	0.00	0.00	56,300,000.00	(54,815,944.00)	1,484,056.00
Interest	0.00	0.00	24,549.15	865,775.00	890,324.15
Suspense Expense	13,406,900.00	13,396,043.24	3,397.53	(13,399,440.00)	0.77
Total Expenses	226,818,400.00	220,294,790.16	91,976,669.12	(103,832,332.33)	208,439,126.95
Other Financing Sources (Uses)					
Transfers In	3,606,000.00	69,445,160.08	57,688,776.62	(99,325,090.60)	27,808,846.10
Transfers Out	(18,474,100.00)	(76,059,959.57)	(63,651,141.05)	100,366,631.60	(39,344,459.03)
Sale of Capital Assets	4,400,000.00	0.00	1,000.00	16,660,000.00	16,661,000.00
Loan Proceeds	0.00	0.00	57,082,083.87	(57,082,084.00)	(0.13)
Total Other Financing Sources	(10,468,100.00)	(6,614,799.49)	51,120,719.43	(39,380,543.00)	5,125,376.94
Total Resources	238,683,900.00	219,939,188.85	101,982,969.30	(81,495,957.69)	240,426,200.46
Total Expenditures	226,818,400.00	220,294,790.16	91,976,669.12	(103,832,332.33)	208,439,126.95
Change in Fund Balance	11,865,500.00	(355,601.31)	10,006,300.18	22,336,374.64	31,987,073.51
Adjustments	84,500.00				20,579,272.66
Ending Fund Balance	11,950,000.00				11,407,800.85

- (1) Correct Delinquent Tax Penalty accrual
- (2) The TRAN short term loan proceeds, repayment, interest and issuance costs are netted for CAFR
- (3) Reclass Sale of Met \$16.6M from suspense revenue to Other Financing Source, Sale of Capital Assets; reclass 2010 lease revenue bond proceeds \$18.5 M to Other Financing Source, Transfers In; reclass RDA Sale of Radisson to reduction of Advances \$2.8M; and reclass reimbursement from suspense to expense \$3.7.
- (4) Reverse PY accrual for acquisition of Met \$15.1, and record advance to Financing Authorities for NMTC loan \$12.7
- (5) Reclass reimbursement from suspense to expense \$3.7
- (6) Reverse PY accrual for acquisition of Granite Park \$5.1, and reclass capital lease payments to Debt Service Principal \$1.6
- (7) The TRAN short term loan proceeds, repayment, interest and issuance costs are netted for CAFR, and reclass capital lease payments to Debt Service Principal \$1.6
- (8) Reclass Pension Obligation Bond debt service payments to Transfers Out
- (9) Net intrafund transfers, and reclass 2010 lease revenue bond proceeds \$18.5 M to Other Financing Source, Transfers In
- (10) Net intrafund transfers, and reclass Pension Obligation Bond debt service payments to Transfers Out
- (11) Reclass Sale of Met \$16.6M from suspense revenue to Other Financing Source, Sale of Capital Assets
- (12) The TRAN short term loan proceeds, repayment, interest and issuance costs are netted for CAFR,

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CAFR Reporting Structure



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CAFR Fund Grouping Structure

Governmental Activities

- *General Fund – Police, Fire, Public Works, Housing, Mayor, City Council, City Attorney, City Clerk, City Manager, General City Purpose
- *Grants Fund
- *Redevelopment Agency, Debt Service Fund
- Special Gas Tax
- Measure C
- Community Services
- City Debt
- Financing Authorities and Corporations
- City Combined
- UGM Impact Fees
- Redevelopment Agency, Capital Projects
- Special Assessments

Business-Type Activities

- *Airports
- *Convention Center
- Development
- Public Utilities – *Water, *Sewer, *Solid Waste, Community Sanitation
- *Transportation/FAX
- *Stadium
- Internal Service Funds - Finance, General Services, Information Services, Personnel, Risk Management, Utility Billings & Collections, Health and Welfare Funds – Employees, Retirees and Blue Collar
- Parking
- Parks and Recreation

*Represents Major Funds

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Fiscal Year 2010 CAFR General Fund Overview **Balance Sheet Focus**

