

**CITY OF FRESNO**  
**Single Audit Report and**  
**Other Compliance Reports**  
**For the Year Ended June 30, 2014**



**CITY OF FRESNO**  
 Single Audit Report and Other Compliance Reports  
 For the Year Ended June 30, 2014

*Table of Contents*

	<i>Page</i>
<b><i>Federal Compliance Section</i></b>	
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 <i>Government Auditing Standards</i> .....	1
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 Awards and the Schedule of Expenditures of State or Local Awards.....	3
Schedule of Expenditures of Federal Awards .....	7
Schedule of Expenditures of State or Local Awards.....	12
Notes to the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State or Local Awards .....	15
Schedule of Findings and Questioned Costs.....	19
Status of Prior Audit Findings and Questioned Costs .....	33
<b><i>Airport Compliance Section</i></b>	
Passenger Facility Charge Program:	
Independent Auditor’s Report on Supplementary Information .....	35
Independent Auditor’s Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance .....	37
Schedule of Passenger Facility Charge (PFC) Collections and Expenditures .....	39
Notes to the Schedule of Passenger Facility Charge (PFC) Collections and Expenditures .....	40
Passenger Facility Charge Schedule of Findings and Questioned Costs .....	41
Passenger Facility Charge Status of Prior Year Findings and Questioned Costs .....	42



**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, 2014, 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 19, 2015. 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*.

**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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004 to be significant deficiencies.

### **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 19, 2015

**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 Awards and Schedule of Expenditures of State or Local 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, 2014. 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 identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

***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 items 2014-005, 2014-006 and 2014-007. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were 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.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance to be material weakness and significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-005 to be a material weakness.

*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. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-006 and 2014-007 to be significant deficiencies.

The City's responses to internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were 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 Awards and Schedule of Expenditures of State or Local 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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 19, 2015, which contained unmodified opinions 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 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 awards and the schedule of expenditures of state or local awards are presented for purposes of additional analysis as required by OMB Circular A-133 and the State of California, respectively, and are 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 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 awards and schedule of expenditures of state or local awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Macias Gini É O'Connell LLP*

Newport Beach, California  
March 31, 2015

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**CITY OF FRESNO**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
<b>U.S. Department of Commerce:</b>				
<i>Economic Development Cluster</i>				
<b>Economic Development Administration (EDA) - Direct Program</b>				
Economic Adjustment Assistance - Revolving Loan Fund	11.307		07-39-02434	\$ 886,162
Economic Adjustment Assistance - Fresno Food Processing Industry Site Analysis and Planning Grant	11.307		07 79 06892	86,637
				<u>972,799</u>
				<u>972,799</u>
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>				<b>972,799</b>
<b>U.S. Department of Defense:</b>				
<b>National Guard Bureau (NGB) - Pass-through Program</b>				
Military Construction Cooperative Agreement (MCCA) Grant Program	12.UNKNOWN	CA National Guard Bureau	W912LA-13-2-2103	2,588,844
				<u>2,588,844</u>
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>				<b>2,588,844</b>
<b>U.S. Department of Housing and Urban Development:</b>				
<i>CDBG - Entitlement Grants Cluster</i>				
<b>Community Development Block Grants (CDBG) / Entitlement Grants - Direct Program</b>				
2010 Neighborhood Stabilization Program "1"	14.218		B-08-MN-06-0003	1,434,777
2012 Neighborhood Stabilization Program "3"	14.218		B-11-MN-06-0003	1,710,215
FY14 Community Development Block Grant	14.218		B-13-MC-06-001	4,425,245
FY13 Community Development Block Grant	14.218		B-12-MC-06-001	737
FY11 Community Development Block Grant	14.218		B-10-MC-06-001	95,510
				<u>7,666,484</u>
				<u>7,666,484</u>
<b>Emergency Solutions Grant Program (ESG) - Direct Program</b>				
FY13 Emergency Solutions Grant	14.231		E-12-MC-06-0001	345
				<u>345</u>
<b>HOME Investment Partnership Program (HOME) - Direct Program</b>				
FY14 HOME	14.239		M-13-MC-06-0204	8,654,945
FY12 HOME	14.239		M-11-MC-06-0204	1,802,618
FY10 HOME	14.239		M-09-MC-06-0204	993,906
FY05 HOME	14.239		M-04-MC-06-0204	530
				<u>11,451,999</u>
<b>Office of Sustainable Housing and Community - Passthrough Program</b>				
Sustainable Communities Regional Planning Grant - Smart Valley Places (SCRPG)	14.703	CA State University - Fresno Foundation	SC360080-11-08	173,970
				<u>173,970</u>
<b>Office of Healthy Homes Lead Hazard Control (OHHLHC) - Direct Program</b>				
Lead-Based Paint Hazard Control in Privately-Owned Housing - Healthy Homes Lead Hazard Control Grant (2011)	14.900		CALHB0492-11	407,038
				<u>407,038</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				<b>19,699,836</b>

**CITY OF FRESNO**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2014

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
<b>U.S. Department of Justice:</b>				
<b>Equitable Revenue Sharing Program - Direct Program</b>				
Joint Law Enforcement Operations (JLEO) - Seized Assets	16.111		2011	376,226
				<u>376,226</u>
<b>Office of Community Oriented Policing Services (COPS) - Direct Program</b>				
ARRA - Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Grant CHRP	16.710		2009RJWX0010	10,442
				<u>10,442</u>
<b>Office of Community Oriented Policing Services (COPS) - Direct Program</b>				
2011 Public Safety Partnership and Community Policing Grants - COPS Child Sexual Predator Program - CSPP	16.710		2011CSWX0003	90,355
				<u>90,355</u>
<b>Office of Justice Programs / Office of Juvenile Justice and Delinquency Prevention (JDP) - Pass-through Program</b>				
Enforcing Underage Drinking Laws (ABC FY14)	16.727	CA Dept of Alcoholic Beverage Control	13G-LA13	96,870
				<u>96,870</u>
<b>JAG Program Cluster</b>				
<b>Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Direct Program</b>				
Edward Byrne Memorial Justice Assistance Grant Program '10	16.738		2010-DJ-BX-0838	30,238
Edward Byrne Memorial Justice Assistance Grant Program '11	16.738		2011-DJ-BX-3397	27,439
Edward Byrne Memorial Justice Assistance Grant Program '12	16.738		2012-DJ-BX-0291	112,999
Edward Byrne Memorial Justice Assistance Grant Program '13	16.738		BJA-2013-3599	10,459
				<u>181,135</u>
<b>Office of Justice Programs / Bureau of Justice Assistance (OJP - BJA) - Direct Program</b>				
Edward Byrne Memorial Justice Assistance Grant (JAG) Program: Anti-Human Trafficking Task Force Recovery Act Program	16.804	CA Emergency Management Agency	HF12016675	251,469
				<u>251,469</u>
				<u>432,604</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>				<u>1,006,497</u>
<b>U.S. Department of Transportation:</b>				
<b>Federal Aviation Administration (FAA) - Direct Program</b>				
<b>Airport Improvement Program</b>				
AIP-60 FF10	20.106		3-06-0087-60	106,285
AIP-62 FF10	20.106		3-06-0087-62	1,508
AIP-66 FF11	20.106		3-06-0087-66	28,838
AIP-67 FF11	20.106		3-06-0087-67	298,394
AIP-68 FF11	20.106		3-06-0087-68	35,661
AIP-69-FF12	20.106		3-06-0087-69	36,526
AIP-70-FF12	20.106		3-06-0087-70	27,456
AIP-71-FF13	20.106		3-06-0087-71	554,581
AIP-72-FF13	20.106		3-06-0087-72	2,341,975
AIP-17 FF10	20.106		3-06-0088-17	15,954
				<u>3,447,178</u>
				<u>3,447,178</u>

