

CITY OF FRESNO
Single Audit Report and
Other Compliance Reports
For the Year Ended June 30, 2013

CITY OF FRESNO
Single Audit Report and Other Compliance Reports
For the Year Ended June 30, 2013

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**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***

The Honorable City Council
of the City of Fresno, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fresno, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated March 27, 2014. Our report includes references to other auditors who audited the financial statements of the City of Fresno Cultural Arts Properties (discretely presented component unit), City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement Systems pension trust funds, as described in our report on the City’s financial statements. This report does not include the results of the other auditor’s testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the City of Fresno Cultural Arts Properties Corporation were not audited in accordance with *Government Auditing Standards*. Our report also includes an emphasis of a matter paragraph about the City’s ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City’s internal control. Accordingly, we do not express an opinion on the effectiveness of City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. We

consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

A *significant deficiency* is 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. We consider the deficiency described in the accompany schedule of findings and questioned costs as item 2013-002 to be a significant deficiency.

Compliance and Other Matters

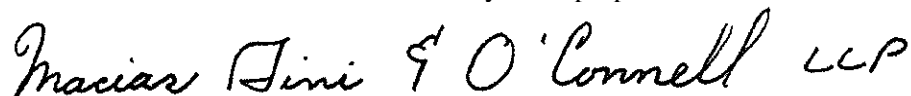
As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Newport Beach, California
March 27, 2014

**Independent Auditor’s Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule
of Expenditures of Federal and Nonfederal Awards**

To the Honorable City Council
of Fresno, California

Report on Compliance for Each Major Federal Program

We have audited the City of Fresno, California’s (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2013. 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.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of City’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-003 that we consider to be a significant deficiency.

The City's response to internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and Nonfederal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information for the City as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 27, 2014, which contained an unmodified opinion on those financial statements. Other auditors audited the financial statements of the City of Fresno Cultural Arts Properties (discretely presented component unit), the City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement System (pension trust funds), as described in our report to the City's financial statements. Our report also included an emphasis of matter paragraph about the City's ability to continue as a going concern. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and nonfederal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements (expenditures of federal awards is required by OMB Circular A-133). Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and nonfederal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Jini & O'Connell LLP

Newport Beach, California
March 27, 2014

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CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards
For the Year Ended June 30, 2013

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
U.S. Department of Commerce:				
Economic Development Administration (EDA) - Direct Program				
<i>Economic Development Cluster</i>				
Economic Adjustment Assistance Revolving Loan Fund	11.307		07-39-02434	\$ 805,860
		<u>Total Direct EDA Program</u>		<u>805,860</u>
		<i>Total Economic Development Cluster</i>		<u>805,860</u>
TOTAL U.S. DEPARTMENT OF COMMERCE				805,860
U.S. Department of Defense:				
National Guard Bureau (NGB) - Pass-through Program				
ARRA: Military Construction Cooperative Agreement (MCCA) Grant Program				
	12.400	CA National Guard Bureau	W912LA-13-2-2103	176,188
		<u>Total Pass-through NGB Program</u>		<u>176,188</u>
TOTAL U.S. DEPARTMENT OF DEFENSE				176,188
U.S. Department of Housing and Urban Development:				
<i>Entitlement Grants Cluster</i>				
Community Development Block Grants (CDBG) / Entitlement Grants - Direct Program				
FY13 Community Development Block Grant	14.218		B-12-MC-06-001	5,451,433
FY12 Community Development Block Grant	14.218		B-11-MC-06-001	182,560
FY11 Community Development Block Grant	14.218		B-10-MC-06-001	24,465
2012 Neighborhood Stabilization Program 3	14.218		B-11-MN-06-0003	1,663,224
2010 Neighborhood Stabilization Program 1	14.218		B-08-MN-06-0003	1,043,703
		<u>Total Direct CDBG/NSP Program</u>		<u>8,365,385</u>
Community Development Block Grants ARRA Entitlement Grants (CDBG-R) - Direct Program				
ARRA: FY10 Community Development Block Grant - Recovery				
	14.253		B-09-MY-060001	128,000
		<u>Total Direct CDBG-R Program</u>		<u>128,000</u>
		<i>Total Entitlement Grants Cluster</i>		<u>8,493,385</u>
Emergency Solutions Grant Program (ESG) - Direct Program				
FY13 Emergency Solutions Grant	14.231		E-12-MC-06-0001	10,804
FY12 Emergency Solutions Grant	14.231		E-11-MC-06-0001	76,831
FY11 Emergency Solutions Grant	14.231		S-10-MC-06-0001	87,043
		<u>Total Direct ESG Program</u>		<u>174,678</u>
Home Investment Partnerships Program (HOME) - Direct Program				
FY13 HOME	14.239		M-12-MC-06-0204	820,936
FY12 HOME	14.239		M-11-MC-06-0204	1,437,731
FY10 HOME	14.239		M-09-MC-06-0204	150,000
		<u>Total Direct HOME Program</u>		<u>2,408,667</u>
Homeless Prevention & Rapid Re-Housing - Direct Program				
ARRA: Homeless Prevention & Rapid Re-Housing Program (ARRA - HPRP)				
	14.257		S-09-MY-06-0001	223,380
		<u>Total Direct ARRA - HPRP Program</u>		<u>223,380</u>
Office of Sustainable Housing and Community - Pass-through Program				
Sustainable Communities Regional Planning Grant - Smart Valley Places				
	14.703	CA State University - Fresno Foundation	SC360080-11-08	26,030
		<u>Total Pass-through SCRPG Program</u>		<u>26,030</u>
Office of Administration - Direct Program				
2011 Lead-Based Paint Control in Privately-Owned Housing				
	14.900		CALHB0492-11	831,577
		<u>Total Direct OHHLHC</u>		<u>831,577</u>
TOTAL U.S. DEPT. OF HOUSING AND URBAN DEVELOPMENT				12,157,717