- During Fiscal Year 2010, the City adhered to the plans adopted by the City Council on how funds were to be spent consistent with the budget.
- The City's General Fund had a balance, or equity, at June 30, 2010 of \$40.18 million, as compared to the \$28.77 million in 2009. While a significant increase from 2009, most of this balance was long term in nature and not readily available for immediate needs. \$838,156 was encumbered; \$31,820,595 consisted of contracts / receivables that would not be received within the next fiscal year (2011); and \$10,585,846 was reflected at June 30, 2010 as being Reserved for Emergencies. All of these are considered "spoken for".
- The remaining component balance at June 30, 2010 a negative balance of (\$3,065,833) was considered to be unreserved or undesignated. The General Fund, utilizing CAFR reporting requirements, had more current obligations than liquid assets to meet those needs.
- Going into FY 2011, the adopted General Fund appropriations were \$212.9 million and the minimum level required in the reserve to maintain the stipulated 5% of general fund appropriations was \$10.65 million.
- In 2010, the Mayor proposed and Council agreed to use a portion of the Emergency Reserve to pay for one-time costs related to contracting the organization. Council agreed and funds were used to pay for the Employee Retirement Incentive (ERI).
- As part of the 2011 mid-year budget evaluation additional use of the Emergency Reserve was earmarked for addressing negative funds.
- As of today's date, the Emergency Reserve stands at \$1.43 million.

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CITY OF FRESNO, CALIFORNIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2010

	General Fund	Grants Special Revenue Fund	Redevelopment Agency, Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Investments	\$ 62,515	\$ 600	\$ 6,862,667	\$ 45,978,428	\$ 52,904,210
Receivables, Net	6,963,153	120	-	1,307,468	8,270,741
Grants Receivable	50,184	13,454,771	-	4,653,421	18,158,376
Intergovernmental Receivables	27,160,017	-	-	2,849,775	30,009,792
Due From Other Funds	449,134	638,090	27,018	17,378,213	18,492,455
Advances to Other Funds	31,820,595	21,306,473	-	11,359,836	64,486,904
Property Held for Resale	-	-	-	31,295,766	31,295,766
Restricted Cash	10,585,846	283	2,591,416	30,306,946	43,484,491
Loans, Notes, Leases, Other Receivables	-	35,305,417	3,511	19,629,960	54,938,888
Total Assets	\$ 77,091,444	\$ 70,705,754	\$ 9,484,612	\$ 164,759,813	\$ 322,041,623
Liabilities and Fund Balances					
Liabilities:					
Accrued Liabilities	\$ 8,610,017	\$ 4,641,727	\$ 2,518,932	\$ 6,052,026	\$ 21,822,702
Deferred Revenue	19,005,663	16,714,396	-	4,654,582	40,374,641
Due to Other Funds	5,040,189	5,842,566	193,065	1,518,289	12,594,109
Advances From Other Funds	3,947,111	-	52,642,503	12,690,500	69,280,114
Deposits From Others	309,700	18	12,009	156,571	478,298
Total Liabilities	36,912,680	27,198,707	55,366,509	25,071,968	144,549,864
Fund Balances (Deficit):					
Reserved for:					
Encumbrances	838,156	17,363,245	-	35,662,041	53,863,442
Non-current Receivables	31,820,595	56,611,890	3,511	18,299,296	106,735,292
Debt Service	-	283	1,364,083	30,306,943	31,671,309
Property Held for Resale	-	-	-	31,295,766	31,295,766
Emergency	10,585,846	-	-	-	10,585,846
Unreserved, Undesignated reported in:					
General Fund	(3,065,833)	-	-	-	(3,065,833)
Special Revenue Funds	-	(30,468,371)	-	8,840,386	(21,627,985)
Debt Service Funds	-	-	(47,249,491)	3,678,724	(43,570,767)
Capital Project Funds	-	-	-	11,604,689	11,604,689
Total Fund Balances (Deficit)	40,178,764	43,507,047	(45,881,897)	139,687,845	177,491,759
Total Liabilities and Fund Balances	\$ 77,091,444	\$ 70,705,754	\$ 9,484,612	\$ 164,759,813	\$ 322,041,623

CAFR Focus

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Where Do I Find.....?

