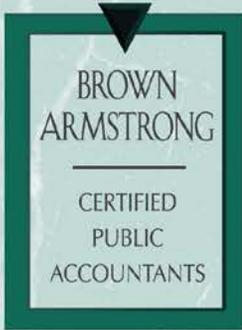


**CITY OF FRESNO**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2017**

**CITY OF FRESNO  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2017**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Federal Compliance Section</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 Required by the Uniform Guidance .....	3
Schedule of Expenditures of Federal Awards.....	6
Schedule of Expenditures of State or Local Awards.....	10
Notes to 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 Year Findings and Questioned Costs .....	29



# BROWN ARMSTRONG

*Certified Public Accountants*

## **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**

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

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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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fresno (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 18, 2018. Our report includes references to other auditors who audited the financial statements of the City of Fresno Cultural Arts Properties Corporation (discretely presented component unit) and the Successor Agency to the Redevelopment Agency of the City (component unit of the City), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: 2017-001, 2017-002, 2017-003, and 2017-004.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-006.

### **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.

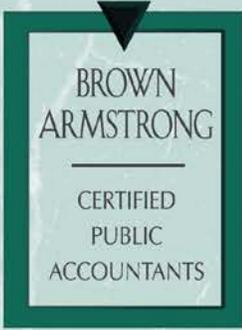
### **Purpose of this Report**

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California  
January 18, 2018



# BROWN ARMSTRONG

*Certified Public Accountants*

## **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 REQUIRED BY THE UNIFORM GUIDANCE**

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

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### **Report on Compliance for Each Major Federal Program**

We have audited the City of Fresno's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 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 the Uniform Guidance, 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. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-005, that we consider to be a material weakness.

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.

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 the Uniform Guidance. 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 18, 2018, which contained unmodified opinions on those financial statements. Other auditors audited the financial statements of the City of Fresno Cultural Arts Properties Corporation (discretely presented component unit) and the Successor Agency to the Redevelopment Agency of the City

(component unit of the City), as described in our report on 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 the Uniform Guidance 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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
March 21, 2018

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
<b>US Department of Agriculture</b>					
<b>Rural Utilities Service - Direct Program</b>					
Daleville Area Water Project	10.763		8/13/2015	\$ -	\$ (36,410)
<u>Total Rural Utilities Service - Direct Program</u>				-	(36,410)
<b>TOTAL US DEPARTMENT OF AGRICULTURE</b>				<b>-</b>	<b>(36,410)</b>
<b>US Department of Commerce</b>					
<i>Economic Development Cluster:</i>					
<b>Economic Development Administration (EDA) - Direct Program</b>					
Economic Development Adjustment Assistance Program - Revolving Loan Fund	11.307		07-39-02434	850,434	850,434
<u>Total Economic Development Administration (EDA) - Direct Program</u>				850,434	850,434
<i>Total Economic Development Cluster</i>				850,434	850,434
<b>TOTAL US DEPARTMENT OF COMMERCE</b>				<b>850,434</b>	<b>850,434</b>
<b>US Department of Housing and Urban Development</b>					
<i>Community Development Block Grants (CDBG) - Entitlement Grants Cluster</i>					
<b>Office of Community Planning and Development - Direct Program</b>					
Neighborhood Stabilization Program 1 - 2010	14.218		B-08-MN-06-0003	-	10,180
2011 Community Development Block Grants/Entitlement Grants	14.218		B-10-MC-06-0001	-	58,719
2012 Community Development Block Grants/Entitlement Grants	14.218		B-11-MC-06-0001	-	4,974
2014 Community Development Block Grants/Entitlement Grants	14.218		B-13-MC-06-0001	-	1,133,345
2015 Community Development Block Grants/Entitlement Grants	14.218		B-14-MC-06-0001	-	592,730
2016 Community Development Block Grants/Entitlement Grants	14.218		B-15-MC-06-0001	15,000	932,853
2017 Community Development Block Grants/Entitlement Grants	14.218		B-16-MC-06-0001	20,000	3,969,828
<u>Total Office of Community Planning and Development - Direct Program</u>				35,000	6,702,629
<i>Total CDBG - Entitlement Grants Cluster</i>				35,000	6,702,629
<b>Emergency Solutions Grant (ESG) Program - Direct Program</b>					
2012 Emergency Solutions Grant Program	14.231		E-11-MC-06-0001	5,497	5,497
2014 Emergency Solutions Grant Program	14.231		E-13-MC-06-0001	62,684	62,684
2015 Emergency Solutions Grant Program	14.231		E-14-MC-06-0001	94,676	94,676
2016 Emergency Solutions Grant Program	14.231		E-15-MC-06-0001	493,366	513,192
2017 Emergency Solutions Grant Program	14.231		E-16-MC-06-0001	242,089	242,089
<u>Total Emergency Solutions Grant (ESG) Program - Direct Program</u>				898,312	918,138
<b>Home Investment Partnership Program (HOME) - Direct Program</b>					
2014 Home Investment Partnership Program	14.239		M-13-MC-06-0204	-	1,465
2015 Home Investment Partnership Program	14.239		M-14-MC-06-0204	280,707	439,261
2016 Home Investment Partnership Program	14.239		M-15-MC-06-0204	-	1,022,761
2017 Home Investment Partnership Program	14.239		M-16-MC-06-0204	-	293,438
<u>Total Home Investment Partnership Program - Direct Program</u>				280,707	1,756,925
<b>Office of Community Planning and Development - Direct Program</b>					
2017 Housing Opportunities for Persons with AIDS (HOPWA)	14.241		CAH15F011	105,433	117,060
<u>Total Office of Community Planning and Development - Direct Program</u>				105,433	117,060
<b>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				<b>1,319,452</b>	<b>9,494,752</b>

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
<b>US Department of Justice</b>					
<b>Bureau of Justice Assistance - Pass-Through Program</b>					
Project Safe Neighborhoods Grant 2014	16.609	CA Office of Emergency Services	US14016675	-	367,402
Project Safe Neighborhoods Grant 2016	16.609	CA Office of Emergency Services	US16026675	-	1,642
<u>Total Bureau of Justice Assistance - Pass-Through Program</u>				-	369,044
<b>Equitable Revenue Sharing Program - Direct Program</b>					
Joint Law Enforcement Operations (JLEO) - Seized Assets	16.111		2011	-	209,505
<u>Total Equitable Revenue Sharing Program - Direct Program</u>				-	209,505
<b>Office of Community Oriented Policing Services (COPS) - Direct Program</b>					
Public Safety Partnership and Community Policing Grants - COPS Hiring Program 2015	16.710		2015ULWX0004	-	395,782
<u>Total Office of Community Oriented Policing Services (COPS) - Direct Program</u>				-	395,782
<b>Office of Juvenile Justice and Delinquency Prevention - Pass-Through Program</b>					
Enforcing Underage Drinking Laws Program (2016)	16.727	CA Department of Alcoholic Beverage Control	15G-LA10	-	3,666
Enforcing Underage Drinking Laws Program (2017)	16.727	CA Department of Alcoholic Beverage Control	16G-LA10	-	99,345
Enforcing Underage Drinking Laws Program (2017)	16.727	CA Department of Alcoholic Beverage Control	17G-LA10	-	275
<u>Total Office of Juvenile Justice and Delinquency Prevention - Pass-Through Program</u>				-	103,286
<i>Justice Assistance Grant (JAG) Program Cluster</i>					
<b>Bureau of Justice Assistance - Direct Program</b>					
Edward Byrne Memorial Justice Assistance Grant FY 13	16.738		2013-DJ-BX-1090	-	283
Edward Byrne Memorial Justice Assistance Grant FY 14	16.738		2014-DJ-BX-0686	-	152,816
Edward Byrne Memorial Justice Assistance Grant FY 15	16.738		2015-DJ-BX-0531	-	126,836
Edward Byrne Memorial Justice Assistance Grant FY 16	16.738		2016-DJ-BX-0157	-	49,634
<u>Total Bureau of Justice Assistance - Direct Program</u>				-	329,569
<i>Total JAG Program Cluster</i>				-	329,569
<b>TOTAL US DEPARTMENT OF JUSTICE</b>				-	<b>1,407,186</b>
<b>US Department of Transportation</b>					
<b>Federal Aviation Administration (FAA) - Direct Program</b>					
FAA Airport Improvement Program (AIP)					
FAA AIP 73 FF14	20.106		3-06-0087-73	-	26,744
FAA AIP 75 FF14	20.106		3-06-0087-75	-	73,370
FAA AIP 76 FF14	20.106		3-06-0087-76	-	62,706
FAA AIP 77 FF15	20.106		3-06-0087-77	-	7,029,409
FAA AIP 78 FF16	20.106		3-06-0087-78	-	941,451
FAA AIP 79 FF16	20.106		3-06-0087-79	-	446,129
FAA AIP 20 FF14	20.106		3-06-0088-20	-	10,531
FAA AIP 21 FF15	20.106		3-06-0088-21	-	195,164
FAA AIP 24 FF16	20.106		3-06-0088-24	-	2,750
<u>Total Federal Aviation Administration (FAA) - Direct Program</u>				-	8,788,254
<i>Highway Planning and Construction Program Cluster</i>					
<b>Federal Highway Administration - Pass-Through Program</b>					
Highway Research, Planning, and Construction Program	20.205	State of California Department of Transportation	Master Agreement 06-5060	-	13,493,038
<u>Total Federal Highway Administration - Pass-Through Program</u>				-	13,493,038
<i>Total Highway Planning and Construction Program Cluster</i>				-	13,493,038
<i>Federal Transit Cluster</i>					
<b>Federal Transit Administration - Capital Investment Grants - Direct Program</b>					
FY04 Federal Transit Capital Investment Grant Bus Facility - (Construct Intermodal Bus Facility)	20.500		CA-03-0693-00	-	73,525
2012 5309: Bus Rapid Transit - Very Small Starts	20.500		CA-03-0821-00	-	3,308,854
2011 State of Good Repair Grant: Buy 3 60' CNG Articulated Buses	20.500		CA-04-0213-00	-	1,774,873
2012 State of Good Repair Grant: Buses	20.500		CA-04-0256-00	-	2,341,640
2012 5309 Bus and Bus Facilities Livability Initiative	20.500		CA-04-0280-00	-	1,753,690
2012-14 5309: Bus Rapid Transit - Very Small Starts	20.500		CA-04-0282-00	-	10,653,830
<u>Total Federal Transit Administration - Capital Investment Grants - Direct Program</u>				-	19,906,412