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
U.S. Department of Justice:				
Equitable Revenue Sharing Program - Direct Program				
Joint Law Enforcement Operations (JLEO)	16.111		2011	703,187
		<u>Total Direct DOJ Program</u>		<u>703,187</u>
Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Direct Program				
Bulletproof Vest Partnership Program FY11	16.607		FY11	19,025
		<u>Total Direct OJP - BJA Program</u>		<u>19,025</u>
Office of Community Oriented Policing Services (COPS) - Direct Program				
ARRA - Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Grant (CHRP)	16.710		2009RJWX0010	706,362
		<u>Total Direct ARRA COPS - CHRP Program</u>		<u>706,362</u>
2011 Public Safety Partnership and Community Policing Grants - COPS Child Sexual Predator Program (CSPP)	16.710		2011CSWX0003	220,426
		<u>Total Direct COPS - CSPP Program</u>		<u>220,426</u>
		<u>Total Direct and ARRA Direct PSCPCG Program</u>		<u>926,788</u>
Office of Justice Programs / Office of Juvenile Justice and Delinquency Prevention (OJP - JDP) - Pass-through Program				
Enforcing Underage Drinking Laws Program (ABC FY13)	16.727	CA Dept of Alcoholic Beverage Control	12G-LA15	100,000
		<u>Total Pass-through OJP - JDP Program</u>		<u>100,000</u>
JAG Program Cluster				
Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Direct Program				
Edward Byrne Memorial Justice Assistance Grant Program '12	16.738		2012-DJ-BX-0291	16,570
Edward Byrne Memorial Justice Assistance Grant Program '11	16.738		2011-DJ-BX-3397	80,408
Edward Byrne Memorial Justice Assistance Grant Program '10	16.738		2010-DJ-BX-0838	5,373
Edward Byrne Memorial Justice Assistance Grant Program '09	16.738		2009-DJ-BX-0171	553
		<u>Total Direct OJP - BJA Program</u>		<u>102,904</u>
Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Direct Program				
ARRA: Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804		2009-SB-B9-0686	35,566
		<u>Total Direct ARRA OJP - BJA Program</u>		<u>35,566</u>
Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Pass-through Program				
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program: Anti-Human Trafficking Task Force Recovery Act Program	16.804	CA Emergency Management Agency	ZH09016675	104,487
		<u>Total Pass-through ARRA OJP - BJA Program</u>		<u>104,487</u>
Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Direct Program				
JAG Program - Anti-Human Trafficking Task Force	16.804	CA Emergency Management Agency	HF12016675	117,127
		<u>Total Direct OJP - BJA Program</u>		<u>117,127</u>
		Total JAG Program Cluster		360,084
TOTAL U.S. DEPARTMENT OF JUSTICE				2,109,084

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
U.S. Department of Transportation:				
Federal Aviation Administration (FAA) - Direct Program				
Airport Improvement Program				
AIP-71 FF13	20.106		3-06-0087-71	9,936,131
AIP-70 FF12	20.106		3-06-0087-70	1,389
AIP-69 FF12	20.106		3-06-0087-69	126,662
AIP-68 FF11	20.106		3-06-0087-68	7,239,081
AIP-67 FF11	20.106		3-06-0087-67	87,684
AIP-66 FF11	20.106		3-06-0087-66	65,072
AIP-65 FF11	20.106		3-06-0087-65	639,409
AIP-64 FF11	20.106		3-06-0087-64	229,393
AIP-63 FF11	20.106		3-06-0087-63	66,697
AIP-62 FF10	20.106		3-06-0087-62	10,283
AIP-61 FF10	20.106		3-06-0087-61	61,275
AIP-60 FF10	20.106		3-06-0087-60	2,217,883
AIP-58 FF09	20.106		3-06-0087-58	524,194
AIP-18 FF11	20.106		3-06-0087-18	5
AIP-17 FF10	20.106		3-06-0088-17	38,148
<u>Total Direct FAA Program</u>				<u>17,243,306</u>
Highway Planning and Construction Cluster				
Federal Highway Administration (FHWA) - Pass-through Program				
Highway Research, Planning and Construction Program	20.205	CA State Department of Transportation	Master Agreement 06-5060	9,256,047
<u>Total Pass-through FHWA Program</u>				<u>9,256,047</u>
Total Highway Planning and Construction Cluster				<u>9,256,047</u>
Federal Transit Cluster				
Federal Transit - Capital Investment Grants (FTA) - Direct Program				
2012 5309: BRT - Very Small Starts	20.500		CA-03-0821-00	2,069,946
FY09 Federal Transit Capital Investment Grant - Fresno Bus Program	20.500		CA-04-0137-00	219
FY04 Federal Transit Capital Investment Grant - (Construct CNG Station)	20.500		CA-03-0693-00	2,239
<u>Total Direct FTA Program</u>				<u>2,072,404</u>
Federal Transit Administration (FTA) - Direct Program				
Federal Transit - Formula Grants				
ARRA: FY09 Federal Formula Transit Grant	20.507		CA-96-X011	242,884
<u>Total Direct ARRA FTA Program</u>				<u>242,884</u>
Federal Transit Administration (FTA) Transit Formula Grants - Direct Program				
Federal Transit - Formula Grants:				
FY13 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z023-00	7,212,222
FY12 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y947-00	1,245,077
FY11 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y843-00	140,095
FY10 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y794-00	53,169
FY09 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y699-00	2,832
FY08 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y622-00	9,607
FY04 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y309-00	66,392
FY11 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X181	91
FY05 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X676	4199
<u>Total Direct FTA Program</u>				<u>8,733,684</u>
Total Federal Transit Cluster				<u>11,048,972</u>