Primary Statements

Page 57 **Statement of Net Assets**

- Cash and Investments
- Receivables, Net
- Restricted Cash
- Loans, Notes, Leases
- Capital Assets
- Long-term Liabilities

Page 62 **Balance Sheet**

- \$10,585,846 Designated for
Emergency Reserve

•Page 64 **Statement of Revenues, Expenditures and Changes in Fund Balances**

Detailed Information

• **Footnotes**

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- Note 3 Page 110
- Note 5 Page 112
- Note 6 Page 113
- Note 7 Page 117

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➤ Pages 184 & 185

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Additional Helpful Page References

Proprietary Statements

Detailed Information

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Statement of Net Assets

Proprietary Funds

Other **Enterprise** Funds

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Internal Service Funds

➤ Page 200

Page 70 thru 71

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Other **Enterprise** Funds

➤ Page 195

Internal Service Funds

➤ Page 202

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CAFR – Financial Audit

- Unqualified Opinion
- Financial position, changes in financial position presented fairly –
 - Accurate
 - Reliable
 - Meets standards for auditing certification
- GASB's Implemented
 - GASB 51 – Accounting and Financial Reporting for Intangible Assets – *these assets include easements, computer software, water rights, timber rights, patents and trademarks.*
 - GASB 53 – Accounting and Financial Reporting for Derivative Instruments – *addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into.*

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SAS 115 - Communicating Internal Control Related Matters

Old Definitions (SAS 60)	New Definitions (SAS 115)
Material Weakness	Material Weakness
Reportable Condition	Significant Deficiency
Management Letter Comment	Control Deficiency

- ✓Expectation that industry wide more items will be reported as significant deficiencies and material weaknesses under the SAS 115
- ✓Potential impact to debt covenants; loss of status as low risk auditee (resulting in additional audit costs); loss of staff citywide may increase internal control deficiencies

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Management Letter - Definitions

- **Material Weakness** – A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. (0)
- **Significant Deficiency** – A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. (2)
- **Control Deficiency** – Exists when the **design** or **operation** of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. (4)

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Management Letter Comments - Overview

Significant Deficiencies (2)

Unearned Revenue – In years past, the City received a litigation settlement related to the pesticide DBCP in various City wells. The settlement in the original amount of \$21 million was structured such that \$10 million was applied to past cleanup costs and \$11 million was to be applied toward installation of carbon filtration treatment units and capital costs of the installation of granular activated carbon treatments on newly discovered wells. At the end of each fiscal year, the CAFR team evaluates records related to current costs and moves a portion of the \$11 million unearned revenue into the current year's revenue to match the current year's expenses. At June 30, 2010 an error in this calculation resulted in current year CAFR revenue to be understated by approximately \$1.06 million and unearned revenue (a balance sheet liability account) being overstated by the same amount. Procedures have been put into place to prevent this error from occurring again.

Business License Receipts – In January 2010, the City installed new business license software. Various implementation difficulties including the loss of three business license staff due to budget cuts, resulted in delays in the processing of over 26,000 business license renewals. All renewals were required to be manually deposited and posted to the City's PeopleSoft system. Some payments were not posted or deposited for nearly three months after actual receipt. Although the CAFR reflected the proper "earned" business license receipts, the Internal Control issue is timely deposit of the funds. This issue was addressed by the City training additional staff in the usage of the new system, resolving the "new system bugs" so that automated processing could be put into greater use, and staff simply becoming more familiar with the system and therefore simply being able to process more accounts more timely and with fewer errors. The City also continues to work toward electronic bill presentment and payment and just recently in March 2011 customers in good standing may renew and pay their licenses immediately via the Internet.

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Management Letter Comments – Overview *continued*

Control Deficiencies (4)

Utility Billing Receipts – (Repeat Comment) In years past, the Auditors have commented on how difficult and cumbersome it is to reconcile the receipts posted into the utility billing system (HTE/SunGard) with the ultimate manual posting into the PeopleSoft system. There is no integration between the two systems and as a result a manual journal entry must be posted at the end of each month so that Utility revenue can be properly recognized. The posting of this entry is a multi-step process that ultimately initially posts the revenue into a suspense account and then spreads it to the proper Utility Funds. While the Auditors noted that progress has been made in the reconciliation procedures, they again commented on the fact that a manual journal entry is still required at the end of each month. This process delays the “real time recognition” of revenue in the appropriate Utility Funds and is susceptible to posting error. While the City has long desired to have the appropriate computer programming changes made to automate this process, the selection of software related to the automated reading of the new water meters being installed, delayed work in this area. The City was also changing from bi-monthly to monthly billing and also had not yet begun billing based upon actual usage. Not until the City converts from its current “flat” water rate to a rate that reflects actual usage and only after sufficient testing has been performed so that the “comfort level” can be reached, that meters are accurate and billings based upon the reads are properly calculated and accurate, will work begin on the “bridge” program that will enable the direct posting of Utility payments into the PeopleSoft system on a daily basis. Although UB&C is now a part of the Utility Department, Finance continues to work with Utilities to achieve this goal.