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
<b>US Department of Transportation (Continued)</b>					
<b>Federal Transit Administration - Formula Grants - Direct Program</b>					
FY04 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y309-00	-	216,321
FY05 Urban Mass Transportation Capital, CMAQ	20.507		CA-90-Y676	-	92,939
FY06 Urban Mass Transportation Capital, CMAQ	20.507		CA-90-Y726	-	1,598,261
FY11 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X181	-	2,652,663
FY12 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X224	-	226,412
FY11 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y843-00	-	884
FY12 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y947-00	-	106,164
FY13 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z026-00	-	513,961
FY14 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z157-00	-	53,677
<u>Total Federal Transit Administration - Formula Grants - Direct Program</u>				-	5,461,282
<b>Federal Transit Administration - Formula Grants - Direct Program</b>					
2013-2016 Bus and Bus Facilities Grant Program	20.526		CA-2016-106	-	2,000,174
<u>Total Federal Transit Administration - Formula Grants - Direct Program</u>				-	2,000,174
<i>Total Federal Transit Cluster</i>					
				-	27,367,868
<i>Transit Services Program Cluster</i>					
<b>Federal Transit Administration - Pass-Through Program</b>					
2008 Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X102-00	-	39,197
2010 Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X129-00	-	232
2008 New Freedom (NF)	20.521	Fresno Council of Governments	CA-57-X029-00	-	1,574
<u>Total Federal Transit Administration - Pass-Through Program</u>				-	41,003
<i>Total Transit Services Program Cluster</i>					
				-	41,003
<i>Highway Safety Cluster</i>					
<b>National Highway Traffic Safety Administration - Pass-Through Program</b>					
State and Community Highway Safety-Selective Traffic Enforcement Program FY2016	20.600	CA Office of Traffic Safety	PT1643	-	193,921
State and Community Highway Safety-Selective Traffic Enforcement Program FY2017	20.600	CA Office of Traffic Safety	PT1743	-	317,821
<u>Total National Highway Traffic Safety Administration - Pass-Through Program</u>				-	511,742
<i>Total Highway Safety Cluster</i>					
				-	511,742
<b>Federal Railroad Administration - Pass-Through Program</b>					
High Speed Rail - Engineering and Plan Review Contract	20.319	California High Speed Rail Authority	HSR 16-37	-	83,213
<u>Total Federal Railroad Administration - Pass-Through Program</u>				-	83,213
<b>ARRA - Federal Railroad Administration - Pass-Through Program</b>					
ARRA - High Speed Rail - Engineering and Plan Review Contract	20.319	California High Speed Rail Authority	HSR 11-29	-	177,487
<u>Total ARRA - Federal Railroad Administration - Pass-Through Program</u>				-	177,487
<b>TOTAL US DEPARTMENT OF TRANSPORTATION</b>				-	<b>50,462,605</b>

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
<b>US Environmental Protection Agency (EPA)</b>					
<i>Drinking Water State Revolving Fund Cluster</i>					
<b>Office of Water - Pass-Through Program</b>					
Capitalization Grants for Drinking Water State Loan - Southeast Water Treatment Facility	66.468	CA State Water Resources Control Board	D15-02012	-	45,031,919
Capitalization Grants for Drinking Water State Loan - KRP Kings River Pipeline	66.468	CA State Water Resources Control Board	D15-02042	-	16,300,321
Capitalization Grants for Drinking Water State Loan - KRP Kings River Pipeline	66.468	CA State Water Resources Control Board	D16-02031	-	12,767,230
<u>Total - Office of Water - Pass-Through Program</u>				-	74,099,470
<i>Total Drinking Water State Revolving Fund Cluster</i>				-	74,099,470
<b>TOTAL US ENVIRONMENTAL PROTECTION AGENCY (EPA)</b>				-	<b>74,099,470</b>
<b>US Department of Health and Human Services</b>					
<i>Aging Cluster</i>					
<b>Administration for Community Living - Pass-Through Program</b>					
Special Programs for the Aging Nutrition Services: Senior Hot Meals FY16	93.045	Fresno Madera Area Agency on Aging	17-0310	-	93,840
<u>Total Administration for Community Living - Pass-Through Program</u>				-	93,840
<i>Total Aging Cluster</i>				-	93,840
<b>TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				-	<b>93,840</b>
<b>US Department of Homeland Security</b>					
<i>Homeland Security Grant Cluster</i>					
<b>Homeland Security Grant Program - Pass-Through Program</b>					
FY 15 Homeland Security Grant Program	97.067	CA Homeland Security & County of Fresno	HSGP-2015-00078	-	134,876
<u>Total Homeland Security Grant Program - Pass-Through Program</u>				-	134,876
<i>Total Homeland Security Grant Cluster</i>				-	134,876
<b>Homeland Security Grant Program - Pass-Through Program</b>					
Homeland Security Grant Program 2014	97.004	CA Office of Emergency Services & County of Fresno	2014-00093	-	(43,553)
Homeland Security Grant Program 2015	97.004	CA Office of Emergency Services & County of Fresno	2015-00078	-	120,800
<u>Total Homeland Security Grant Program - Pass-Through Program</u>				-	77,247
<b>Federal Emergency Management Agency - Direct Program</b>					
FY 13 Staffing for Adequate Fire and Emergency Response (SAFER) Grant	97.044		EMW-2013-FH-00436	-	997,058
FY 15 Staffing for Adequate Fire and Emergency Response (SAFER) Grant	97.044		EMW-2015-FH-00440	-	749,534
FY 15 Assistance to Firefighters Grant (Fire Prevention & Safety)	97.044		EMW-2015-FH-03957	-	33,256
<u>Total Federal Emergency Management Agency - Direct Program</u>				-	1,779,848
<b>TOTAL US DEPARTMENT OF HOMELAND SECURITY</b>				-	<b>1,991,971</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS, EXCLUDING FEDERAL LOAN BALANCES</b>				\$ 2,169,886	\$ 138,363,848
<b>FEDERAL LOAN BALANCES WITH CONTINUING COMPLIANCE REQUIREMENTS</b>					
<b>US Department of Housing and Urban Development</b>					
<i>Community Development Block Grants (CDBG) - Entitlement Grants Cluster</i>					
<b>Office of Community Planning and Development - Direct Program</b>					
Community Development Block Grants/Entitlement Grants	14.218		N/A	\$ -	\$ 1,301,000
<b>TOTAL FEDERAL LOAN BALANCES WITH CONTINUING COMPLIANCE REQUIREMENTS</b>				-	<b>1,301,000</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS, INCLUDING FEDERAL LOAN BALANCES</b>				\$ 2,169,886	\$ 139,664,848