**CITY OF FRESNO**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2014

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
<b>Highway Planning and Construction Cluster</b>				
<b>Federal Highway Administration (FHWA) - Pass-through Program</b>				
Highway Research, Planning and Construction Program	20.205	CA State Department of Transportation	Master Agreement 06-5060	12,041,501
<u>Total Pass-through FHWA Program</u>				<u>12,041,501</u>
<b>Total Highway Planning and Construction Cluster</b>				<u><b>12,041,501</b></u>
<b>Federal Railroad Administration - Pass-through Program</b>				
ARRA - High-Speed Rail (HSR) Grant	20.319	CA High Speed Rail Authority	HSR 11-29	316,673
ARRA - High-Speed Rail (HSR) - Consultant Contract	20.319	CA High Speed Rail Authority	HSR 11-48	123,558
<u>Total Federal Pass Through/HSR Program</u>				<u>440,231</u>
<b>Federal Transit Cluster</b>				
<b>Federal Transit Administration (FTA) - Direct Program</b>				
<b>Federal Transit - Capital Investment Grants</b>				
FY09 Federal Transit Capital Investment Grant - Fresno Bus Program	20.500		CA-04-0137-00	24,156
2012-14 5309: BRT - Very Small Starts	20.500		CA-04-0282-00	928,248
<u>Total Direct FTA Program</u>				<u>952,404</u>
<b>Federal Transit Administration (FTA) - Direct Program</b>				
<b>Federal Transit - Formula Grants</b>				
ARRA- FY09 Federal Formula Transit Grant	20.507		CA-96-X011-01	2,555,803
<u>Total Direct ARRA FTA Program</u>				<u>2,555,803</u>
<b>Federal Transit Administration (FTA) - Direct Program</b>				
<b>Federal Transit - Formula Grants</b>				
FY04 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y309-00	68,658
FY08 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y622-00	3,939
FY09 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y699-00	82,481
FY10 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y794-00	27,627
FY11 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y843-00	113,014
FY13 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z026-00	184,636
FY14 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z157-00	8,716,945
FY10 Urban Mass Transportation Capital, CMAQ	20.507		CA-90-X072	349,120
FY12 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X224	351,863
<u>Total Direct FTA Program</u>				<u>9,898,283</u>
<b>Total Federal Transit Cluster</b>				<u><b>13,406,490</b></u>
<b>Transit Services Program Cluster</b>				
<b>Federal Transit Administration (FTA) - Pass-Through Program</b>				
2008 Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X102-00	20,464
2010 Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X129	233,641
2008 New Freedom Program	20.521	Fresno Council of Governments	CA-57-X029-00	105
2010 New Freedom Program	20.521	Fresno Council of Governments	CA-57-X054	37,662
<u>Total Pass-through FTA Program</u>				<u>291,872</u>
<b>Total Transit Services Program Cluster</b>				<u><b>291,872</b></u>

**CITY OF FRESNO**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2014

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
<b>Highway Safety Cluster</b>				
<b>National Highway Traffic Safety Administration (NHTSA) - Pass-through Program</b>				
State and Community Highway Safety - UC Sobriety Checkpoint (FY12)	20.600	CA Office of Traffic Safety/Regents of the University of California	SC13151	176,827
State and Community Highway Safety - UC Sobriety Checkpoint (FY13)	20.600	CA Office of Traffic Safety/Regents of the University of California	SC14151	303,732
State and Community Highway Safety - Selective Traffic Enforcement Program FY2013	20.600	CA Office of Traffic Safety/Regents of the University of California	PT1339	82,557
State and Community Highway Safety - Selective Traffic Enforcement Program FY2014	20.600	CA Office of Traffic Safety/Regents of the University of California	PT1443	184,926
<u>Total Pass-through NHTSA Program</u>				748,042
<u>Total Highway Safety Cluster</u>				748,042
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>				<b>30,375,314</b>
<b>U.S. Environmental Protection Agency (EPA):</b>				
<b>Drinking Water State Revolving Fund Cluster</b>				
<b>ARRA - Office of Water - Pass-through Program</b>				
ARRA - Capitalization Grants for Drinking Water State Revolving Funds - Herndon Town Water (WC70)	66.468	State of CA Dept of Public Health	1000048-002	20,628
<u>Total Pass-through ARRA EPA Safe Drinking Water Program</u>				20,628
<b>Office of Water - Pass-through Program</b>				
Capitalization Grants for Drinking Water State Revolving Funds: Residential Meter Project	66.468	State of CA Dept of Public Health	SFR11CX104	6,919,087
<u>Total Pass-through Safe Drinking Water Program</u>				6,919,087
<u>Total Drinking Water State Revolving Fund Cluster</u>				6,939,715
<b>Office of Solid Waste and Emergency Response - Direct Program</b>				
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements	66.818		BF-00T71101-1	134,608
<u>Total Direct Brownfields</u>				134,608
<b>TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY</b>				<b>7,074,323</b>
<b>U.S. Department of Health and Human Services :</b>				
<b>Aging Cluster</b>				
<b>Administration for Community Living (ACL) - Pass-through Program</b>				
Special Programs for the Aging Nutrition Services: Senior Hot Meals 2014	93.045	Fresno Madera Area Agency on Aging	13-0310	75,011
<u>Total Pass-through ACL Program</u>				75,011
<u>Totals for Aging Cluster</u>				75,011
<b>Administration for Children and Families - Pass-through Program</b>				
Children's Justice Grants to States - Children Exposed to Domestic Violence FY2012	93.643	Office of Emergency Services	EV12056675	68,913
<u>Total Pass-through ACF Program</u>				68,913
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				<b>143,924</b>