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
U.S. Department of Transportation (cont):				
<i>Transit Services Programs Cluster</i>				
Federal Transit Administration (FTA) - Pass-Through Program				
Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X129	65,796
Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X102-00	40,849
New Freedom Program	20.521	Fresno Council of Governments	CA-57-X054	244
New Freedom Program	20.521	Fresno Council of Governments	CA-57-X029-00	1,103
		<u>Total Pass-through FTA Program</u>		<u>107,992</u>
		Total Transit Services Programs Cluster		107,992
Clean Fuels - Direct Program				
FY10 Electric Cicularator (5308 - Clean Fuels)	20.519		CA-58-0007-00	12,358
		<u>Total Direct FTA Clean Fuels Program</u>		<u>12,358</u>
National Highway Traffic Safety Administration (NHTSA) - Pass-through Program				
<i>Highway Safety Cluster</i>				
State and Community Highway Safety - UC Sobriety				
Checkpoint (FY12)	20.600	CA Office of Traffic Safety	SC13151	276,989
Selective Traffic Enforcement Program FY2013	20.600	CA Office of Traffic Safety	PT1339	162,502
Selective Traffic Enforcement Program FY2012	20.600	CA Office of Traffic Safety	20587	297,812
		<u>Total Pass-through NHTSA Program</u>		<u>737,303</u>
		Total Highway Safety Cluster		737,303
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				38,405,978
U.S. Environmental Protection Agency (EPA):				
Office of Water - Pass through Program				
Capitalization Grants for Drinking Water State Loan - Residential Meter Project				
	66.468	State of CA Dept of Public Health	SRF11CX104	21,874,570
		<u>Total Pass-through Safe Drinking Water Program</u>		<u>21,874,570</u>
Office of Solid Waste and Emergency Response - Direct Program				
ARRA: Brownfields Assessment Cooperative Agreement				
	66.818		BF-00T71101-1	92,107
		<u>Total Direct Brownfields</u>		<u>92,107</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY				21,966,677
U.S. Department of Energy:				
Direct Program				
ARRA: Energy Efficiency and Conservation Block Grant Program (EECBG)				
	81.128		DE-EE0000863	579,864
		<u>Total Direct ARRA EECBG Program</u>		<u>579,864</u>
TOTAL U.S. DEPARTMENT OF ENERGY				579,864
U.S. Department of Health and Human Services:				
Administration for Community Living (ACL) - Pass-through Program				
<i>Aging Cluster</i>				
Special Programs for the Aging Nutrition Services: Senior Hot Meals 2012				
	93.045	Fresno Madera Area Agency on Aging	13-0310	48,007
		<u>Total Pass-through ACL Program</u>		<u>48,007</u>
		Total Aging Cluster		48,007
Administration for Children and Families (ACF) - Pass-through Program				
Children's Justice Grants to States - Children Exposed to Domestic Violence FY2012				
	93.643	Office of Emergency Services	EV12056675	131,101
Children's Justice Grants to States - Children Exposed to Domestic Violence FY2011	93.643	Office of Emergency Services	EV110426675	60,057
		<u>Total Pass-through ACF Program</u>		<u>191,158</u>
TOTAL U.S. DEPT OF HEALTH AND HUMAN SERVICES				239,165

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
U.S. Department of Homeland Security:				
State Domestic Preparedness Equipment Support Program (SDPES) - Pass-through Program				
FY2011 Homeland Security Grant Program	97.004	CA Office of Emergency Services and Fresno County	2010-0008	121,772
FY2010 Homeland Security Grant Program	97.004	CA Office of Emergency Services and Fresno County	2010-0006	11,901
FY11 Homeland Security Grant Program	97.067	Fresno County / CA Homeland Security	HSGP-2010-0019	84,777
FY10 Homeland Security Grant Program	97.067	Fresno County / CA Homeland Security	HSGP-2009-0019	95,074
		<u>Total Pass-through SDPES Program</u>		<u>313,524</u>
Assistance to Firefighters Grant (AFG) - Direct Program				
FY11 Assistance to Firefighters (Fire Prevention and Safety)	97.044		EMW-2011-FR-00178	80,896
FY11 Assistance to Firefighters (Fire Prevention and Safety)	97.044		EMW-2011-FR-02529	132,000
FY11 Assistance to Firefighters (Fire Prevention and Safety)	97.044		EMW-2011-FP-01138	424,360
FY10 Assistance to Firefighters (Fire Prevention and Safety)	97.044		EMW-2010-FR-00402	82,737
FY11 Staffing for Adequate Fire and Emergency Response (SAFER)	97.044		EMW-2011-FH-00940	906,720
		<u>Total Direct AFG Program</u>		<u>1,626,713</u>
Interoperable Emergency Communications - Pass-through Program				
2010 Interoperable Emergency Communications Grant Program	97.055	CA Emergency Management Agency	2010-IP-T0-0016	405,663
		<u>Total Pass-through IECGP Program</u>		<u>405,663</u>
Metropolitan Medical Response System (MMRS) - Direct Program				
FY11 Metropolitan Medical Response System	97.071		MMRS11	41,327
FY10 Metropolitan Medical Response System	97.071		MMRS10	93,567
		<u>Total Direct MMRS Program</u>		<u>134,894</u>
Rail and Transit Security Grant Program (RTS) - Direct Program				
FY08 Transit Security Grant Program	97.075		2009-RA-TR-0058	76,423
		<u>Total Direct Rail and Transit Security Program</u>		<u>76,423</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				2,557,217
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 78,997,750