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF STATE OR LOCAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
<b>Bureau of State and Community Corrections</b>					
<b>Public Safety and Victim Services Division - Direct Program</b>					
CA Gang Reduction, Intervention and Prevention Program 2015	BSCC		BSCC806-14	\$ -	\$ 311,796
CA Gang Reduction, Intervention and Prevention Program 2016	BSCC		BSCC806-14	-	268,408
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Clovis	BSCC		13-566	139,607	139,607
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Fresno	BSCC		13-566	-	663,459
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - Fresno County	BSCC		13-566	243,820	243,820
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Fowler	BSCC		13-566	(306)	(306)
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Huron	BSCC		13-566	20,000	20,000
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Kerman	BSCC		13-566	(1,244)	(1,244)
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Kingsburg	BSCC		13-566	9,627	9,627
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Kingsburg	BSCC		13-566	(1,847)	(1,847)
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Mendota	BSCC		13-566	9,140	9,140
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Parlier	BSCC		13-566	(610)	(610)
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Reedley	BSCC		13-566	(10,009)	(10,009)
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Sanger	BSCC		13-566	20,000	20,000
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Sanger	BSCC		13-566	(2,300)	(2,300)
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Selma	BSCC		13-566	10,000	10,000
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Selma	BSCC		13-566	(6,298)	(6,298)
<u>Total Public Safety and Victim Services Division - Direct Program</u>				429,580	1,673,243
<b>TOTAL BUREAU OF STATE AND COMMUNITY CORRECTIONS</b>				429,580	1,673,243
<b>CA State Agency - San Joaquin River Conservancy</b>					
<b>San Joaquin River Conservancy - Direct Program</b>					
Life and Environmental Science Program FY16	CSJR		CSJR1410	-	6,339
<u>Total San Joaquin River Conservancy - Direct Program</u>				-	6,339
<b>TOTAL CA STATE AGENCY - SAN JOAQUIN RIVER CONSERVANCY</b>				-	6,339
<b>CA State Department of Conservation</b>					
<b>Division of Recycling - Direct Program</b>					
2016/2017 (FY17) - Recycling Program	DOC		2014/2015	-	73,774
<u>Total Division of Recycling - Direct Program</u>				-	73,774
<b>TOTAL CA STATE DEPARTMENT OF CONSERVATION</b>				-	73,774

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO**  
**SCHEDULE OF EXPENDITURES OF STATE OR LOCAL AWARDS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2017**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
<b>CA State Department of Finance</b>					
<b>Citizens Option for Public Safety - Direct Program</b>					
Supplemental Law Enforcement Services Fund (SLESF) State Program COPS FY15	DOF		FY15	-	635
Supplemental Law Enforcement Services Fund (SLESF) State Program COPS FY16	DOF		FY16	-	590,163
Supplemental Law Enforcement Services Fund (SLESF) State Program COPS FY17	DOF		FY17	-	397,873
<u>Total Citizens Option for Public Safety - Direct Program</u>				-	988,671
<b>CA Division of Mass Transportation - Direct Program</b>					
PROP 1B-FAX	DOF		Prop 1B	-	7,977,459
<u>Total CA Division of Mass Transportation - Direct Program</u>				-	7,977,459
<b>CA Office of Emergency Services - Direct Program</b>					
PROP 1B-FAX	DOF		Prop 1B	-	698,309
<u>Total CA Office of Emergency Services - Direct Program</u>				-	698,309
<b>Caltrans Division of Rail and Mass Transportation - Direct Program</b>					
Transit Intercity Rail Capital Program	DOF		6FRESNOPS-01	-	396,584
<u>Total Caltrans Division of Rail and Mass Transportation - Direct Program</u>				-	396,584
<b>TOTAL CA STATE DEPARTMENT OF FINANCE</b>				-	10,061,023
<b>CA State Department of Fish and Game</b>					
<b>Wildlife Conservation Board - Direct Program</b>					
RiverPartners Riverbottom Park Grant	WCB		WC-1230SM	-	14,567
<u>Total Wildlife Conservation Board - Direct Program</u>				-	14,567
<b>TOTAL CA STATE DEPARTMENT OF FISH AND GAME</b>				-	14,567
<b>CA State Department of Housing and Community Development</b>					
<b>CalHome Rehabilitation Program - Direct Program</b>					
CalHome Rehab - Mortgage 2010	HCD		10-CalHome-6672	-	323,662
<u>Total CalHome Rehabilitation Program - Direct Program</u>				-	323,662
<b>PROP 1C - Direct Program</b>					
Frank H. Ball Improvements	HCD		15-HRPP-10946	-	19,507
California and Elm Improvements	HCD		14-HRPP-10344	-	279,990
Frank H. Ball Improvements	HCD		14-HRPP-10344	-	457,858
Mosqueda Center Improvements	HCD		14-HRPP-10344	-	245,659
Vinland Park Improvements	HCD		14-HRPP-10344	-	22,787
Radio Park Improvements	HCD		13-HRPP-9222	-	38,165
Pilibos Park Improvements	HCD		13-HRPP-9222	-	2,930
Holmes Park Improvements	HCD		13-HRPP-9222	-	414,983
<u>Total PROP 1C - Direct Program</u>				-	1,481,879
<b>TOTAL CA STATE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT</b>				-	1,805,541
<b>CA State Department of Justice</b>					
<b>CA Justice Information Services - Direct Program</b>					
Sex Offender Registration and Notification Act (SORNA) 2016	DOJ		2016-DS-BX-0002	-	25,000
<u>Total CA Justice Information Services - Direct Program</u>				-	25,000
<b>TOTAL CA STATE DEPARTMENT OF JUSTICE</b>				-	25,000

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF STATE OR LOCAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
<b>CA State Department of Parks and Recreation</b>					
<b>Office of Grants and Local Services - Direct Program</b>					
Martin Ray Reily (MRR) Park	OGALS		SW-10-004	-	65,988
Cultural Arts District (CAD) Parks	OGALS		SW-10-002	-	883,996
<u>Total Office of Grants and Local Services - Direct Program</u>				-	949,984
<b>TOTAL CA STATE DEPARTMENT OF PARKS AND RECREATION</b>				-	949,984
<b>CA State Department of Transportation</b>					
<b>Aeronautics Division of the CA Transportation Commission - Direct Program</b>					
State Match to AIP 21 FF15	CTC		Fre-2-15-1-Mat	-	9,758
State Match to AIP 20 FF14	CTC		Fre-2-14-2-Mat	-	527
<u>Total Aeronautics Division of the CA Transportation Commission - Direct Program</u>				-	10,285
<b>Division of Local Transportation Assistance - Direct Program</b>					
Highway Research, Planning, and Construction Program (State Program)	DOT		Master Agreement 06-5060	-	149
<u>Total Division of Local Transportation Assistance - Direct Program</u>				-	149
<b>CalTrans - Pass-Through Program</b>					
Bike Pedestrian Education Safety Training	DOT	Fresno Council of Governments	ATPLNI-5060(287)	-	86,706
<u>Total CalTrans - Pass-Through Program</u>				-	86,706
<b>CalTrans - Direct Program</b>					
Low Carbon Transit Operations Program (LCTOP) - CA Cap and Trade Funding	DOT		2014-2015	-	164,690
<u>Total CalTrans - Direct Program</u>				-	164,690
<b>TOTAL CA STATE DEPARTMENT OF TRANSPORTATION</b>				-	261,830
<b>CA State Environmental Protection Agency</b>					
<b>Integrated Waste Management Board - Direct Program</b>					
2014/2015 Waste Tire Amnesty Grant	CIWMB		TA3	-	25,295
2015/2016 Waste Tire Cleanup Grant	CIWMB		TCU16-16-0009	-	100,000
2015/2016 Waste Tire Enforcement Grants	CIWMB		TEA23-15-0006	-	144,185
FY2015 CalRecycle - Oil Payment Program	CIWMB		OPP5	-	626
FY2016 CalRecycle - Oil Payment Program	CIWMB		OPP6	-	142,632
FY2017 CalRecycle - Oil Payment Program	CIWMB		OPP7	-	2,763
<u>Total Integrated Waste Management Board - Direct Program</u>				-	415,501
<b>TOTAL CA STATE ENVIRONMENTAL PROTECTION AGENCY</b>				-	415,501
<b>CA State Water Resources Control Board</b>					
<b>Division of Financial Assistance - Direct Program</b>					
Clean Water State Revolving Fund - Tertiary Treatment Facility	CSWRCB		C-06-7893-110	-	698,072
Clean Water State Revolving Fund - Southwest Recycled Water Distribution System	CSWRCB		C-06-8061-110	-	(123,053)
Clean Water State Revolving Fund - Southwest Recycled Water Distribution System	CSWRCB		C-06-8061-110	-	10,786,959
Capitalization Grants for Drinking Water State Loan - Southeast Water Treatment Facility	CSWRCB		D15-02012	-	23,990,683
Capitalization Grants for Drinking Water State Loan - OCSD Consolidation with City of Fresno	CSWRCB		D15-02030	-	1,250,308
Capitalization Grants for Drinking Water State Loan - FKCP Friant Kern Canal Pipeline	CSWRCB		D15-02040	-	14,145,163
Capitalization Grants for Drinking Water State Loan - KRP Kings River Pipeline	CSWRCB		D15-02042	-	4,277,041
Cleanup and Abatement Account (CAA)	CSWRCB		C/A 962	-	25,520
<u>Total Division of Financial Assistance - Direct Program</u>				-	55,050,693
<b>TOTAL CA STATE WATER RESOURCES CONTROL BOARD</b>				-	55,050,693