**CITY OF FRESNO**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended June 30, 2014

Federal Grantor/Program and/or Project Title	CFDA Number	Pass-through Grantor	Grant Number	Total Federal Expenditures
<b>U.S. Department of Homeland Security:</b>				
<i>Homeland Security Cluster</i>				
<b>State Domestic Preparedness Equipment Support (SDPES) Program (State Homeland Security Grant Program) - Pass-through Program</b>				
FY2011 Homeland Security Grant Program	97.004	CA Office of Emergency Services and Fresno County	2010-0008	31,772
FY2012 Homeland Security Grant Program	97.004	CA Office of Emergency Services and Fresno County	2010-0008	87,530
FY2013 Homeland Security Grant Program	97.004	CA Office of Emergency Services and Fresno County	2010-0008	26,458
FY11 Homeland Security Grant Program	97.067	CA Homeland Security / Fresno County	HSGP 2011-SS-0077-019	111,142
FY12 Homeland Security Grant Program	97.067	CA Homeland Security / Fresno County	HSGP 2012-SS-0077-019	94,900
FY13 Homeland Security Grant Program	97.067	CA Homeland Security / Fresno County	HSGP 2013-SS-0077-019	3,190
		<u>Total Pass-through SDPES Program</u>		<u>354,992</u>
<b>Office of Domestic Preparedness - Pass-through Program</b>				
FY11 Metropolitan Medical Response System	97.071	CALEMA / County of Fresno	MMRS11	231,283
		<u>Total Direct ODP Program</u>		<u>231,283</u>
		<u>Total for Homeland Security Cluster</u>		<u>586,275</u>
<b>Federal Emergency Management Agency - Direct Program</b>				
<b>Assistance to Firefighters Grant (AFG)</b>				
FY12 Assistance to Firefighters ("Fire Prevention and Safety")	97.044		EMW-2012-FO-00660	371,840
FY11 Staffing for Adequate Fire and Emergency Response (SAFER)	97.044		EMW-2011-FH-00940	1,293,236
		<u>Total Direct AFG Program</u>		<u>1,665,076</u>
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>				<b>2,251,351</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b>\$ 64,112,888</b>

*The accompanying notes are an integral part of this schedule.*

**CITY OF FRESNO**  
Schedule of Expenditures of State or Local Awards  
For the Year Ended June 30, 2014

<u>State or Local Grantor/Program and/or Project Title</u>	<u>State Agency</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total State Expenditures</u>
<b>CA State Department of Conservation:</b>				
<b>Division of Recycling, Community Outreach Branch (RCO) - Direct Program</b>				
FY11 Recycling Program	DOC		2010/2014	70,531
FY12 Recycling Program	DOC		2012/2014	133,993
<u>Total Direct RCO Program</u>				<u>204,524</u>
<b>Division of Land Resource Protection (LRP) - Direct Program</b>				
Prop 84 - Sustainable Communities Planning Grant Program	DOC		3010-513	118,597
<u>Total Direct LRP Program</u>				<u>118,597</u>
<b>TOTAL CA DEPARTMENT OF CONSERVATION</b>				<b>323,121</b>
<b>CA State Environmental Protection Agency:</b>				
<b>CA Integrated Waste Management Board (CIWMB) - Direct Program</b>				
FY12 CalRecycle Oil Payment Program	CIWMB		OPP2	3,432
FY13 CalRecycle- Oil Payment Program	CIWMB		OPP3	137,995
2011/2012 Waste Tire Enforcement Grants	CIWMB		TEA19-11-34	67,067
2012/2013 Waste Tire Enforcement Grants	CIWMB		TEA20-12-1	235,957
2013/2014 Waste Tire Amnesty Grant	CIWMB		TEA1-13-16	25,723
<u>Total Direct CIWMB Program</u>				<u>470,174</u>
<b>TOTAL CA ENVIRONMENTAL PROTECTION AGENCY</b>				<b>470,174</b>
<b>CA State Department of Finance (DOF):</b>				
<b>Citizens Option for Public Safety - Direct Program</b>				
2012 CA Supplemental Law Enforcement Services Program	DOF		FY12	141,562
2013 CA Supplemental Law Enforcement Services Program	DOF		FY13	886,419
2014 CA Supplemental Law Enforcement Services Program	DOF		FY14	77,408
Prop 1B - Public Works	DOF		Prop 1B	16,103
Prop 1B - FAX	DOF		Prop 1B	1,049,553
<u>Total Direct DOF Program</u>				<u>2,171,045</u>
<b>TOTAL CA DEPARTMENT OF FINANCE</b>				<b>2,171,045</b>
<b>CA State Department of Housing and Community Development (HCD):</b>				
<b>CalHome Rehabilitation Program - Direct Program</b>				
CalHome Rehab Mortgage 2008	HCD		08-CALHOME-4910	224,953
<u>Total HCD Program</u>				<u>224,953</u>
<b>Prop1C - Direct Program</b>				
Dickey Park Improvements	HCD		11-HRPP-7865	115,020
Ted C Wills Improvements	HCD		11-HRPP-7865	22,925
<u>Total Prop 1C Program</u>				<u>137,945</u>
<b>TOTAL CA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT</b>				<b>362,898</b>