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

State or Local Grantor/Program and/or Project Title	State Agency	Pass-through Grantor	Grant Number	Total State/Local Expenditures
CA State Department of Conservation:				
Division of Recycling, Community Outreach Branch - Direct Program				
FY11 Recycling Program	DOC		2010/2014	59,771
		<u>Total Direct RCO Program</u>		<u>59,771</u>
Division of Land Resource Protection - Direct Program				
Prop 84 - Sustainable Communities Planning Grant Program	DOC		3010-513	188,833
		<u>Total Direct LRP Program</u>		<u>188,833</u>
TOTAL CA DEPARTMENT OF CONSERVATION				248,604
CA State Environmental Protection Agency:				
CA Integrated Waste Management Board - Direct Program				
FY13 CalRecycle Oil Payment Program	CIWMB		OPP3	544
FY12 CalRecycle Oil Payment Program	CIWMB		OPP2	143,039
FY11 CalRecycle Oil Payment Program	CIWMB		FY11 OPP & OPP1A	6,087
2012/2013 Waste Tire Cleanup Grant	CIWMB		TCU14-12-33	85,310
2011/2012 Waste Tire Enforcement Grants	CIWMB		TEA19-11-34	172,933
		<u>Total Direct CIWMB Program</u>		<u>407,913</u>
TOTAL CA ENVIRONMENTAL PROTECTION AGENCY				407,913
CA State Department of Finance:				
Direct Program				
2013 CA Supplemental Law Enforcement Services Program	DOF		FY13	43,597
2012 CA Supplemental Law Enforcement Services Program	DOF		FY12	524,557
Prop 1B - Public Works	DOF		Prop 1B	1,309,380
Prop 1B - FAX	DOF		Prop 1B	2,372,874
		<u>Total Direct DOF Program</u>		<u>4,250,408</u>
TOTAL CA DEPARTMENT OF FINANCE				4,250,408
CA State Department of Fish and Game:				
Wildlife Conservation Board - Direct Program				
San Joaquin River Parkway Riverwest	WCB		CSJR0716	7,266
		<u>Total Direct WCB Program</u>		<u>7,266</u>
TOTAL CA DEPARTMENT OF FISH AND GAME				7,266
CA State Department of Housing and Community Development:				
Direct Program				
CalHome Rehab Mortgage 2008	HCD		08-CALHOME-4910	75,296
Dickey Park Improvements	HCD		11-HRPP-7865	494,067
Ted C Wills Improvements	HCD		11-HRPP-7865	26,470
		<u>Total Direct HCD Program</u>		<u>595,833</u>
TOTAL CA DEPT OF HOUSING AND COMMUNITY DEVELOPMENT				595,833
CA State Department of Parks and Recreation:				
Office of Grants and Local Services (OGALS)				
Martin Ray Reily (MRR) Park	OGALS		SW-10-004	63,005
Habitat Conservation Grant	OGALS		C9763009	17,372
Cultural Arts District (CAD) Parks	OGALS		SW-10-002	968,042
		<u>Total Direct TRA Program</u>		<u>1,048,419</u>
TOTAL CA DEPARTMENT OF PARKS AND RECREATION				1,048,419
CA State Emergency Management Agency:				
Public Safety and Victim Services - Direct Programs				
FY13 CA Gang Reduction, Intervention, and Prevention Program (CalGrip)	CalEMA		GR10056675	5,034
FY12 CA Gang Reduction, Intervention, and Prevention Program (CalGrip)	CalEMA		GR11046675	135,311
10/11 CA Gang Reduction, Intervention, and Prevention Program (CalGrip)	CalEMA		GR10036675	189,733
		<u>Total CalEMA Program</u>		<u>330,078</u>
TOTAL CA EMERGENCY MANAGEMENT AGENCY				330,078

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

State or Local Grantor/Program and/or Project Title	State Agency	Pass-through Grantor	Grant Number	Total State/Local Expenditures
CA State Department of Transportation:				
Direct Program				
Romain Park Improvements Grant	CA DOT		EEM-2011-0612000271	73,212
		<u>Total DOT Program</u>		<u>73,212</u>
Aeronautics Program of the CA Transportation Commission - Direct Program				
AIP - State Match to Fed Proj #3-06-0088-17	CTC		Fre-2-10-1-Mat	954
		<u>Total Direct CTC Program</u>		<u>954</u>
Division of Local Transportation Assistance - Direct Program				
Highway Research, Planning & Construction Program			Master Agreement 06-5060	794,029
		<u>Total Direct DOT Program</u>		<u>794,029</u>
Division of Planning - Pass-through Program				
Community-based Transportation Planning Grant (Old Fig Land Use & Transportation Planning Study)	DOT	County of Fresno	11-513	88,229
		<u>Total Pass-through DOT Program</u>		<u>88,229</u>
TOTAL CA DEPARTMENT OF TRANSPORTATION				956,424
Fresno County Department of Public Health:				
Childhood Lead Poisoning Prevention Program (CLPPP) 2012	CLPPP		2012	18,354
		<u>Total Direct CLPPP</u>		<u>18,354</u>
TOTAL FRESNO COUNTY DEPARTMENT OF PUBLIC HEALTH				18,354
(Continued)				
San Joaquin River Conservancy				
FY12 Environmental Science Program	CSJR		CSJR1121	15,000
		<u>Total CSJR Program</u>		<u>15,000</u>
TOTAL SJ RIVER CONSERVANCY				15,000
San Joaquin Valley Air Pollution Control District				
REMOVE II Grant Program	SJVAPCD		C-15970-A & C-18203-A	15,000
		<u>Total SJVAPCD Program</u>		<u>15,000</u>
TOTAL SAN JOAQUIN VALLEY AIR POLLUTION CONTROL DISTRICT				15,000
Fresno Regional Foundation (FRF)				
Youth Liaison Officer Grant	FRF		FY13-14	83,065
		<u>Total Direct FRF Program</u>		<u>83,065</u>
TOTAL FRESNO REGIONAL FOUNDATION				83,065
TOTAL EXPENDITURES OF NONFEDERAL AWARDS				\$ 7,976,364