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF STATE OR LOCAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
<b>Community Science Workshop Network</b>					
<b>Community Science Workshop Network - Direct Program</b>					
Highway City Community Science Workshop	CSW		3/9/2015	-	14,461
California Tinkering Afterschool Network (CTAN) Grant	CSW		3/30/2015	-	1,586
<u>Total Community Science Workshop Network - Direct Program</u>				-	16,047
<b>TOTAL COMMUNITY SCIENCE WORKSHOP NETWORK</b>				-	16,047
<b>Fresno County Department of Public Health</b>					
<b>Childhood Lead Poisoning Prevention Program - Pass-Through Program</b>					
2015 Childhood Lead Poisoning Prevention	CLPPP	County of Fresno	CLPPP2015	-	11,475
<u>Total Childhood Lead Poisoning Prevention Program - Pass-Through Program</u>				-	11,475
<b>TOTAL FRESNO COUNTY DEPARTMENT OF PUBLIC HEALTH</b>				-	11,475
<b>National Recreation and Park Association (NRPA)</b>					
<b>NRPA - Direct Program</b>					
Out-of-School Time Program	NRPA			-	12,321
Parks Build Program 2015	NRPA			-	2,102
Parks Build Program 2016	NRPA			-	17,898
Parks Build Program 2017 (Renamed Meet Me at Park)	NRPA			-	1,169
<u>Total NRPA - Direct Program</u>				-	33,490
<b>TOTAL NATIONAL RECREATION AND PARK ASSOCIATION (NRPA)</b>				-	33,490
<b>PG&amp;E</b>					
<b>PG&amp;E - Direct Program</b>					
PG&E Movies in the Park 2016	PGE			-	1,431
Science Camp at Highway City - PG&E 2014	PGE			-	3,811
<u>Total PG&amp;E - Direct Program</u>				-	5,242
<b>TOTAL PG&amp;E</b>				-	5,242
<b>The Fresno Regional Foundation</b>					
<b>The Fresno Regional Foundation - Direct Program</b>					
Youth Liaison Officer Grant FY2015	FRF		FY14-15	-	50,982
<u>Total The Fresno Regional Foundation - Direct Program</u>				-	50,982
<b>TOTAL THE FRESNO REGIONAL FOUNDATION</b>				-	50,982

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
SCHEDULE OF EXPENDITURES OF STATE OR LOCAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
<b>San Joaquin Valley Air Pollution Control District</b>					
<b>San Joaquin Valley Air Pollution Control District - Direct Program</b>					
SJVAPCD New Alternative Fuel Vehicle Purchase	SJVAPCD		C-27279, C-27280, C-27281 and C-19367	-	2,826,014
SJVAPCD New Alternative Fuel Vehicle Purchase	SJVAPCD		C36536-A	-	(103)
<u>Total San Joaquin Valley Air Pollution Control District - Direct Program</u>				-	2,825,911
<b>TOTAL SAN JOAQUIN VALLEY AIR POLLUTION CONTROL DISTRICT</b>				-	2,825,911
<b>US Environmental Protection Agency (EPA)</b>					
<i>Drinking Water State Revolving Fund Cluster</i>					
<b>Office of Water - Pass-Through Program</b>					
Capitalization Grants for Drinking Water State Loan - KRP Kings River Pipeline	66.468	California State Water Resources Control Board	D16-02031	-	12,048,638
<u>Total Office of Water - Pass-Through Program</u>				-	12,048,638
<i>Total Drinking Water State Revolving Fund Cluster</i>				-	12,048,638
<b>TOTAL US ENVIRONMENTAL PROTECTION AGENCY (EPA)</b>				-	12,048,638
<b>State CRT Class Settlement Fund</b>					
<b>CYPRESS Settlement - Direct Program</b>					
Frank H. Ball Technology Improvements	CPT			-	25,504
<u>Total CYPRESS Settlement - Direct Program</u>				-	25,504
<b>TOTAL STATE CRT CLASS SETTLEMENT FUND</b>				-	25,504
<b>US Soccer Foundation</b>					
<b>USCF - Direct Program</b>					
US Soccer Foundation	USCF			-	27,778
<u>Total USCF - Direct Program</u>				-	27,778
<b>TOTAL US SOCCER FOUNDATION</b>				-	27,778
<b>US Tennis Association</b>					
<b>US Tennis Association - Direct Program</b>					
US Tennis Association H.I.T.S. Red Ball JTT Program	USTA			-	31
<u>Total US Tennis Association - Direct Program</u>				-	31
<b>TOTAL US TENNIS ASSOCIATION</b>				-	31
<b>TOTAL EXPENDITURES OF STATE AWARDS</b>				\$ 429,580	\$ 85,382,593

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of state or local awards and independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

**CITY OF FRESNO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
SCHEDULE OF EXPENDITURES OF STATE OR LOCAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedules of Expenditures of Federal Awards and State or Local Awards (SEFA) present the activity of all federal and nonfederal award programs of the City of Fresno, California (the City). The SEFA 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 Redevelopment Agency of the City which had federal award expenditures for the year ending June 30, 2017, of \$0. Because the SEFA presents 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 SEFA is presented on the cash basis of accounting. The information in the SEFA is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the SEFA may differ from amounts presented in 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 funds, transit enterprise funds, and airport enterprise funds.

**NOTE 2 – SUBRECIPIENTS**

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Economic Adjustment Assistance Program Revolving Loan Fund	11.307	\$ 850,434
Community Development Block Grants/Entitlement Grants Program	14.218	35,000
Emergency Solutions Grant Program	14.231	898,312
Home Investment Partnership Program	14.239	280,707
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	<u>105,433</u>
Total		<u>\$ 2,169,886</u>

**NOTE 3 – SECTION 108 LOANS**

The City has three (3) Section 108 loans outstanding at June 30, 2017. Semi-annual payments on these Section 108 loans are made from interest earned on the restricted loan investments and from Community Development Block Grants/Entitlement Grants Program and are included in the federal expenditures for the Community Development Block Grants on the SEFA. Principal and interest payments on all three (3) loans totaled \$1,301,000 for the year ended June 30, 2017, of which \$1,301,000 was paid from Community Development Block Grant funds.

**NOTE 3 – SECTION 108 LOANS** (Continued)

A summary of Section 108 loans outstanding as of June 30, 2017, is as follows:

CFDA #	Grant Loan Program	Unspent Loan Proceeds as of June 30, 2017	Outstanding Loan Balances as of June 30, 2017
14.218	Section 108 Note - Regional Medical Center	\$ -	\$ 270,000
14.218	Section 108 Note - Fresno-Madera Area Agency on Aging	-	365,000
14.218	Section 108 Note - Neighborhood Streets/Parks	-	666,000
		<u>\$ -</u>	<u>\$ 1,301,000</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 grants/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 received funds under six grants/loans. The terms of the grants/loans and the outstanding balances as of June 30, 2017, are as follows:

Grant Fiscal Year	Agreement Number	Description	Project Number	Not to Exceed	Interest Rate and Term	Outstanding Loan Balances as of June 30, 2017
2007	SRF06CX150	Wellsite Chlorination Project	10100007-004	\$ 2,210,000	2.2923% / 20 yrs*	\$ 1,498,184
2009	SRF08SWX101	Enterprise/Jefferson Canal Project	10100007-011	1,968,136	2.2923% / 20 yrs*	957,456
2011	SFR11CX104	Residential Water Meter Project	10100007-026C	51,405,432	0.0000% / 20 yrs*	43,694,617
2015	14-817-550	Wastewater Tertiary Plant	C-067893-110	33,138,638	1.00 - 1.70% / 30 yrs*	32,249,927
2016	D15-01011	Recycled Water Distribution Southwest	C-068061-110	52,475,049	1.00% / 30 yrs*	11,884,466
2016	D15-02012	Southeast Surface Water Treatment Facility	1010007-028C	195,489,000	1.66300% / 30 yrs*	81,666,670
2017	D16-02031	Regional Transmission Mains	1010007-030C	75,900,000	1.6% / 30 yrs*	12,068,369
						<u>\$ 184,019,689</u>

\* Term begins at completion of project.