**CITY OF FRESNO**  
Schedule of Expenditures of State or Local Awards  
For the Year Ended June 30, 2014

<u>State or Local Grantor/Program and/or Project Title</u>	<u>State Agency</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total State Expenditures</u>
<b>CA State Department of Parks and Recreation:</b>				
<b>Office of Grants and Local Services (OGALS)</b>				
Martin Ray Reily (MRR) Park	OGALS		SW-10-004	992,850
Cultural Arts District (CAD) Parks	OGALS		SW-10-002	112,518
			<u>Total Direct OGALS Program</u>	<u>1,105,368</u>
<b>Habitat Conservation Fund (HCF) - Direct Program</b>				
Habitat Conservation Grant - Mosqueda Center	OGALS		C9763009	5,062
			<u>Total Direct HCF Program</u>	<u>5,062</u>
<b>TOTAL CA DEPARTMENT OF PARKS AND RECREATION</b>				<b>1,110,430</b>
<b>CA State Emergency Management Agency (CalEMA):</b>				
<b>Public Safety and Victim Services - Direct Programs</b>				
FY12 CA Gang Reduction, Intervention, and Prevention Program (CalGrip)	CalEMA		GR11046675	84,648
FY13 CA Gang Reduction, Intervention, and Prevention Program (CalGrip)	CalEMA		GR10056675	176,215
14 CA Gang Reduction, Intervention, and Prevention Program (CalGrip)	CalEMA		BSCC806-13	15,183
			<u>Total CalEMA Program</u>	<u>276,046</u>
<b>TOTAL CA EMERGENCY MANAGEMENT AGENCY</b>				<b>276,046</b>
<b>CA State Department of Transportation (DOT):</b>				
<b>Aeronautics Program of the CA Transportation Commission (CTC) - Direct Program</b>				
AIP - State Match to Fed Proj #3-06-0088-17	CTC		Fre-2-10-1-Mat	399
			<u>Total Direct CTC Program</u>	<u>399</u>
<b>Division of Local Transportation Assistance - Direct Program</b>				
Highway Research, Planning & Construction Program [State Portion]	DOT		Master Agreement 06-5060	5,199,227
			<u>Total Direct DOT Program</u>	<u>5,199,227</u>
<b>TOTAL CA DEPARTMENT OF TRANSPORTATION</b>				<b>5,199,626</b>
<b>CA State Water Resources Control Board:</b>				
<b>Division of Financial Assistance (DFA) - Pass-through Programs</b>				
Prop 50 Upper Kings Basin Water Forum IRWM Plan - City of Fresno Water Meter Installation Project		Kings River Conservation District	XP96960901-0	107,000
			<u>Total DFA Program</u>	<u>107,000</u>
<b>TOTAL STATE WATER RESOURCES CONTROL BOARD</b>				<b>107,000</b>
<b>CA State Department of Justice:</b>				
<b>CA State Equitable Sharing Program</b>				
Equitable Sharing Agreement Seized Assets	Fresno County		FY12	57,878
			<u>Total Equitable Sharing Agreement</u>	<u>57,878</u>
<b>TOTAL EQUITABLE SHARING AGREEMENT</b>				<b>57,878</b>

**CITY OF FRESNO**  
Schedule of Expenditures of State or Local Awards  
For the Year Ended June 30, 2014

<u>State or Local Grantor/Program and/or Project Title</u>	<u>State Agency</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total State Expenditures</u>
<b>Fresno County Department of Public Health:</b>				
<b>Childhood Lead Poisoning Prevention Program (CLPPP) - Pass-through Program</b>				
Childhood Lead Poisoning Prevention Program (CLPPP) 2012	CLPPP		2012	133,442
			<u>Total CLPPP Program</u>	<u>133,442</u>
<b>TOTAL FRESNO COUNTY DEPT OF PUBLIC HEALTH</b>				<b>133,442</b>
<b>San Joaquin Valley Air Pollution Control District</b>				
<b>San Joaquin Valley Air Pollution Control District (SJVAPCD) - Direct Program</b>				
REMOVE II Grant Program	SJVAPCD		C-15970-A & C-18203-A	100,000
			<u>Total SJVAPCD Program</u>	<u>100,000</u>
<b>TOTAL SAN JOAQUIN VALEY AIR POLLUTION CONTROL DISTRICT</b>				<b>100,000</b>
<b>Fresno Regional Foundation:</b>				
<b>The Fresno Regional Foundation (FRF)- Direct Program</b>				
Youth Liaison Officer Grant	FRF		FY13-14	143,793
			<u>Total FRF Program</u>	<u>143,793</u>
<b>TOTAL FRESNO REGIONAL FOUNDATION</b>				<b>143,793</b>
<b>Fireman's Fund:</b>				
<b>Fireman's Fund (FF) - Direct Program</b>				
Heritage Grant	FF		1551	9,299
			<u>Total FF Program</u>	<u>9,299</u>
<b>TOTAL EXPENDITURES OF STATE OR LOCAL AWARDS</b>				<b>10,464,752</b>

*The accompanying notes are an integral part of this schedule.*

**CITY OF FRESNO**

Notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Expenditures of State or Local Awards  
For the Year Ended June 30, 2014

**Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) and Schedule of Expenditures of State or Local Awards (collectively, the Schedules) present the activity of all federal and state or local award programs of the City of Fresno, California (City). The Schedules 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 basic financial statements include the operations of the Successor Agency to the City of Fresno Redevelopment Agency which, had federal award expenditures for th year ending June 30, 2014 of \$134,608. Because the Schedules present only a selected portion of the operations of the City, it is not intended to, and does not, present the operations of the City as a whole.

The accompanying Schedules are presented on the cash basis of accounting. The information in the Schedules are 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 the Schedules 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 SEFA, the City provided federal awards to its subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Community Development Block Grants/Entitlement Grants Program	14.218	\$ 6,250
Emergency Solutions Grant Program	14.231	345
Neighborhood Stabilization Program 1	14.218	899,379
Neighborhood Stabilization Program 3	14.218	633,010

**Note 3: Section 108 Loans**

The City has three (3) Section 108 loans outstanding at June 30, 2014. 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 Schedules. Principal and interest payments on all three (3) loans totaled \$461,120 for the year ended June 30, 2014, of which \$461,120 was paid from Community Development Block Grant funds.

**CITY OF FRESNO**

Notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Expenditures of State or Local Awards (Continued)  
For the Year Ended June 30, 2014

A summary of Section 108 loans outstanding as of June 30, 2014 is as follows:

Grant Loan Program	Unspent Loan Proceed as of June 30, 2014	Outstanding Loan Balances as of June 30, 2014
Section 108 Note - Regional Medical Center	\$ -	\$ 980,000
Section 108 Note - Fresno-Madera Area Agency on Aging	-	660,000
Section 108 Note – Neighborhood Streets/Parks	-	913,000
	\$ -	\$ 2,553,000

These loans are not considered to have continuing compliance requirements under OMB Circular A-133, and, therefore, are only reported on the SEFA in the year in which funds are expended and drawn.

**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 construction 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, 2014, are as follows:

Grant Fiscal Year	Agreement Number	Description	Project Number	Not to Exceed	Interest Rate & Term	Outstanding Loan Balances as of June 30, 2014
2007	SRF06CX150	Wellsite Chlorination Project	10100007-004	\$ 2,210,000	2.2923% / 20 yrs*	\$ 1,750,982
2009	SRF08SWX101	Enterprise/Jefferson Canal Project Herndon Town and Cortland /	10100007-011	1,968,136	2.2923% / 20 yrs*	1,119,029
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
						\$ 54,275,443

\* Term begins at completion of project

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

These loans are not considered to have continuing compliance requirements under OMB Circular A-133, and, therefore, are only reported on the SEFA in the year in which funds are expended and drawn.

**CITY OF FRESNO**

Notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Expenditures of State or Local Awards (Continued)  
For the Year Ended June 30, 2014

The City drew funds under the loans during fiscal year 2014 and have reported these amounts on the SEFA, as follows:

<u>CFDA Number</u>	<u>Description</u>	<u>Non-ARRA Amount</u>	<u>ARRA Amount</u>	<u>Total Amount</u>
66.468	Residential Water Meters	\$ 6,919,087	\$ -	\$ 6,919,087
66.468	Herndon Town Water	-	20,628 *	20,628
				<u>\$ 6,939,715</u>

\*See Note 7

**Note 5: Pre-Award Authority Spending**

The City incurred costs totaling \$1,202,750 under the Airport Improvement Program (AIP) during the year ended June 30, 2014, 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 SEFA for the year ended June 30, 2014.