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CITY OF FRESNO
Notes to the Schedule of Expenditures of Federal and Nonfederal Awards
For the Year Ended June 30, 2013

Note 1: Basis of Presentation

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

The accompanying Schedule is presented on the cash 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. Expenditures of federal and nonfederal awards are primarily reported in the City's basic financial statements in the general fund, grants special revenue fund, transit enterprise fund and airport enterprise fund

Note 2: Subrecipients

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grants/Entitlement Grants Program	14.218	\$ 10,000
Emergency Solutions Grant Program	14.231	87,635
Neighborhood Stabilization Program	14.218	318,094

Note 3: Section 108 Loans

The City has three (3) Section 108 loans outstanding at June 30, 2013. Semi-annual payments on these Section 108 loans are made from interest earned on the restricted loan investments and from Community Development Block Grant Entitlement funds and are included in the federal expenditures for the Community Development Block Grants/Entitlement Grants Program on the Schedule. Principal and interest payments on all three (3) loans totaled \$443,825 for the year ended June 30, 2013, of which \$443,825 was paid from Community Development Block Grant funds.

CITY OF FRESNO
Notes to the Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

A summary of Section 108 loans outstanding as of June 30, 2013 is as follows:

<u>Grant Loan Program</u>	Unspent Loan Proceed as of June 30, 2013	Outstanding Loan Balances as of June 30, 2013
Section 108 Note - Regional Medical Center	\$ -	\$ 1,185,000
Section 108 Note - Fresno-Madera Area Agency on Aging	-	745,000
Section 108 Note – Neighborhood Streets/Parks	-	985,000
	<u>\$ -</u>	<u>\$ 2,915,000</u>

Note 4: State Revolving Loan Funds

Beginning in fiscal year 2007, the City received Federal Cross-cut revolving grant funds from the State in the form of loans, from the U.S. Environmental Protection Agency, Office of Water, passed through the California State Water Resources, Control Board and the California Department of Public Health, under Capitalization Grants for Clean Water State Revolving Funds (CFDA # 66.458) and Capitalization Grants for Safe Drinking Water State Revolving Funds (CFDA # 66.468). The purpose of the grant/loans is to assist in financing the contraction of projects that will enable the City to comply with statutory clean and safe drinking standards. The City can receive funds under five grant/loans. The terms of the grant/loans and the outstanding balances as June 30, 2013, are as follows:

Grant Fiscal Year	Agreement Number	Description	Project Number	Not to Exceed	Interest Rate & Term	Outstanding Loan Balances as of June 30, 2013
2007	SRF06CX150	Wellsite Chlorination Project	10100007-004	\$ 2,210,000	2.2923% / 20 yrs*	\$ 1,841,462
2009	SRF08SWX101	Enterprise/Jefferson Canal Project Herndon Town and Cortland /	10100007-011	1,968,136	2.2923% / 20 yrs*	1,170,478
2010	09-313-550	Fountain Way Sewer System	C-06-5379-110	884,125	0.0000% / na**	-
2010	AR09FP31	Herndon Town Water Project	1000048-002	619,978	0.0000% / na**	-
2011	SFR11CX104	Residential Meter Project	10100007-026C	51,405,432	0.0000% / 20 yrs*	51,405,432
						<u>\$ 54,417,372</u>

* Term begins at completion of project

** Loan will be 100% forgiven; therefore, there is no interest rate, term or balance outstanding

CITY OF FRESNO
Notes to the Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2013

These loans are not considered to have continuing compliance requirements under OMB Circular A-133, and, therefore, are only reported on the Schedule in the year in which funds are expended and drawn. The City expended \$21,874,570 under the loans during fiscal year 2013 and has reported this amount on the Schedule, as follows:

CFDA Number	Description	Non-ARRA Amount	ARRA Amount	Total Amount
66.458	Residential Water Meters	\$ 21,874,570	\$ -	\$ 21,874,570

Note 5: Pre-Award Authority Spending

The City incurred costs totaling \$2,804,233 under the Airport Improvement Program during the year ended June 30, 2013, prior to receiving the grant award. Under the U.S. Department of Transportation Federal Aviation Administration, Order 3100.38C, project costs incurred prior to the execution of a grant agreement may be reimbursed for costs incurred after September 1996 for funds apportioned to a sponsor as entitlements. As there are no executed grant agreements in place, these costs were not included as part of the Airport Improvement Program expenditures under the Schedule for the year ended June 30, 2013.