These loans are not considered to have continuing compliance requirements under Title 2 CFR Part 200, and, therefore, are only reported on the SEFA in the year in which funds are expended and drawn. The City expended \$74,099,470 under the loans during fiscal year 2017 and has reported these amounts on the SEFA as follows:

CFDA #	Project Name	Loan #	Total Expenditures
66.468	Southeast Water Treatment Facility	D15-02012	\$ 45,031,919
66.468	KRP Kings River Pipeline	D15-02042	16,300,321
66.468	KRP Kings River Pipeline	D16-02031	12,767,230
			<u>\$ 74,099,470</u>

**NOTE 5 – PRE-AWARD AUTHORITY SPENDING IN 2017**

The City incurred costs totaling \$116,506 under the Airport Improvement Program (AIP) during the year ended June 30, 2017, 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 AIP expenditures under the SEFA for the year ended June 30, 2017.

The City incurred pre-award costs as follows: \$347,708 under the fiscal year 2014 Urban Mass Transportation Capital, Congestion Mitigation and Air Quality (CMAQ) Improvement Grant; \$669,641 under the fiscal year 2016 Urban Mass Transportation Capital, Planning, Operating Assistance Grant; and \$9,055,312 under the fiscal year 2017 Urban Mass Transportation Capital, Planning, Operating Assistance Grant under the CFDA #20.507 during the year ended June 30, 2017, prior to receiving the official grant awards. The Federal Register for the Department of Transportation/FTA/Vol.81, No. 30/Feb 16, 2016/Notices/Section V.A-1,2 gives pre-award authority to Grantees to incur project costs before grant approval and retain the eligibility of those costs for subsequent reimbursement after grant award. As there is no executed grant agreement in place, these costs were not included as part of the Urban Mass Transportation Capital, Planning, Operating Assistance Program or Urban Mass Transportation Capital, CMAQ expenditures under the SEFA for the year ended June 30, 2017. They will be reported in fiscal year 2018.

**NOTE 6 – ECONOMIC DEVELOPMENT ASSISTANCE RFL GRANT CALCULATION**

The amount reported on the SEFA for expenditures related to the Economic Adjustment Assistance Revolving Loan Fund (RLF) Grant (CFDA #11.307) is calculated using various criteria as defined by Title 2 CFR Part 200. The calculation for the year ended June 30, 2017, is as follows:

Balance of RLF loans outstanding at June 30, 2017	\$ 625,694
Cash and investment balance at June 30, 2017	178,529
Administrative expenses paid out	46,211
Unpaid principal of all loans written off	<u>-</u>
Subtotal	<u>850,434</u>
Federal share	100%
Total expenditures reported at June 30, 2017	<u>\$ 850,434</u>

**NOTE 7 – PRIOR YEAR EXPENDITURES INCLUDED IN SEFA**

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

The City incurred costs totaling \$14,304 under the AIP during the year ended June 30, 2016, for which funding in the amount of \$14,304 was approved in fiscal year 2017. These expenditures are included on the SEFA as part of the AIP (CFDA #20.106) expenditures for year ended June 30, 2017.

**NOTE 8 – INDIRECT COST RATE**

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in Title 2 CFR §200.414.

**NOTE 9 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word “unknown” were used.

**CITY OF FRESNO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

***Financial Statements***

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

***Federal Awards***

Type of auditor’s report issued on compliance for major programs: Unmodified

Internal control over major federal programs:

Material weakness identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?  Yes  No

Identification of major programs:

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
20.106	Airport Improvement Program
	Federal Transit Cluster:
20.500	Federal Transit – Capital Investment Grants
20.507	Federal Transit – Formula Grants
20.526	Federal Transit – Bus and Bus Facilities Formula & Discretionary Programs
97.044	Federal Emergency Management Agency

The threshold for distinguishing type A and B programs was \$3,000,000.

Auditee qualified as low-risk auditee?  Yes  No

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

### **2017-001: Closing Process (Significant Deficiency)**

#### Criteria:

Segregation of duties and adequate review procedures over pension liabilities and related accounts are critical in ensuring calculations are accurate and reported in accordance with Governmental Accounting Standards Board (GASB) and accounting principles generally accepted in the United States of America (GAAP).

#### Condition:

During our understanding of controls over pension liabilities and related accounts, we noted the spreadsheets used in calculating the amounts for the net pension liability to be reported in the financial statements were not subject to a review by an individual independent of preparation. During our audit procedures, we identified an adjustment needed of approximately \$9.6 million to the overall City of Fresno (the City) net pension liability to correctly report the net pension liability pursuant to GASB Statement No. 68.

#### Cause:

The City did not have procedures in place over pension liabilities and related accounts to ensure an individual independent of preparation reviewed the detailed calculations.

#### Effect or Possible Effect of Condition:

The calculations contained an error and resulted in an over reporting of the overall City net pension liability of approximately \$9.6 million.

#### Recommendation:

We recommend improving the procedures over the closing process and incorporate review procedures over the pension liabilities and related accounts spreadsheet. An individual independent of preparation should perform a detailed review to ensure the amounts calculated and used to report the balances in the financial statements are accurate and were calculated pursuant to GASB Statement No. 68, all applicable GASB standards, and GAAP.

#### Management Response/Corrective Action Plan:

Management agrees with the recommendation. Years ago, management implemented procedures to ensure that all comprehensive annual financial report (CAFR) compilation workpapers are reviewed by a staff member senior to the preparer. The pension allocation worksheet is a very complex document that is prepared by one of the CAFR team's most senior accountants and typically reviewed by a management-level accountant. The management-level accountant with the most experience in the CAFR process retired in 2017, and her responsibilities were reassigned to less-experienced accounting staff. This vacancy also left the most senior accountant over the CAFR project as the preparer of the FY17 Pension Allocation spreadsheet. Management has modified CAFR compilation and review procedures to ensure that someone other than the preparer reviews all CAFR workpapers and spreadsheets regardless of the task complexity or preparer seniority in any given area of the CAFR preparation process, including review of complex accounting spreadsheets prepared by the CAFR project lead.

### **2017-002: Internal Audits and Risk Assessment (Significant Deficiency)**

#### Criteria:

Management is responsible for implementing a system of internal control. Internal audits and a City-wide risk assessment enhance controls and mitigate the risk over high risk areas that might hinder the achievements and goals of the City.

Condition:

The City's previous internal auditor retired in January 2016 and, due to budget cuts, all other internal audit positions were eliminated. In 2017, the City hired an internal auditor to carry on the roles of the previous internal auditor and establish a City-wide risk assessment and perform internal audits to evaluate risk areas, improve the effectiveness of risk management, review operations, and ensure that procedures are consistent with established objectives and goals. However, the City has not yet developed a risk assessment plan.

Cause:

The new internal auditor has been assisting with accounting functions and is in the process of getting an understanding of City operations.

Effect or Possible Effect of Condition:

Absent a risk assessment and identification of possible high risk areas to perform internal audits, the reliability and integrity of financial data and information would not be verified and internal control deficiencies or material weaknesses may go un-noticed, thereby leading to error, material misstatements, or potential fraud, which may result in exponential losses considering the size of the City.

Recommendation:

We recommend the internal auditor develop a risk assessment plan and present it to the Audit Committee or City Council for approval to ensure high risk areas are covered and commence with the internal audits. The internal audit function provides an independent and objective assurance that the internal controls are functioning adequately to enable the City to achieve its goals and objectives. We understand the Audit Committee is currently dormant. We also recommend the City's Audit Committee become active and oversee the Internal Audit function by reviewing and approving the risk assessment and annual audit plans to ensure these are being carried out timely and in accordance with the approved plans.

Management Response/Corrective Action Plan:

Staff in the Internal Audit Unit is currently developing a risk assessment questionnaire. The questionnaire will be distributed to the City's department heads in February 2018, with responses due in March 2018. Internal Audit staff will then use the responses to develop both a risk assessment plan and a unit work plan, with the goal of beginning to address that work plan in July 2018.

After several years of hiatus, the City's Audit Committee met in July 2017 to discuss departmental expenditures on consulting services. However, there have been no other meetings of the Audit Committee since that July 2017 meeting, nor are there any scheduled for the foreseeable future. Management believes that the Audit Committee will become more active as the risk assessment plan is developed and the audit work plan is implemented over the upcoming year.

**2017-003: Information Technology (IT) – Password Requirements for PeopleSoft Oracle Databases and Sun Solaris Operating Systems Are Not Configured to Match the City's Password Policy (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 entity’s 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; and
- *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:

The City’s procedures for regularly reviewing user accounts and permissions within the PeopleSoft, SunGard/Utility Billing, and Active Directory systems are not consistently performed: The City’s review procedures are summarized in the following table:

<b>System</b>	<b>Reviewed for Potential User Accounts Requiring Removal?</b>	<b>Reviewed for Appropriate Role Provision?</b>
Active Directory	No	No
PeopleSoft Financials	Yes	Yes
PeopleSoft HRMS	No	Yes
SunGard/Utility Billing	No	Yes

While Information Services Department (ISD) has provided functional leads with reports and support related to performing periodic user account reviews in order to facilitate these processes, and although ISD staff has determined that it will take the lead on scheduling reviews with Finance and Personnel staff on a semiannual basis, such meetings have not yet taken place, and the missing reviews noted in the table above have not yet been implemented.