The City incurred costs totaling \$2,025,300 under the AIP during the year ended June 30, 2013, for which funding was approved in fiscal year 2014. These expenditures are included on the Schedules as part of the AIP (CFDA #20.106) expenditures for the year ended June 30, 2014.

**Note 6: Economic Adjustment Assistance RFL Grant Calculation**

The amount reported on the SEFA for expenditures related to the Economic Adjustment Assistance RLF Grant (CFDA #11.307) is calculated using various criteria as define by OMB Circular A-133. The calculation for the year ended June 30, 2014 is as follows:

Balance of RLF Loans outstanding at June 30, 2014	\$517,212
Cash and investment balance at June 30, 2014	241,875
Administrative expenses paid out	17,075
Unpaid Principal of all loans written off	<u>110,000</u>
Subtotal	<u>\$886,162</u>
Federal share	100%
<b>Total expenditures reported at June 30, 2014</b>	<b><u>\$886,162</u></b>

**CITY OF FRESNO**

Notes to the Schedule of Expenditures of Federal Awards and  
Schedule of Expenditures of State or Local Awards (Continued)  
For the Year Ended June 30, 2014

**Note 7: Prior Year Expenditures Included in SEFA**

The SEFA includes the following federal expenditures that were incurred in the prior year:

- ARRA Capitalization Grant for Drinking Water (CFDA #66.468) - \$20,628, which includes a final expenditure of \$18,718 along with \$1,910 in payroll adjustments. The California State Water Resources Control Board agreed that the City could report these expenditures in FY 2014.
- Economic Development Cluster: Economic Adjustment Assistance - Fresno Food Processing Industry Site Analysis and Planning Grant (CFDA #11.307) - \$25,768. Clarification was provided by the grantor in FY 2014 that affected the City's application of the matching requirement in prior years. This matter has been discussed with the Economic Development Agency and no further action is considered necessary.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014

**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?	Yes
• 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	<b>Economic Adjustment Assistance</b>
CFDA No. 12.UNKNOWN	<b>Military Construction Cooperative Agreement Grant Program</b>
CFDA No. 14.239	<b>HOME Investment Partnership Program</b>
CFDA No. 20.106	<b>Airport Improvement Program</b>
	<b>Federal Transit Cluster:</b>
CFDA No. 20.500	Federal Transit – Capital Investment Grants
CFDA No. 20.507	Federal Transit – Formula Grants
CFDA No. 97.044	<b>Assistance to Fire Fighters Grant</b>

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,923,378
Auditee qualified as a low-risk auditee?	No

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

**Section II - Financial Statement Findings**

***2014-001 Grants Receivables, Revenues, and Unavailable or Unearned Revenues  
(Material Weakness)***

***Criteria***

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires that recipients of government-mandated and voluntary nonexchange transactions (grants) recognize revenues when all applicable eligibility requirements are met. (On the modified accrual basis, revenues should be recognized when all applicable eligibility requirements are met *and* the resources are available.)

***Condition/Context***

During our audit, we identified a similar issue noted in finding 2013-001 where the City recorded grant revenues in the amount of \$753,444 for which there were no eligible expenditures incurred during the year. The grants affected were the CalHome Rehabilitation Program (\$653,444) and the Neighborhood Stabilization Program 3 (\$100,000).

***Cause/Effect***

The City departments are responsible for informing the Finance department of receivables outstanding at year end and collected within the City's period of availability, as well as eligible expenditures incurred under grant awards. It is the Finance department's responsibility to record the receivable, and revenue, unavailable revenue or unearned revenue based on the information provided by the department. Accurate information was provided by the Development and Resource Management Department (DARM), however, the Finance Department did not properly record the journal entries to capture the fiscal year 2014 activity.

Revenues were overstated in the amount of \$753,444 in the Grants Special Revenue Fund and Governmental Activities. Management adjusted the financial statements to correct this error.

***Recommendation for Corrective Action***

We recommend that the City improve its method for capturing grant information submitted by departments to ensure revenues are properly recognized.

***Views of Responsible Officials***

Management agrees with the Finding. Prior to the booking of any Comprehensive Annual Financial Report (CAFR) adjustments related to Grant activity for the 2015 CAFR, a formal meeting will be scheduled between internal Finance staff to thoroughly review the Grant spreadsheets to ensure the mutual agreement as to the entries that need to be booked. In addition, the CAFR adjustments related to Grant transactions will be jointly reviewed by CAFR and Single Audit staff to ensure proper recognition of receivables, and revenue, unavailable revenue or unearned revenue.



**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

***2014-002: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)  
(Material Weakness)***

***Criteria***

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (OMB A-133), requires that the City prepare a schedule showing total expenditures for the year for each federal program.

***Condition/Context***

During our audit, we noted that the Airport Improvement Program (CFDA No. 20.106) expenditures were understated by \$2,025,300 related to pre-award expenditures incurred in fiscal year 2013 and approved for reimbursement in fiscal year 2014.

The City subsequently corrected the expenditure amounts reported in its fiscal year 2014 SEFA.

***Cause/Effect***

Management did not capture the pre-award expenditures incurred in the prior year due to oversight. The pre-award expenditures are unique in that when they are incurred the grantor has committed to providing funding but has not identified a funding source thus the grantee cannot claim reimbursement until the grantor executes an agreement with an identified funding source. The City did not have an adequate process to capture expenditures on the SEFA that were incurred in a prior year and were funded in the current year.

The City's SEFA serves as the basis for determining the number of major programs required to be audited in a given fiscal year and inaccuracies have the potential to affect major program determinations.

***Recommendation***

The City should consider revising the format of its grant expenditure worksheet to clearly identify pre-award expenditures that will be captured on the SEFA in a subsequent year (the year of federal funding). In addition, department management should annually evaluate all awards to determine if pre-award expenditures have been subsequently funded and communicate this to the Finance Department. The City should also consider evaluating software specific to tracking and gathering grant information from the time of applying for a grant to the completion of the project or program and the closure of the grant funding.