Note 6: Economic Development Assistance RFL Grant Calculation

The amount reported on the Schedule for expenditures related to the Economic Development Assistance RFL Grant (CFDA #11.307) is calculated using various criteria as defined by OMB Circular A-133. The calculation for the year ended June 30, 2013 is as follows:

Balance of RLF Loans outstanding at June 30, 2013	\$410,213
Cash and investment balance at June 30, 2013	378,286
Administrative expenses paid out	17,362
Unpaid Principal of all loans written off	-
Subtotal	<u>\$805,861</u>
Federal share	100%
Total expenditures reported at June 30, 2013	<u><u>\$805,861</u></u>

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CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness (es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness (es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs

CFDA No. 11.307
CFDA No. 14.239

Economic Adjustment Assistance
HOME Investment Partnership Program
JAG Program Cluster:

CFDA No. 16.738

Edward Byrne Memorial Justice Assistance Grant Program

CFDA No. 16.804

Recovery Act – Edward Bryne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Governments

CFDA No. 66.468

Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,369,932
Auditee qualified as a low-risk auditee?	Yes

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II - Financial Statement Findings

2013-001 GRANTS RECIEVABLES, REVENUES, AND DEFERRED REVENUES
(Material Weakness)

Criteria

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are “susceptible to accrual”, that is when they are both measurable and available to finance expenditures of the fiscal period. As disclosed in Note 2 (b) to the City’s basic financial statements, it is the City’s policy to recognize revenues when available, which is defined as collected within 60 days after year-end. Under generally accepted accounting principles (GAAP), “available” means collectible within the current period or soon enough thereafter to be used to pay the City’s liabilities of the current period. Application of “susceptibility to accrual” criterion requires judgment, consideration of the materiality of the item in question, and due regard to practicality of accrual, as well as consistency in application.

Condition

During our audit of the City’s Grants special revenue fund receivables, revenues and deferred revenues, we noted that the City incorrectly recorded the following transactions:

- ***Period of Availability.***
 - The City collected receivables recorded at June 30, 2013, within the City’s 60 day availability policy, but did not record related revenue in the amount of \$1,943,786.
 - The City recorded revenues of \$95,922 related to receivables that were collected subsequent to the City’s 60 day availability policy.
 - The City recorded \$603,200 as revenue in FY 2013, but should have reported this amount as revenue in FY 2012, as the related receivable was received within the City’s 60 day availability policy subsequent to June 30, 2012.
- ***Unearned Monies:*** The City recorded receivables and revenues or deferred revenues in FY 2013 for monies both earned and collected in FY 2014. These monies totaled \$921,712 in receivables of which, \$860,936 was recorded as deferred revenues and \$60,776 was recorded as revenue.
- ***Unrecorded Amounts:*** The City incurred expenses in FY 2013 for a reimbursable grant, and a receivable and revenue was not recorded for the amount of \$1,724,000, which was collected within the City’s 60 day availability policy.

CITY OF FRESNO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Cause

The City's various departments are responsible for informing the City's Finance department of receivables outstanding at year end and collected within the City's 60 day availability policy. The Development and Resource Management Department did not provide accurate information to the Finance Department for proper evaluation and reporting of grant revenues.

Effect

The table below summarizes the effect of the adjustments identified on fund balance for the Grants Special Revenue Fund and current year revenues:

	Effect on Beginning Fund Balance	Effect on Current Year Revenues	Total Net Effect on Fund Balance
Period of Availability	\$ (603,200)	\$ 603,200	\$ -
Unearned Monies	-	60,776	60,776
Unrecorded Amounts	-	(1,724,000)	(1,724,000)
Effect of Adjustments Identified	<u>\$ (603,200)</u>	<u>\$ (1,060,024)</u>	<u>\$ (1,663,224)</u>

The table below summarized the effect of the adjustments identified on net position for the Governmental Activities.

	Effect on Beginning Net Position	Effect on Current Year Revenues	Total Net Effect on Net Position
Period of Availability	\$ (603,200)	\$ 699,122	\$ 95,922
Unearned Monies	-	921,712	921,712
Unrecorded Amounts	-	(1,724,000)	(1,724,000)
Effect of Adjustments Identified	<u>\$ (603,200)</u>	<u>\$ (103,166)</u>	<u>\$ (706,366)</u>

CITY OF FRESNO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Recommendation for Corrective Action

We recommend that the City evaluate and revise procedures, as appropriate, related to the year-end evaluation of grant revenue recognition. In addition, the Finance Department should provide additional training to departments to ensure department staff understand their responsibility in evaluating activities related to grant revenue recognition.

Views of Responsible Officials

The City is decentralized when it comes to cash receipts and has no overall electronic system when it comes to recording Accounts Receivable, particularly at year end. While the PeopleSoft system has a Billing Module, it has not been implemented by the City for very sound and specific reasons. The Module increases Revenue when an Account Receivable is recorded. The complication that this creates for the City is that PeopleSoft queries are run quite frequently to measure and compare cash receipts with Budgeted expectations. PeopleSoft Revenue currently only reflects actual cash receipts. Were Revenue to include Accounts Receivable, it is very likely and probable that appropriations and Budget expenditure estimates would be increased based upon future cash collections, which may or may not materialize rather than actual cash receipts. Methods available to keep Revenues purely on the cash basis in PeopleSoft using the Billing Module are extremely labor intensive and subject to error. Therefore implementation the Billing Module on a citywide basis is not a solution.

Finance however will be scheduling meetings with every Department receiving grant monies; particularly Housing which encountered and created the most material audit errors in order to educate / re-educate staff as to how the Grant Spreadsheets must be completed. In addition, Finance will be providing citywide staff with standardized PeopleSoft queries to enable them to identify the collection of receipts subsequent to year end that must be included on the Spreadsheets. The Grant Spreadsheets prepared for the 2013 audit will also be reviewed with staff and the necessary audit corrections will be pointed out and gone over in extensive detail in an effort to avoid the same mistakes that occurred. The CAFR team will also discuss other possible techniques that may assist in avoiding these issues on a go forward basis. The CAFR team itself will also look for better communication techniques between members of the team who work on separate areas of the audit which ultimately impact one another.

Loss of staff due to budget cuts on a citywide basis is also seen as a cause for the errors as fewer people are doing more work, dealing with competing priorities, with less time to review the work being performed prior to submission. This has resulted in an increase in errors. Housing lost several key positions and has been utilizing staff that are not that familiar with grants. The Department is currently engaged in the process of recruiting for a Housing Manager. The CAFR team itself in Finance only consists of two full time positions and four intermittent part time positions which for a City the size of Fresno is extremely lean.