Cause:

There is a shortage of staff due to budget constraints.

Effect or Possible Effect of Condition:

Failure to perform regular reviews for appropriate role provision within Active Directory increases the risk that user accounts may have access to system functions that are not commensurate with their current job responsibilities (if assigned to an employee) or their current functions/purposes (if assigned to a vendor or system function).

Furthermore, failure to review user accounts within the PeopleSoft Human Resources Management System (HRMS), SunGard/Utility Billing, and Active Directory systems for potential user accounts requiring removal increases the risk that unneeded or unauthorized user accounts are not identified and removed or disabled on a timely basis. While it is acknowledged that any reports of terminated employees would be created using the PeopleSoft HRMS system, and therefore any identified user accounts belonging to terminated employees would theoretically already be disabled within the HRMS system due to the City’s automated disabling procedures, failure to review all user accounts increases the risk that the City does not identify and disable other HRMS user accounts that are not disabled as a result of this process, such as temporary accounts utilized for projects that have concluded or those that remained in the system at the time of an employee’s termination for a business-use scenario (e.g., review of the work completed by the terminated employee or duplication of roles to a new user account).

Finally, we noted that functional leads are currently still granted administrative access that allows them to add or modify user account permissions within the PeopleSoft systems. We recognize that the City determined this appropriate due to staffing constraints; however, as these individuals also perform activities involving financial transactions these administrative access rights create a conflict of duties whereby the functional leads have the ability to grant themselves additional access permissions that have not been approved. Additionally, we noted that while the City's ISD staff have implemented user account auditing within the PeopleSoft Financials and HRMS systems that captures changes made to the PeopleSoft user profiles and their assigned permissions as recommended in the prior year, these audit entries are queried and reviewed only as needed, rather than on a daily basis, as recommended in the prior year. Again, while we recognize that staffing constraints have limited the City's ability to perform such reviews, this decreases the degree to which the risk presented by the conflict of duties noted above is mitigated by the auditing procedures implemented since the prior year: failure to review the audit reports on a regular basis prevents management from verifying that changes made to PeopleSoft user accounts and their associated permissions are performed only when properly approved, and from promptly identifying such situations at the time they occur. This increases the risk of unauthorized changes to PeopleSoft user accounts as well as the risk of unauthorized transactions within the system in the event that user accounts are assigned permissions without proper authorization.

Recommendation:

We recommend the City consistently perform regularly scheduled (on an annual basis, at a minimum) reviews of user accounts and their associated permissions across each of the PeopleSoft, SunGard/Utility Billing, and Active Directory systems to ensure that no unneeded or unauthorized accounts exist, and that the permissions assigned within the systems are appropriate for the individuals' job responsibilities and/or user accounts' purposes. For all reviews conducted to identify potential accounts for removal, it is recommended that the reviewer compare the active user accounts with an official employee roster provided by the Human Resources or payroll department to ensure that all terminated employees' user accounts have been disabled. However, all generic, system, and/or service type accounts should also be included in the review to ensure that they are required to perform current functions. For all reviews conducted to ensure that roles are appropriately provisioned, the associated department head responsible for the function under review should examine all role and permission assignments to determine if access permissions are appropriate, but if the review is performed by the City's ISD staff members, they may wish to work with individual departments during this process to ensure that they are aware of current employee lists and job positions, if deemed necessary. It is also recommended that the City's existing processes for reviewing the PeopleSoft HRMS and SunGard/Utility Billing systems for appropriate role provision are further formalized and conducted on a more regular basis; the City should formally determine which roles are considered high risk and should therefore be subjected to review, and establish a regular schedule (on an annual basis, at a minimum) for performing such reviews.

We also recommend that the City examine the administrative access permissions given to the functional leads and seek to remove these to eliminate the potential for a conflict of duties. If the City is unable to remove the permissions due to staffing constraints, it is recommended that a daily monitoring control be established whereby all access permission changes during the prior 24 hours are automatically reported by the PeopleSoft application. This report should be reviewed to confirm that all changes had been properly approved per the City's policy. The review should be performed by a member of management without administrative access permissions to change user access permissions.

While City management should determine the best method by which to document its reviews, all documentation should include the following at a minimum: the date on which the review was conducted and/or completed, the name of the individual(s) conducting the review, the information reviewed (e.g., which roles were reviewed, the specific date period covered by the monitoring control report), and any results of the review (e.g., the removal of unneeded roles from a user account, the rollback of permission changes, etc.).

#### Management Response/Corrective Action Plan:

In regards to the finding comment – “although ISD has determined that it will take the lead on scheduling reviews with Finance and Personnel staff on a semiannual basis, such meetings have not yet taken place.” Although it was a bit outside of the reporting period for these findings, in August 2017, a security review meeting was held by ISD with Personnel and Payroll. Reporting mechanisms created by ISD to assist in review of permissions assigned and user profiles requiring removal were discussed. As a result of that meeting, some improvements were made in the reporting process. ISD plans to host another meeting before the end of the fiscal year for review of HRMS. Based on this experience, we will work on a similar process for Financials to meet before the end of the fiscal year.

In addition, the plan is to investigate an automated process to disable SunGard Utility Billing accounts. Leveraging that process, we could then more easily identify SunGard Utility Billing accounts that may need to be removed or disabled. In addition to that though, SunGard Utility Billing automatically locks accounts which are not used for 30 days.

We feel there is an opportunity to automate the checking of user accounts that may need to be disabled. In the table above, we may be able to accomplish the “Reviewed for Potential User Accounts Requiring Removal?” by setting an automated process on a weekly or perhaps daily basis to check if the user accounts in the various systems are active but should be disabled based on the employee status. Those cases should be rare but such a process would give us an alert to immediately check the account status. We will investigate implementing this by the end of the fiscal year.

It was noted that functional leads still have administrative access. This is a multi-departmental issue that will require more discussion and thought to resolve or to determine if it is the right approach for the City of Fresno. We plan to schedule a meeting with Finance and Personnel to discuss possible solutions prior to the end of the fiscal year.

#### **2017-004: Information Technology (IT) – Third-Party Vulnerability Assessments Inclusive of External Penetration Testing Are Not Conducted on an Annual Basis (Significant Deficiency)**

##### Criteria:

The 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 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 entity's 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; and
- *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:

The City has refined a scope of work for penetration testing and the process has been approved and is in the process of being scheduled. However, a vulnerability assessment inclusive of external penetration testing was not performed during the audit period.

Effect or Possible Effect of Condition:

Failure to perform third-party vulnerability assessments on a regular (annual at a minimum) basis increases the risk that unauthorized access to the City network could be obtained due to undetected network vulnerabilities, which results in an increased security risk of data loss or theft.

Recommendation:

It is recommended that the City proceed with its plans for a vulnerability assessment inclusive of external penetration testing as soon as possible, and that this process is performed by a third party, as an independent review will provide an objective and unbiased security assessment of the City's systems. Such tests should take place on an annual basis at a minimum, though additional tests may be warranted if large-scale changes are made to the network or security infrastructure, and should include an assessment of both internal and external vulnerabilities as well as an external penetration test. In the event that vulnerabilities are identified, the City should implement appropriate procedures to ensure that the vulnerabilities have been mitigated to the extent that they are determined by the City's management to be at acceptable levels.

Management Response:

In the latter part of the calendar year 2017, the City Council conducted a vulnerability assessment which included the following:

1. External Penetration Testing
2. Internal Vulnerability Assessment
3. Wireless Security Assessment

The results of the assessment were reviewed with ISD leadership and the recommendations are being factored into ISD's operations and considered when developing long term plans. Furthermore, ISD is receiving reoccurring funding to allow for more regular external penetration testing to occur.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2017-005: Findings from the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (Material Weakness)**

**Program:** Community Development Block Grants (CDBG)/Entitlement Grants Cluster

**CFDA No.:** 14.218

**Federal Agency:** U.S. Department of Housing and Urban Development

**Passed Through:** N/A

**Award Year:** Fiscal Year 2016-2017

**Compliance Requirement:** Various

**Questioned Costs:** \$428,373 (estimated by HUD)

Criteria

The U.S. Department of Housing and Urban Development states the City should administer its CDBG funds in accordance with HUD requirements.

### Condition

The audit report dated August 9, 2017, from HUD, Office of Inspector General (OIG), reported one finding and the following results of its review of the City's CDBG Program for the period of July 1, 2012, through September 30, 2016:

1. The City did not meet HUD's code enforcement requirements,
2. Spent CDBG funds on general government expenses,
3. Did not ensure that one program met a CDBG national objective,
4. Did not properly monitor its subrecipient or City departments,
5. Used its entitlement funds before its program income, and
6. Did not report program income to HUD in a timely manner.