***Views of Responsible Officials***

Airports Department management agrees with the finding. To better identify grant pre-expenditures from the prior year for which grants have not yet been awarded, Airports will prepare a reconciliation to the prior year's pre-award amounts on the Summary of Grants in Progress spreadsheet. This will confirm expenditures for those grants still pending award, in addition to the Grant awards already confirmed on the Summary of Grants in Progress listing.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

**2014-003: Risk Assessment**  
**(Significant Deficiency)**

**Criteria**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations, including the American Institute of Certified Public Accountants and the Institute of Internal Auditors, and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

The COSO *Internal Control-Integrated Framework* (Framework) is the common framework against which internal control systems can be assessed and improved. The Framework provides for three objectives, which allow organizations to focus on differing aspects of internal control:

- *Operations Objectives* – the effectiveness of the entities operations, including operational and financial performance goals, and safeguarding of assets against loss;
- *Reporting Objectives* – internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or entity policies;
- *Compliance Objectives* – adherence to laws and regulations to which the entity is subject.

The Framework establishes five elements of internal control as a method to meeting the objectives above: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk Assessment is an integral part of internal control and management should periodically evaluate the risks and monitor the changes facing the City. This process involves evaluating both previously identified risks and potential new risks and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

**Condition**

In the prior year we identified the need for the City to perform an entity-wide risk assessment. In recent years that City has experienced significant financial and operational challenges that greatly increased the risk of the City meeting the objectives of operations, reporting and compliance described in the Framework. Furthermore, the City had been operating without a permanent Finance Director for several years until recently filled in September 2014. Also, the City's internal audit staff resources and function were reduced to one individual with limited or narrow areas of focus.

As the City's financial outlook improves, the City should evaluate its organization, including critical business cycles and processes, through the five internal control elements to identify areas or significant risks and prioritize solutions to ensure they meet their operating, reporting and compliance objectives.

**Cause**

In recent years the City has experienced significant financial challenges due to both internal and external factors, which significantly impacted its operations through staff and service reductions, including monitoring activities by the Finance Department and Internal Audit Section.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

***Effect***

With the various changes in the City, including staff reductions, new fiscal policies, new federal grant compliance requirements under the Uniform Guidance, continuing changes in State legislation and funding, current economic conditions, and upcoming retirements of key positions, the City is exposed to various risks to operational effectiveness and efficiency, accurate financial reporting and compliance to laws and regulations.

***Recommendation for Corrective Action***

We recommend that the City perform a City-wide risk assessment considering the objectives of the Framework and the five elements of internal control. The City should consider the elements of (1) Control Environment; (2) Risk Assessment; (4) Information and Communication; and (5) Monitoring at the entity-wide level identifying the pervasive risks affecting the City. These risks may include the need to evaluate succession planning, the City's financial reporting information system (also see Finding 2014-004) and related subsidiary systems, changes in fiscal policies and federal and state regulations. The City should also inventory and evaluate each of its critical business cycles/processes (e.g. revenue/cash receipts, expenditures/cash disbursements, grants management, etc.) under the element of (3) Control Activities and consider risks related to staff turn-over and institutional knowledge loss, adequacy of staffing levels to mitigate errors in financial reporting and noncompliance, and efficiency and effectiveness of processes due to changes in laws, regulations and technology.

Due to the limited internal resources of the City, the City may want to consider outsourcing the risk assessment to a third-party with knowledge of similar organizations and who can assist the City in identifying and evaluating significant risks and developing cost effective solutions to address these areas.

***Views of Responsible Officials***

Management agrees with this recommendation. Given the complexities of such an evaluation, Management acknowledges that external assessment and validation of organizational risks should be obtained to guard against potential biases and lack of independence. Thus, Management will begin the process of developing a Request for Proposals (RFP) related to such an assessment. However, the complex nature of this evaluation and the impact such a study on staff workloads (as they assist the outside agency in both developing responses and following up on recommendations) will make completing the assessment a multi-year project. Consequently, Management does not believe that the first results from such an assessment will be available before Fiscal Year 2017.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

***2014-004: Access to Programs and Data  
(Significant Deficiency)***

***Criteria***

The City is responsible for ensuring that its IT systems are reliable and its data is secure. General computer controls over the access to programs and data require that network and application security controls be implemented to ensure administrative, master, and super user activities are properly authorized and to safeguard access to information technology resources and data. Furthermore, these controls should require that adequate safeguards are in place to prevent unauthorized access to or destruction of documents, records and assets.

***Condition/Context***

During our review and evaluation of the general controls over information systems, we noted the following:

- Policies and procedures have not been established to monitor administrative, master, and super user activity in the financial systems and related databases.
- While the City has an Administrative Order for the Use of Electronic Systems and Tools, it does not require users to sign or accept the policy (or an Acceptable Use Agreement referencing this policy).

***Cause/Effect***

The City has only recently resurrected its Innovation IT Advisory Committee (IT Steering Committee), and is in process of starting to identify critical policies and leading practices. Prior to establishment of the Advisory Committee, the City staff have had the combination of a common forum and the resources to address core policy issues impacting IT security.

***Recommendation***

The City should develop policies and implement procedures requiring periodic (e.g. monthly) reviews of financial application administrative, master, super user activities at the application and database levels. The review should be performed by a position outside of the chain of command of these users with high level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of this activity.

The Human Resources Director should work with the Chief Information Officer and the City Manager to institute a process for users to review and sign Acceptable Use Agreements prior to granting IT network access. This will improve the City's safeguards for network and financial system user access.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

*Views of Responsible Officials*

We agree with this finding. The City does not have a formal methodology to monitor privileged users. Currently, there are logs in place to better detect usage. These logs are no longer efficient due to the changing nature of our systems. An effort is currently underway to seek out proper software and create a proper methodology for monitoring our privileged users to ensure that best practice auditing is in place. The first step was a formal Security Assessment which will present initial recommendations. We are following up on this assessment with the search for proper tools that will enable close tracking and monitoring. We expect to have implementation sometime in Fiscal Year 2016 as we deem this one of our higher priorities.

The City does have drafted Policies for the expectation of administrators and key support persons, however, these need to be finalized, approved and implemented. In addition, the City follows a “Least Privilege” security model in which end users and administrators only have access to what they need to get their job done. We also agree that more formalized/comprehensive methods and agreements should be in place to further safeguard the City’s systems. We will take this under advisement and investigate what can be additionally accomplished. We have started with a security assessment and this was one of the items requested to be addressed. Furthermore, we are implementing a new Proxy system that will have acceptable use language written on an acceptance screen; the end user will have to agree to it prior to Internet use.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

**Section III – Findings and Questioned Costs Related to Federal Awards**

**Finding 2014-005: Reporting on Revolving Loan Fund Semi-Annual Financial Report  
(Material Weakness)**

Federal Program Title:	Economic Development Cluster
Federal Catalog Number:	11.307
Federal Agency:	Economic Development Administration
Federal Award Numbers:	07-39-02434
Category of Finding:	Reporting

***Criteria or Specific Requirement***

Under the requirements of 13 CFR 307, recipients of revolving loan funds (RLF) are required to submit a semi-annual report to the Economic Development Administration (EDA). In the 2014 OMB Circular A-133 Compliance Supplement, the EDA has identified the following as critical information and key line items on the ED-209 report:

- (1) Total Active Loans
- (2) Current RLF Capital Base
- (3) Current Balance Available for lending net of committed RLF\$
- (4) Amount of excess cash for reporting period
- (5) Amount of excess cash subject to sequestration
- (6) Amount sequestered in a separate account, as reported by grantee
- (7) Amount of RLF Income Earned during this Reporting Period
- (8) Percentage of RLF Income used for Administrative Expenses during this Reporting Period

Grantees must design and implement adequate internal controls to ensure that required reports are accurate. Control activities should include procedures to ensure reports are supported by the general ledger or other reliable records and supervisory reviews of reports are performed to assure accuracy and completeness of data and information included in the reports.