Deposits from Others – (Repeat Comment) During their work on outstanding deposits, the Auditors noted various deposits recorded on the City’s general ledger that were quite old. The City policy has been that it is up to each individual department to notify the Finance Department when a deposit has been released so that the general ledger can be updated. As a result of the movement of staff over the years and changes in assigned duties, as well as the more recent loss of staff due to budgetary reductions and the simple lack of focus on these accounts, the result have been lax reconciliation of the these various deposits.

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Management Letter Comments – Overview *continued*

Deposits from Others *continued* – Finance worked diligently with departments prior to the end of Fiscal Year 2010 to “clean up” and reconcile this account. One Department, Planning and Development was delayed in responding to providing assistance to Finance due to their own restructuring issues. Their list however continues to be worked on. Finance also began the process of researching monies held in trust funds and is working to “clean up” these balances as well. While the goal had been to have these processes completed by the end of Fiscal Year 2011, bumping of staff and loss of staff has result in some delays. Work in this area however will continue.

Capital Assets – During their test work on the City’s capital assets, the Auditors noted that the City’s capitalization threshold is extremely low at \$2,000. A threshold at this level is (1) out of compliance with the Government Finance Officers Association (GFOA) best practices recommendation and (2) requires the City to record and depreciate assets that result in substantial staff time and cost that excessively exceeds the value of the assets in question. The Auditors and GFOA suggest that the capitalization threshold be increased to \$5,000 and further recommends that a higher threshold for infrastructure assets be established. A new revised Administrative Order has been prepared and submitted to the City Manager for approval which proposes the thresholds below:

Capitalization and Depreciation Thresholds

Land	\$1 or more (capitalized but not depreciated)
Land Improvements	\$5,000 and more
Building	\$5,000 and more
Building Improvements*	\$5,000 and more
Machinery and Equipment	\$5,000 and more
Infrastructure – based on total project cost	\$50,000 and more
Construction in Progress	Costs accumulated and capitalized upon completion

* Excludes painting, carpeting, draperies, window shades or blinds

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Management Letter Comments – Overview *continued*

Information Technology

User Rights to Network and Applications – (Repeat Comment) During audit test work, the Auditors noticed that out of 25 terminated employees selected for testing, five still had their access to the Network and various Software Applications subsequent to their termination dates. Due to a significant amount of citywide terminations resulting from budgetary layoffs, Information Services was overwhelmed with trying to stay on top of employee layoffs. Prior to 2011, the process of removing access to a host of different applications throughout the City was dependent primarily upon manual intervention. In addition the communication process was flawed. Subsequent to the 2010 audit and during the 2011 audit, Information Services, Finance and Personnel Services worked jointly on a plan to automate this process and develop consistent policies with respect to when and how access would be added and/or terminated. Although the Auditors found that the terminated employees logged in after they had left City service, the process in place caught this and 3 of the five immediately had access removed. One individual provided key ISD and Finance services and had his account intentionally left active. He had passed away and both ISD and Finance monitored his account which needed to be left active as his duties were transition to other staff.

In addition to making PeopleSoft the source authority for terminations, user access is now also disabled after 90 days of inactivity. As a backup to the automated system, Finance/Payroll generates a list of terminated employees at the end of each pay period and routes that listing to all appropriated parties so that login capacity is removed from the various programs. In addition the list is use to ensure that credit cards along with other high risk applications are properly shut down.

Server Room - During the audit, the Audit team performed a walkthrough of the City's computer server room and noted the following: 1) the server room contains wet sprinklers, which if discharged would cause extensive damage to the City's critical servers, 2) there was a second door to the server room that does not require the use of an electronic key but rather uses a mechanical key, and 3) one side of the server room is partitioned with a wall that can be easily removed to allow unauthorized access.

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Management Letter Comments – Overview *continued*

Information Technology - continued

Server Room *continued* - While the City agrees with the auditors recommendations, current budgetary conditions constrain the use of already very limited funding. While critical areas of concern, these items, with the exception of the keyed entry have very high dollar costs associated with them. The City will need to investigate various alternatives that may be available and evaluate the cost / benefit of each as well as perform a risk assessment so as to make the best use of very limited resources.

On March 1, 2011, the ISD Department re-keyed all of its access doors that still had manual keyed entries and reissued keys to personnel that were deemed to have the necessary credentials and need for access to restricted areas.