### Cause of Condition

Per the OIG's report to the HUD Community Planning and Development (CPD) Division, the conditions occurred due to lack of capacity and experience to administer the program, inadequate controls and procedures, and disregard of HUD requirements.

### Effect/Possible Effect of Condition

Failure to properly document and administer the program in accordance with HUD guidelines can result in repayment of past awards and discontinuation of future awards.

### Questioned Costs

The OIG report listed \$163,555 of ineligible costs and more than \$7.9 million in unsupported costs for the time period it audited, which puts \$428,373 at risk over the next year of similar questionable use.

### Repeat Finding

No.

### Recommendation

The OIG report recommended the following:

1. The City repay \$163,555 of ineligible costs from non-federal funds,
2. Provide support for more than \$7.9 million in CDBG costs or repay the program from non-federal funds,
3. Suspend funding to its code enforcement program until it can show it has implemented controls, addressed its capacity issues, and understands and abides by HUD requirements,
4. Implement policies and procedures to ensure that \$428,373 in CDBG funds is used in accordance with program requirements, and
5. Provide training or obtain technical assistance on CDBG program requirements.

We also recommend the City respond and follow the above OIG's recommendations.

### Management Response and Corrective Action Plan

Below are the statuses of the OIG recommendations, for which the numbers correspond with the numbers in the recommendations section above:

1. The City repaid \$143,449 (of the \$163,555 HUD recommended amount) to the City's HUD Line of Credit on December 7, 2017. The HUD process is that the City will need to go through a citizen participation and reprogramming process. Once that process has been completed, as all other transactions with this funding source are handled, the City will spend on eligible activities, properly document and draw the funds back from the line of credit and reimburse the City funds at that time

through an Integrated Disbursement and Information System draw. The City submitted additional information to the HUD CPD Division on December 4, 2017 to support the difference of the two amounts (\$20,106), which the City last sent further correspondence to the CPD on January 9, 2018 and is awaiting feedback.

The City has provided three packages of documents to the HUD CPD Division, the original response to the OIG finding and an outline of the status of each recommendation (a-l) on November 20, 2017. The City has provided two subsequent updates to that response, with hundreds of pages of documentation to support eligibility and address recommendations on December 4, 2017, and January 9, 2018. The CPD has not been responsive to requests for feedback on any of these updates at this time, but estimates a response date of March 31, 2018. The City continues to work on getting responses and has fully executed a service agreement with a consulting firm who specializes in this line of work and is going to assist the City with finalizing any outstanding items by March 2018, pending sufficient feedback from the HUD CPD Division. Feedback from the CPD is essential to complete this work; the City has provided responses that it believes address all but three recommendations that require HUD feedback to finalize.

2. The City suspended CDBG funding for its Code Enforcement Division in year 2015, and discontinued its funding of the Neighborhood Revitalization Division entirely on July 1, 2017, prior to receiving the OIG recommendation. The HUD CPD Division was aware of this, and was also notified through the November 20, 2017 package of documents mentioned previously.
3. The City implemented an annual administrative workshop for City Departments and Subrecipients in the current fiscal year as well as Notice of Grant Award Agreements for internal City Departments. Policies and procedures were also updated and included in the January 9, 2018 submission to the CPD. Also, see response to #5 below.
4. An update was provided to the HUD CPD Division on November 20, 2017 and January 9, 2018, which included the following City response:
  - Development and Resource Management (DARM) will update and adopt CDBG policies and procedures to address planning, management, and oversight functions by December 31, 2017. DARM staff will provide technical assistance to other City departments to finalize program-specific policies and procedures by December 31, 2017. [Items provided with the January 9, 2018 submission to the CPD and the City requested that the CPD close this corrective action. Again, the City awaits the CPD feedback on all submissions.]
  - DARM staff has begun a program of providing technical assistance to other City Departments involved with the delivery of CDBG-funded projects, including a workshop held on November 7, 2017, attended by 17 trainees.
  - Formal and technical assistance has been provided, and will continue to be offered to City staff, including mandatory financial management. In an effort to ensure that new and existing staff maintains appropriate knowledge of HUD programs, the division manager required a variety of training including HUD Webinar seminars already completed by various division staff in 2017.

#### **2017-006: Reporting Procedures (Other Matter)**

**Program:** Assistance to Firefighters Grant

**CFDA No.:** 97.044

**Federal Agency:** U.S. Department of Homeland Security – Federal Emergency Management Agency (FEMA)

**Passed Through:** N/A

**Award Year:** Fiscal Year 2016-2017

**Compliance Requirement:** Reporting

**Questioned Costs:** None

### Criteria

In accordance with the reporting requirements of the Staffing for Adequate Fire and Emergency Responses (SAFER) grants, performance reports are to be submitted quarterly and are due within 30 days after each quarter end, and financial reports are to be submitted semi-annually and are due within 30 days after the period end date.

### Condition

During our audit procedures, we noted two out of four performance reports selected for testing were not submitted timely. In addition, one out of four semi-annual SF-425 financial reports was not filed on time.

### Cause of Condition

The City's Fire Department (the Department) employee filing the reports was absent or not available to file the report within the required time frame. The Department did not have adequate procedures in place to ensure timely reporting as required by the grant.

### Effect/Possible Effect of Condition

Noncompliance can jeopardize future grant funding for the Department.

### Questioned Costs

None.

### Repeat Finding

No.

### Recommendation

We recommend the Department cross train multiple employees on how to submit the performance and financial reports. The Department should also develop and implement backup procedures for how to handle instances where the designated employee to do the filing is absent or unavailable.

### Management Response and Corrective Action Plan

Management concurs with the finding and agrees with the recommendation.

The late filings related to the SAFER 13 grant occurred during a period when there was a transition to new personnel performing these filings. After working with FEMA and gaining experience about administration of SAFER grants, Department staff have not been late on any filings since the incidents cited in this finding. FEMA provides a 30-day window to submit and it is practice now that filings are prepared adequately sooner to provide cushion in the event of unexpected absences. In addition, the Business Manager is to be notified and has access to prepare the filings in the event any future absence interferes with SAFER filing deadlines. The Department believes the procedures currently in place now will prevent future repeats of delinquent filings.

**CITY OF FRESNO  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**2016-001: Internal Audits (Significant Deficiency)**

Criteria:

Management is responsible for implementing a system of internal control. An internal audit function assists management with enhancing controls over potential risks that could hinder the achievements and goals of an organization.

Condition:

The City of Fresno (the City) does not currently have an internal audit function.

Cause:

The City's only Principal Internal Auditor retired in January 2016, and all other internal audit positions were eliminated when the City implemented budget cuts. During the time the Principal Internal Auditor was with the City, a City-wide risk assessment was not implemented as it was not considered beneficial or cost effective at the time due to the limited staffing and the City's financial condition. Absent a City-wide risk assessment, the internal audit function did not perform internal audits for areas where there might have existed high risk. In the past five years, the internal audit department only performed "limited scope audits and special projects" which were mostly at the request of City Management as issues arose.

Effect or Possible Effect of Condition:

Internal control deficiencies or material weaknesses may go un-noticed thereby leading to errors, material misstatements, or potential fraud, which may result in exponential losses considering the size of the City.

Recommendation:

We recommend Management reinstate the internal audit function and direct the internal audit department to develop a City-wide risk assessment to assess the City's risks and develop annual audit plans to ensure effective coverage of audit areas and ensure "high risk" areas are covered. The internal audit function provides an independent and objective assurance that the internal controls are functioning adequately to enable the City to achieve its goals and objectives. An Audit Committee would provide oversight of the internal audit function. In its oversight role, the Audit Committee would have authority to direct the Internal Audit Manager, external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Audit Committee's scope of responsibility. The internal audit function would submit to the City Council annually the audit plan and the Audit Committee would review and recommend to the City Council the approval of the annual audit plan, and any changes to the plan.

Management Response/Corrective Action Plan:

The City has begun recruitment for a Principal Internal Auditor. Additionally, the City has converted a vacant position in the Budget Division to an Internal Auditor in order to create an Internal Audit team of two. The recruitment for the Internal Auditor has begun as well. Management anticipates that both positions will be filled before the start of Fiscal Year 2018.

The City's Charter does not allow for the Council's Audit Committee to provide oversight and direction of the Internal Audit staff. Instead, the Charter specifies that all City employees other than the City Attorney, the City Clerk, and the Retirement Administrator ultimately report to the City Manager. However, that does not preclude the Internal Audit staff from briefing the Audit Committee on a regular basis about the audits they are conducting and the findings that they have made.