***Condition***

During our audit of the City's compliance with reporting requirements related to the Revolving Loan Fund, we selected the Semi Annual Report ED-209 for the period October 1, 2013 through March 31, 2014 for review. We noted that the following line items were not accurately reported:

- (2) Current RLF Capital Base – Amount was understated by \$64,558
- (3) Current Balance Available for lending net of committed RLF\$ - Amount was understated by \$64,668
- (4) Amount of excess cash for reporting period – Amount was overstated by \$5,335
- (5) Amount of excess cash subject to sequestration – Amount was understated by \$105,296

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

***Cause***

The City contracted out the administration of the City's Revolving Loan Fund, including the preparation of the ED-209 report, to a third-party. The City's expectations under the contract was that the contractor had adequate knowledge and skills and a proper quality control environment to accurately prepare the ED-209 report. The contractor acknowledged the reporting errors and deficiencies in its control environment. In addition, due to resource constraints, the City did not have procedures in place to review these reports prior to submission.

***Effect***

The ED-209 report for the six month period ended March 31, 2014 included inaccurate information for the line items noted above and needed to be revised and re-submitted to the EDA. Furthermore, the grant expenditure schedule provided by the contractor to the City for the year ended June 30, 2014, used to prepare the schedule of expenditures of federal awards (SEFA) also needed to be revised to properly classify grant information, though the total SEFA amount originally reported did not change.

***Questioned Costs***

None noted.

***Recommendation***

We recommend that City management review the terms and conditions of awards and assign a qualified individual or organization to ensure compliance with such terms and conditions. In the event that the City contracts an outside party to perform administrative functions of an award, City management should assign a qualified individual within the City to oversee the administrative activities performed by the external party and periodically perform monitoring procedures to ensure the accuracy of the contractors work product.

***Views of Responsible Officials***

Management does not dispute the Material Weakness finding for the Revolving Loan Fund (RLF) Program. Management acknowledges that there are issues related to the RLF Program and has been in the process of extending more oversight of our contracted third party administering agency, Cen Cal Business Finance Group. We were also considering the termination of the third party contract prior to this audit.

In early 2014, the City became aware of compliance issues with our RLF Program as it related to excess funds in the program. In June, 2014 management met with the new Executive Director of Cen Cal Business Finance and determined that our third party program administrator had a wholesale turn-over of staff. At the meeting with the Executive Director, management stressed the importance of Cen Cal Business Finance actively marketing the program in an effort to get the EDA funds loaned out promptly. Cen Cal staff assured management that they would make the program a higher priority and actively market it, as well as continue to ensure that ED-209 semi-annual reports were remitted on a timely and accurate basis.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

As a result of the June meeting, management began assessing the performance of the third party administrator. After the June meeting management reached out to the EDA requesting clarification for funds reported by the third party contract administrator. At that time the EDA noted errors in the reports received for our RLF from Cen Cal Business Finance Group. Management began working with the EDA and Cen Cal to address those errors. While addressing the noted errors, management put consideration of a new third party contract administrator on hold. In December of 2014, Cen Cal notified the city of their desire to terminate the contract.

Management has begun the process to find a new financial non-profit to contract for the administration of the RLF Program. The new contract will include provisions that outline greater expectations regarding proper reporting and auditing. Management will include the appropriate staff from the Economic Development Department along with the Finance Department to ensure that the proper controls are in place to monitor the administration of the RLF Program. Management will institute quarterly conferences with the new administrating agency to review and inspect the ED-209 and loan documentation on all loans. Management, with appropriate staff from Finance, will seek to ensure all prior reporting, loans and remaining FY 2015 reporting will be done correctly. Management will work to ensure a smooth transition to a new administering agency.



**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

**Finding 2014-006: Reporting on HUD 60002 Report  
(Significant Deficiency)**

Federal Program Title: Home Investment Partnership Program (HOME)  
Federal Catalog Number: 14.239  
Federal Agency: U.S. Department of Housing and Urban Development (HUD)  
Federal Award Numbers: M-13-MC-06-0204, M-12-MC-06-0204, M-11-MC-06-0204, M-10-MC-06-0204, M-09-MC-06-0204, M-08-MC-06-0204, M-06-MC-0204, and R-04-MC-06-0204  
Category of Finding: Reporting

***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 related to the year ended June 30, 2014, for the HOME program 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.

***Effect***

As of the result of management not filing this report, this program was not in compliance with the timely 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***

None noted.

***Recommendation***

We recommend the City annually identify all reporting requirements for grants and develop procedures and evaluate and address resource needs to ensure timely submission of required reports.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

***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 US Department of Housing and Urban Development ("HUD"), to the greatest extent feasible, provide training and employment opportunities from low income area residents and contract opportunities for performance of work by local businesses 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 the 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 clauses
- 4) Inform contractors of requirements
- 5) Assist contractors with compliance
- 6) Document compliance actions

Staff worked with the DBE Section in the Purchasing Division to draft a Section 3 Plan. The Development and Resource Management Department (DARM) believed that there was a requirement in which the Section 3 Plan needed to be presented to HUD as well as the City of Fresno Council for Action and Approval. The DARM Director received direction from their consultant that the Section 3 Plan can be adopted administratively into their Program Procedures Manual. Beginning July 2015, all contracts exceeding \$200,000 will have to comply with the Section 3 guideline and the Annual HUD Report 6002 will be filed annually along with the CAPER in FY16.

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

**Finding 2014-007: Reporting on Federal Financial Report Standard Form 425  
(Significant Deficiency)**

Federal Program Title: Federal Transit Cluster  
Federal Catalog Number: 20.500 & 20.507  
Federal Agency: Federal Transit Administration  
Federal Award Numbers: CA-04,0137-00, CA-90-Y309-00, CA-90-Y622-01, CA-90-Y699-00,  
CA-90-Y794-00, CA-90-Y843-00, CA-90-Z026-00, CA-90-Z026-01,  
CA-90-Z157-00, CA-95-X072-01, CA-95-X224-00, CA-96-X011-01  
Category of Finding: Reporting

***Criteria or Specific Requirement***

The reporting compliance requirement in accordance with OMB Circular A-133, requires Federal Transit Cluster recipients to submit Federal Financial Report Standard Form 425 (SF-425) on a quarterly basis no later than 30 days after the quarter-end.