CITY OF FRESNO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

2013-002 CAPITAL ASSETS
(Significant Deficiency)

Criteria

Generally accepted accounting principles require that a governmental entity report capital assets if the entity has ownership of the property; or in cases where ownership cannot be determined, the governmental entity would report the capital asset if it has the responsibility for managing and/or maintaining the asset.

Generally accepted accounting principles require that capital assets, including accumulated depreciation be transferred at the effective date of a fund's merger, with all subsequent events recorded in the receiving fund.

Generally accepted accounting principles require that assets be considered depreciable when placed into service.

Condition

During our audit of the capital asset balances for the Governmental and Business-type Activities, we noted the following:

- **Decreases in Capital Assets.** In the City's Business-type activities, capital asset improvements with a net book value of \$1,932,360 were incorrectly recorded as a disposition when the City still held title to such improvements.
- **Transfers of Assets.** The City merged various funds and activities, including the Parking enterprise fund and various internal service activities within General Services internal service fund into the General fund at July 1, 2012. Certain capital assets in the General Services internal service fund did not transfer on July 1, 2012, thus those activities were not completely closed out. In addition, certain capital assets in the Parking enterprise fund were sold subsequent to July 1, 2012, and the loss was recorded in the Parking enterprise fund rather than the in Governmental Activities which amounted to \$580,926.
- **Construction in Progress Disclosure.** In the City's Business-type Activities, the City netted increases and decreases in construction in progress (CIP) for projects placed into service during FY 2013 rather than classifying the activity as increases and decreases in CIP in the capital asset note disclosure to the basic financial statements. These increases and decreases were \$21,826,351.
- **Completion of Capital Projects.** In the City's Business-type Activities, capital assets were placed into service in May 2012; however, these assets were not transferred in the accounting records to a depreciable asset category in FY 2012. This resulted in an understatement of depreciation expense in the amount of \$448,515 for FY 2013.

CITY OF FRESNO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Cause

The cause for the conditions noted above is due to the communication issues between the department managing the capital asset and the Finance Department’s capital asset accountant as well as limited review of the capital asset journal entries and schedules prepared by the Finance Department.

Effect

The table below summarizes the effect of the adjustments identified on beginning net position for Governmental Activities and Business-type Activities and current year expenses:

	Governmental Activities Current year Expenses	Business-type Activities Current year Expenses	Total Net Effect on Net Position
Decreases in Capital Assets	\$ -	(1,932,360)	\$ (1,932,360)
Transfer of Assets	(580,926)	580,926	-
Completion of Capital Projects	-	448,515	448,515
Effect of Adjustments Identified	<u>\$ (580,926)</u>	<u>(902,919)</u>	<u>\$ (1,483,845)</u>

Recommendation for Corrective Action

We recommend that the City review and evaluate its current policies and procedures related to capital asset accounting and implement revisions as appropriate, to ensure that capital assets are timely captured in the appropriate category (depreciable and non-depreciable) and depreciation is reported in the correct period. In addition, training should be provided to the individuals holding capital assets to ensure compliance with policies and procedures and accurate reporting of capital assets. A review process should be formalized for capital asset schedules and journal entries prepared by the Finance Department staff.

View of Responsible Officials

The loss of staff citywide once again took its toll and resulted in communication and accounting / audit errors. In many cases throughout the City, staff responsible for overseeing Capital Assets, Budget and grant schedule preparation and CAFR involvement is one in the same. In addition they are also responsible for special projects. Complicating the process even more is that Finance has only one position available and assigned to keep track of and maintain the data base associated with the numerous assets built or purchased by the City, donated to the City, or sold, lost or destroyed. Again for a City the size of Fresno, this is extremely lean. Finance must rely heavily upon the various City departments that have control over the assets to inform Finance of any additions or deletions. Finance runs various PeopleSoft reports and searches all Council agendas in an effort to capture all changes in City Capital assets, a monumental task for one position.

CITY OF FRESNO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

As part of the planned meetings with each department, Finance will also re-emphasize the importance of communication. It is also hoped that the new Asset Management Act, written by Council Member Brand and passed by Council on March 6, 2014 will aid the City and Finance in keeping track of land and improvements (excluding right of way and utility easements). The Act proposes engagement by the City of a property brokerage services firm and real estate consultant to provide comprehensive management of the City's real property assets.

The CAFR team will also discuss other possible techniques and methods that may assist in avoiding these issues on a go forward basis. The CAFR team itself will also look for better communication techniques between members of the team who work on separate areas of the audit which ultimately impact one another.

Section III - Federal Award Findings and Questioned Costs

2013-003 Reporting

Federal Grantor: Department of Housing and Urban Development
Program: Home Investment Partnerships Program (HOME)
CFDA No.: 14.239

Criteria or Specific Requirement

The reporting compliance requirement in accordance with 24 CFR Section 135, requires that the prime recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction. For recipients of HUD Community Planning and Development funding, the Form HUD 60002 is due at the same time as annual performance (e.g., CAPERS) reports, which is within 90 days after the reporting period.

Condition

During our audit of the reporting requirements, we noted that the HUD 60002 form for the HOME program was not submitted during the year. The HUD 60002 form for period ended June 30, 2013, was not submitted. The City department responsible for this report is the Development and Resources Management Department.

Cause

The Development and Resources Management Department was focused on completing the Consolidated Annual Performance Evaluation Report, and did not have the resources to complete the HUD 60002 form for the HOME program.