Management agrees that a Citywide risk assessment needs to be completed. Such an assessment will be the Internal Audit staff's first priority when both positions are filled.

Current Year Status:

Not implemented; see current year finding 2017-002.

**2016-002: Information Technology (IT) – Periodic User Access Reviews for PeopleSoft, the SunGard/Utility Billing System, and Active Directory Are Not Performed (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 entity's 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; and
- *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:

The City's procedures for regularly reviewing user accounts and permissions within the PeopleSoft, SunGard/Utility Billing, and Active Directory systems are not consistently performed. The City's review procedures are summarized in the following table:

<b>System</b>	<b>Reviewed for Potential User Accounts Requiring Removal?</b>	<b>Reviewed for Appropriate Role Provision?</b>
Active Directory	No	No
PeopleSoft Financials	Yes	No
PeopleSoft HRMS	No	Yes
SunGard/Utility Billing	No	Yes

During our inquiry with City staff, we noted that functional leads are currently still granted administrative access that allows them to add or modify user account permissions within the PeopleSoft systems. We recognize that the City determined this appropriate due to staffing constraints; however, as these individuals also perform activities involving financial transactions, these administrative access rights create a conflict of duties whereby the functional leads have the ability to grant themselves additional access permissions that have not been approved. The City has also not yet implemented monitoring/auditing controls to review permissions changes on a daily basis, as recommended in the prior year.

Cause:

There is a shortage of staff due to budget constraints.

Effect or Possible Effect of Condition:

Failure to perform regular reviews for appropriate role provision within the PeopleSoft Financials and Active Directory systems increases the risk that user accounts may have access to system functions that are not commensurate with their current job responsibilities (if assigned to an employee) or their current functions/purposes (if assigned to a vendor or system function).

Furthermore, failure to review user accounts within the PeopleSoft HRMS, SunGard/Utility Billing, and Active Directory systems for potential user accounts requiring removal increases the risk that unneeded or unauthorized user accounts are not identified and removed or disabled on a timely basis. While it is acknowledged that any reports of terminated employees would be created using the PeopleSoft HRMS system, and therefore that any identified user accounts belonging to terminated employees would theoretically already be disabled within the PeopleSoft HRMS system due to the City's automated disabling procedures, failure to review all user accounts increases the risk that the City does not identify and disable other PeopleSoft HRMS user accounts that are not disabled as a result of this process, such as temporary accounts utilized for projects that have concluded or those that remained in the system at the time of an employee's termination for a business-use scenario (i.e., review of the work completed by the terminated employee or duplication of roles to a new user account).

Recommendation:

We recommend the City consistently perform regularly scheduled (on an annual basis, at a minimum) reviews of user accounts and their associated permissions across each of the PeopleSoft, SunGard/Utility Billing, and Active Directory systems to ensure that no unneeded or unauthorized user accounts exist, and that the permissions assigned within the systems are appropriate for the individuals' job responsibilities and/or the user accounts' purposes. For all reviews conducted to identify potential accounts for removal, it is recommended that the reviewer compare the active user accounts with an official employee roster provided by the Human Resources or payroll department to ensure that all terminated employees' user accounts have been disabled. However, all generic, system, and/or service type accounts should also be included in the review to ensure that they are required to perform current functions. For all reviews conducted to ensure that roles are appropriately provisioned, the associated department head responsible for the function under review should examine all role and permission assignments to determine if access permissions are appropriate, but if the review is performed by the City's Information Services Department (ISD) staff members, they may wish to work with individual departments during this process to ensure that they are aware of current employee lists and job positions, if deemed necessary. It is also recommended that the City's existing processes for reviewing the PeopleSoft HRMS and SunGard/Utility Billing systems for appropriate role provision are further formalized and conducted on a more regular basis; the City should formally determine which roles are considered high risk and should therefore be subjected to review, and establish a regular schedule (on an annual basis, at a minimum) for performing such reviews.

We also recommend that the City examine the administrative access permissions given to the functional leads and seek to remove these to eliminate the potential for a conflict of duties. If the City is unable to remove the permissions due to staffing constraints, it is recommended that a daily monitoring control be established whereby all access permission changes during the prior 24 hours are automatically reported by the PeopleSoft application. This report should be reviewed to confirm that all changes had been properly approved per the City's policy. The review should be performed by a member of management without administrative access permissions to change user access permissions.

While City management should determine the best method by which to document its reviews, all documentation should include the following at a minimum: the date on which the review was conducted and/or completed, the name of the individual(s) conducting the review, the information reviewed (e.g., which roles were reviewed, the specific date period covered by the monitoring control report), and any results of the review (e.g., the removal of unneeded roles from a user account, the rollback of permission changes, etc.).

#### Management Response/Corrective Action Plan:

In the past, ISD has requested that the functional leads perform periodic reviews of the user accounts and permissions granted. ISD has provided reports and support toward those efforts; however, we recognize the need for a better audit process. ISD will perform this function; however, this will continue to be a challenge for the City due to staffing constraints in Finance, Personnel, and ISD. The goal for us will be to schedule meetings at least annually during the next reporting period to examine user access and permissions granted. Ideally, we would document the discussion and results so that can be provided during the next audit. We also have a Security Position within the budget that may help with this function; however, we will not know if this position will be approved until later this year, so, we will try to complete the requirement with existing staffing.

Concerning administrative access for functional leads, in November 2016, ISD staff in the Systems and Applications division implemented auditing for PeopleSoft Financials and HRMS which captures changes made to the PeopleSoft user profiles and permissions assigned within PeopleSoft. So there is now a record of access changes which can be queried if necessary. Additionally, there are positions requests that would help fulfill the audit function (as stated earlier), however, we will not know until the budget is approved later this year as to the availability of that position. Finance also has a Systems Analyst (appropriated and yet to be hired) that may help with the separation of duties in this respect. We will take this under advisement and see about fulfilling the requirement with current staffing levels for the next evaluation period.

#### Current Year Status:

Partially implemented; see current year finding 2017-003

#### **2016-003: Information Technology (IT) – IT Risk Assessments Are Not Conducted on an Annual Basis (Significant Deficiency)**

##### Criteria:

The 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 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 entity's 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; and
- *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:

The City contracted with Accuvant, a third-party firm, to complete a "Security Strategy Assessment" that assessed the City's operational risk in view of its business objectives, goals, and strategies during the prior year; however, a complete formal risk assessment was not conducted during the audit period. Furthermore, although the City has considered the results of Accuvant's assessment during its Strategic Technology Master Plan project, we were unable to determine based on the documentation provided that management had begun the process of remediating the identified risks per Accuvant's recommendations.

Cause:

There is lack of a formal and complete evaluation of the City's risk assessments on an annual basis.

Effect or Possible Effect of Condition:

There is an increased possibility that the City is unaware of IT-related risks that could have detrimental impacts on its ability to conduct day-to-day operations and fulfill organizational goals. In addition, failure to implement the recommendations as provided by Accuvant increases the risk that the associated threats are realized and that the City's day-to-day operations and organizational goals are negatively impacted.

Recommendation:

It is recommended that the City proceed with the remediation activities identified by the Accuvant Security Strategy Assessment as soon as possible. Furthermore, it is recommended that the risks identified by the Accuvant report are reviewed on an annual basis in order to identify any new or changed risks that need to be remediated, as well as to determine the progress of any ongoing remediation activities. While it is not considered necessary that the City utilize a third-party in each year to review the risks identified by the Accuvant report, the annual review should comprise a fair and accurate measurement of the City's progress towards remediating the identified risks as well as identification of any new or changed risks; typically, if not performed by a third-party, such reviews should be conducted by an entity's internal audit function. The City has taken formal action to address some of the risks including appropriating in the budget for two positions in the Internal Audit Department. Until the Internal Audit Department is reinstated, management should determine the best course of action with respect to ensuring annual reviews are being performed.

Additionally, the City should formally document any remediation plans that are developed as a result of initial risk assessment processes, such as the one conducted by Accuvant in the prior year. Management should also formally document the progress of such plans, whether they are reviewed annually or via more frequent regular status meetings, to ensure that implementation is proceeding as intended and in order to provide constituents and interested parties with confirmation that risks identified during these assessments are being actively remediated.

Management Response/Corrective Action Plan:

An IT Risk/Security assessment was conducted in 2015 and a cost assessment was completed thereafter. Once the assessment was completed in 2015, the City immediately moved on items within our budget range and is currently implementing items within the assessment that were of high importance, including a Windows Application Firewall (WAF), Security Appliance (IPS/IDS, etc.), Logging Server, and Penetration Test. In addition, we are requesting a Security Position for next fiscal year budget who will be able to handle many of the security functions, including the audits that are being requested each year. We have been actively moving forward on the assessment. We can formalize the process in the form of a project plan and/or reporting.

Current Year Status:

Partially implemented; see current year finding 2017-004.