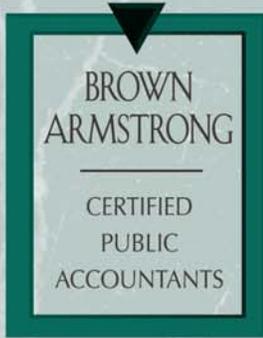


CITY OF FRESNO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2018

**CITY OF FRESNO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

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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, 2018, 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 10, 2019. 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

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 2018-003 and 2018-004.

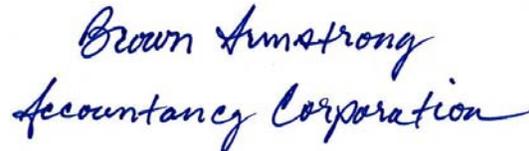
City's Response to Findings

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.

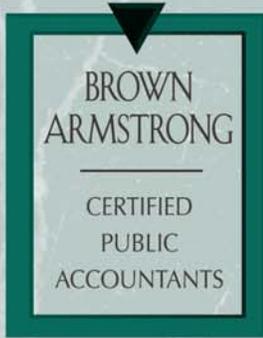
Purpose of this Report

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

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

Bakersfield, California
January 10, 2019



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, 2018. 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, 2018.

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 is described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004. 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-003, which 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 10, 2019, 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
February 15, 2019

**CITY OF FRESNO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
US Department of Commerce					
<i>Economic Development Cluster:</i>					
Economic Development Administration (EDA) - Direct Program					
Economic Development Adjustment Assistance Program - Revolving Loan Fund	11.307		07-39-02434	\$ 845,503	\$ 845,503
<u>Total Economic Development Administration (EDA) - Direct Program</u>				<u>845,503</u>	<u>845,503</u>
<u>Total Economic Development Cluster</u>				<u>845,503</u>	<u>845,503</u>
TOTAL US DEPARTMENT OF COMMERCE				845,503	845,503
US Department of Housing and Urban Development					
<i>Community Development Block Grants (CDBG) - Entitlement Grants Cluster</i>					
Office of Community Planning and Development - Direct Program					
2014 Community Development Block Grants/Entitlement Grants	14.218		B-13-MC-06-0001	-	(23,107)
2014 Community Development Block Grants/Entitlement Grants	14.218		B-14-MC-06-0001	-	62,656
2015 Community Development Block Grants/Entitlement Grants	14.218		B-14-MC-06-0001	-	198,050
2016 Community Development Block Grants/Entitlement Grants	14.218		B-15-MC-06-0001	375,000	1,469,773
2017 Community Development Block Grants/Entitlement Grants	14.218		B-16-MC-06-0001	2,499	721,847
2018 Community Development Block Grants/Entitlement Grants	14.218		B-17-MC-06-0001	-	4,268,735
<u>Total Office of Community Planning and Development - Direct Program</u>				<u>377,499</u>	<u>6,697,954</u>
<u>Total CDBG - Entitlement Grants Cluster</u>				<u>377,499</u>	<u>6,697,954</u>
Emergency Solutions Grant (ESG) Program - Direct Program					
2012 Emergency Solutions Grant Program	14.231		E-11-MC-06-0001	-	225
2013 Emergency Solutions Grant Program	14.231		E-12-MC-06-0001	4	4
2014 Emergency Solutions Grant Program	14.231		E-13-MC-06-0001	85,920	85,920
2016 Emergency Solutions Grant Program	14.231		E-15-MC-06-0001	-	(25,231)
2017 Emergency Solutions Grant Program	14.231		E-16-MC-06-0001	206,841	206,841
2018 Emergency Solutions Grant Program	14.231		E-17-MC-06-0001	8,817	45,332
<u>Total Emergency Solutions Grant (ESG) Program - Direct Program</u>				<u>301,582</u>	<u>313,091</u>
Home Investment Partnership Program (HOME) - Direct Program					
2016 Home Investment Partnership Program	14.239		M-15-MC-06-0204	474,168	563,640
<u>Total Home Investment Partnership Program - Direct Program</u>				<u>474,168</u>	<u>563,640</u>
Office of Community Planning and Development - Direct Program					
2017 Housing Opportunities for Persons with AIDS (HOPWA)	14.241		CAH15F011	259,914	259,914
2018 Housing Opportunities for Persons with AIDS (HOPWA)	14.241		CAH16F011	26,365	26,365
<u>Total Office of Community Planning and Development - Direct Program</u>				<u>286,279</u>	<u>286,279</u>
TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				1,439,528	7,860,964
US Department of the Interior					
Bureau of Reclamation - Direct Program					
UNITED STATES DEPARTMENT OF THE INTERIOR					
BUREAU OF RECLAMATION ASSISTANCE AGREEMENT	15.507		R15AP00098	-	980,439
<u>Total Bureau of Reclamation - Direct Program</u>				<u>-</u>	<u>980,439</u>
TOTAL US DEPARTMENT OF THE INTERIOR				-	980,439