CITY OF FRESNO
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013

Effect

These programs were not in compliance with the timeliness submission of the HUD 60002 form, thus not providing HUD with necessary information to monitor housing rehabilitation, housing construction, and other public construction activities.

Questioned Costs

Not applicable.

Recommendation

We recommend the City develop procedures to ensure timely submission of required reports and to identify all reporting requirements for grants received.

Views of Responsible Officials

Management Agrees

Section 3 of the Housing and Urban Development Act of 1968, as amended by the Housing and Community Development Act of 1992, requires that recipients of financial assistance provided by the U.S. Department of Housing & Urban Development (“HUD”), to the greatest extent feasible, provide training and employment opportunities for low income area residents and contract opportunities for performance of work by local business owned by and/or employing low income residents.

Under HUD Section 3, recipients are required to collect information on every Sponsor, Contractor, Sub-Contractor, etc. for each federal funded grant in excess of \$200,000 that involves housing rehabilitation, housing construction or other public construction, to ensure compliance with Section 3 regulations. The HOME program falls under Section 3 requirements. Recipients are required to submit Summary Report, HUD Form 60002, and annual report showing the recipients’ Section 3 effectiveness.

The City of Fresno currently does not have a Section 3 Program in place. This program requires that the recipient comply with the following:

1. Notify Section 3 residents of employment and contracting opportunities
2. Facilitate employment and training of residents
3. Incorporate Section 3 clause
4. Inform contractors of requirements
5. Assist contractors with compliance
6. Document compliance actions

Staff worked with the Purchasing Division in FY2013 to draft a Section 3 Plan. The Division’s Management Analyst III is currently vetting, preparing the presentation of the Plan to HUD as well as for Council’s approval. The Plan is scheduled to be approved by Council along with the City’s Annual Action Plan in June and will be transmitted to HUD with the Annual Action Plan.

CITY OF FRESNO
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2012

None reported.

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Independent Auditor's Report on Supplementary Information

The Honorable City Council
of the City of Fresno, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fresno, California (City), as of and for the year ended June 30, 2013, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2014, which expressed an unmodified opinion on those financial statements. Our report includes references to other auditors who audited the financial statements of the City of Fresno Cultural Arts Properties (discretely presented component unit), City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement Systems pension trust funds, as described in our report on the City's financial statements. Our report also includes an emphasis of matter paragraph about the City's ability to continue as a going concern.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying schedule of passenger facility charge collections and expenditures is presented for purposes of additional analysis, as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of City Council, management, others within the City, and the Federal Aviation Administration and is not intended to be, and should not be, used by anyone other than these specified parties.



Newport Beach, California
March 27, 2014

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**Independent Auditor’s Report on Compliance with Requirements
Applicable to the Passenger Facility Charge Program and on
Internal Control over Compliance**

The Honorable City Council
of the City of Fresno, California

Report on Compliance for the Passenger Facility Charge Program

We have audited the City of Fresno, California’s (City), compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, applicable to the Airport’s passenger facility charge program for the year ended June 30, 2013.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the passenger facility charge program

Auditor’s Responsibility

Our responsibility is to express an opinion on 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 the Guide. Those standards and the Guide 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 material effect on the passenger facility charge 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. However, our audit does not provide a legal determination of the City’s compliance with those requirements.

Opinion

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to the passenger facility charge program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the City’s internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the Guide. Accordingly, this report is not suitable for any other purpose.

Macias Jini & O'Connell LLP

Newport Beach, California
March 27, 2014

CITY OF FRESNO

Schedule of Passenger Facility Charge (PFC) Collections and Expenditures

Year Ended June 30, 2013 and for Each Quarter during the Year Ended June 30, 2013

Description	Beginning	PFC	Interest	Expenditures		Ending
	Balance			Revenues ¹	Application #2	
	Unliquidated		Earned ³			Unliquidated
	PFC ²					PFC ²
Cash receipts and disbursements quarter ended September 30, 2012	\$ 3,375,830	\$ 672,717	\$ 6,412	\$ 165,200	\$ 165,200	\$ 3,889,759
Cash receipts and disbursements quarter ended December 31, 2012	3,889,759	786,985	5,136	1,418,600	1,418,600	3,263,280
Cash receipts and disbursements quarter ended March 31, 2013	3,263,280	652,201	7,871	-	-	3,923,352
Cash receipts and disbursements quarter ended June 30, 2013	3,923,352	657,690	6,258	16,200	16,200	4,571,100
		<u>\$ 2,769,593</u>	<u>\$ 25,677</u>	<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>	

¹ PFC revenues are reported when the cash is received.

² Unliquidated PFC collections have not been applied to approved PFC projects.

³ Interest revenue is reported when earned (accrued).

See Note to Schedule of Passenger Facility Charge (PFC) Collections and Expenditures.

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CITY OF FRESNO
Notes to Schedule of Passenger Facility Charge (PFC)
Collections and Expenditures
Year Ended June 30, 2013

Note 1. Basis of Presentation

The accompanying schedule of passenger facility charge collections and expenditures includes the PFC activity of the City of Fresno. Interest income is earned on deposit balances of PFC receipts. Passenger facility charge collection revenue and expenditures are presented on the cash basis of accounting, and the interest income is presented on the accrual basis of accounting. The information in this schedule is presented for purposes of additional analysis, as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

PFC expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs, if requested in the application. Eligible expenditures not requested or approved in the application are not applied against PFC collections. The accompanying schedule of PFC collections and expenditures includes the eligible expenditures that have been applied against PFC collections through June 30, 2013.

CITY OF FRESNO
Passenger Facility Charge
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

None noted.

CITY OF FRESNO
Passenger Facility Charge
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2012

None reported.

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