***Condition***

During our review of the City’s compliance with reporting requirements, we noted that out of 38 quarterly SF-425 reports submitted for the year ended June 30, 2014, 25 reports were submitted late as follows:

<u>Grant Number</u>	<u>Quarter End Date</u>	<u>Submission Deadline</u>	<u>Submission Date</u>
CA-90-Y622-01	September 30, 2013	October 30, 2013	October 31, 2013
CA-90-Y699-00	September 30, 2013	October 30, 2013	October 31, 2013
CA-90-Y794-00	September 30, 2013	October 30, 2013	October 31, 2013
CA-90-Y843-00	September 30, 2013	October 30, 2013	October 31, 2013
CA-90-Z026-00	September 30, 2013	October 30, 2013	October 31, 2013
CA-95-X072-01	September 30, 2013	October 30, 2013	October 31, 2013
CA-95-X224-00	September 30, 2013	October 30, 2013	October 31, 2013
CA-96-X011-01	September 30, 2013	October 30, 2013	October 31, 2013
CA-90-Y699-00	December 31, 2013	January 30, 2014	January 31, 2014
CA-90-Y794-00	December 31, 2013	January 30, 2014	January 31, 2014
CA-90-Y843-00	December 31, 2013	January 30, 2014	January 31, 2014
CA-90-Z026-00	December 31, 2013	January 30, 2014	January 31, 2014
CA-95-X072-01	December 31, 2013	January 30, 2014	January 31, 2014
CA-95-X224-00	December 31, 2013	January 30, 2014	January 31, 2014
CA-96-X011-01	December 31, 2013	January 30, 2014	January 31, 2014
CA-04-0137-00	June 30, 2014	July 30, 2014	August 13, 2014
CA-90-Y309-00	June 30, 2014	July 30, 2014	August 13, 2014
CA-90-Y699-00	June 30, 2014	July 30, 2014	August 14, 2014
CA-90-Y794-00	June 30, 2014	July 30, 2014	August 14, 2014
CA-90-Y843-00	June 30, 2014	July 30, 2014	August 14, 2014
CA-90-Z026-01	June 30, 2014	July 30, 2014	August 14, 2014

**CITY OF FRESNO**  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2014

<u>Grant Number</u>	<u>Quarter End Date</u>	<u>Submission Deadline</u>	<u>Submission Date</u>
CA-95-X072-01	June 30, 2014	July 30, 2014	August 14, 2014
CA-95-X224-00	June 30, 2014	July 30, 2014	August 14, 2014
CA-96-X011-01	June 30, 2014	July 30, 2014	August 7, 2014

***Cause***

The condition noted was due to oversight in understanding the report due date and a lack of resources.

***Effect***

As a result of management not timely filing their SF-425 reports, there is a delay in the communication of necessary information to monitor transit activities to the grantor.

***Questioned Costs***

None noted.

***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 with exception.

SF-425 reports submitted on October 31, 2013 and January 31, 2014 were submitted with the conjecture that reports were due at the end of the month. Reports will now be submitted prior to the due date of 30 days after the end of a quarter.

SF-425 reports submitted in August 2014 were submitted due to conflicting priorities and a delay in receiving project information from the Project Managers. The department has recently hired three project management staff members to oversee projects and increase the capacity of project management and reporting. Future reports will be submitted prior to the report due date. The department will also develop a list of grant projects and corresponding reporting due dates and distribute this list to all project staff.

**CITY OF FRESNO**  
 Status of Prior Year Findings and Questioned Costs  
 For the Year Ended June 30, 2014

<i>Reference Number</i>	<i>Description</i>	<i>Status</i>
<b><i>Financial Statement Findings:</i></b>		
<b><i>2013-001</i></b>	<i>Grants Receivables, Revenues, and Deferred Revenues (Material Weakness)</i>	<i>See current year Finding 2014-001</i>
<b><i>2013-002</i></b>	<i>Capital Assets (Significant Deficiency)</i>	<i>Implemented.</i>
<b><i>Findings and Questioned Costs Related to Federal Awards:</i></b>		
<b><i>2013-003</i></b>	Federal Program: Home Investment Partnerships Program (HOME) CFDA No.: 14.239 Federal Agency: Department of Housing and Urban Development Category of Finding: Reporting (Significant Deficiency)	<i>See current year finding 2014-006</i>

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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, 2014, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2015, 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 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 31, 2015

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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, 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, 2014.

***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, 2014.

**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 of compliance, 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. However, material weaknesses may exist that have not been identified.

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.

Newport Beach, California  
March 31, 2015

**CITY OF FRESNO**

Schedule of Passenger Facility Charge (PFC) Collections and Expenditures

Year Ended June 30, 2014 and for Each Quarter during the Year Ended June 30, 2014

<b>Description</b>	<b>Beginning Balance Unliquidated PFC <sup>2</sup></b>	<b>PFC Revenues <sup>1</sup></b>	<b>Interest Earned <sup>3</sup></b>	<b>Expenditures</b>		<b>Ending Balance Unliquidated PFC <sup>2</sup></b>
				<b>Application #2</b>	<b>Total</b>	
Cash receipts and disbursements quarter ended September 30, 2013	\$ 4,571,100	\$ 828,299	\$ 2,360	\$ -	\$ -	\$ 5,401,759
Cash receipts and disbursements quarter ended December 31, 2013	5,401,759	731,104	2,846	-	-	6,135,709
Cash receipts and disbursements quarter ended March 31, 2014	6,135,709	633,291	2,848	1,830,600	1,830,600	4,941,248
Cash receipts and disbursements quarter ended June 30, 2014	4,941,248	843,975	3,601	-	-	5,788,824
		<u>\$ 3,036,669</u>	<u>\$ 11,655</u>	<u>\$ 1,830,600</u>	<u>\$ 1,830,600</u>	

<sup>1</sup> PFC revenues are reported when the cash is received.

<sup>2</sup> Unliquidated PFC collections have not been applied to approved PFC projects.

<sup>3</sup> Interest revenue is reported when earned (accrued).

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

**CITY OF FRESNO**  
**Notes to Schedule of Passenger Facility Charge (PFC)**  
**Collections and Expenditures**  
**Year Ended June 30, 2014**

**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, 2014.

**CITY OF FRESNO**  
**Passenger Facility Charge**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

None noted.

**CITY OF FRESNO**  
**Passenger Facility Charge**  
**Status of Prior Year Findings and Questioned Costs**  
**Year Ended June 30, 2014**

None reported.