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, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
US Department of Justice					
Equitable Revenue Sharing Program - Direct Program					
Joint Law Enforcement Operations (JLEO) - Seized Assets	16.111		2011	-	(188,649)
<u>Total Equitable Revenue Sharing Program - Direct Program</u>				-	(188,649)
Bureau of Justice Assistance - Pass-Through Program					
Project Safe Neighborhoods Grant 2014	16.609	CA Office of Emergency Services	US14016675	35,873	48,521
Project Safe Neighborhoods Grant 2016	16.609	CA Office of Emergency Services	US16026675	90,000	448,340
<u>Total Bureau of Justice Assistance - Pass-Through Program</u>				125,873	496,861
Office of Community Oriented Policing Services (COPS) - Direct Program					
Public Safety Partnership and Community Policing Grants - COPS Hiring Program 2015	16.710		2015ULWX0004	-	404,105
<u>Total Office of Community Oriented Policing Services (COPS) - Direct Program</u>				-	404,105
Office of Juvenile Justice and Delinquency Prevention - Pass-Through Program					
Enforcing Underage Drinking Laws Program (2016)	16.727	CA Department of Alcoholic Beverage Control	15G-LA10	-	(275)
Enforcing Underage Drinking Laws Program (2018)	16.727	CA Department of Alcoholic Beverage Control	17G-LA10	-	99,730
Enforcing Underage Drinking Laws Program (2019)	16.727	CA Department of Alcoholic Beverage Control	18G-LA10	-	1,041
<u>Total Office of Juvenile Justice and Delinquency Prevention - Pass-Through Program</u>				-	100,496
<i>Justice Assistance Grant (JAG) Program Cluster</i>					
Bureau of Justice Assistance - Direct Program					
Edward Byrne Memorial Justice Assistance Grant FY 14	16.738		2014-DJ-BX-0686	-	15,777
Edward Byrne Memorial Justice Assistance Grant FY 15	16.738		2015-DJ-BX-0531	-	67,242
Edward Byrne Memorial Justice Assistance Grant FY 16	16.738		2016-DJ-BX-0157	-	63,142
<u>Total Bureau of Justice Assistance - Direct Program</u>				-	146,161
<i>Total JAG Program Cluster</i>				-	146,161
TOTAL US DEPARTMENT OF JUSTICE				125,873	958,974
US Department of Transportation					
Federal Aviation Administration (FAA) - Direct Program					
FAA Airport Improvement Program (AIP)					
FAA AIP 80 FF17	20.106		3-06-0087-80	-	3,219,265
FAA AIP 73 FF14	20.106		3-06-0087-73	-	53,172
FAA AIP 76 FF14	20.106		3-06-0087-76	-	7,373
FAA AIP 77 FF15	20.106		3-06-0087-77	-	227,832
FAA AIP 78 FF16	20.106		3-06-0087-78	-	142,214
FAA AIP 79 FF16	20.106		3-06-0087-79	-	588,456
FAA AIP 20 FF14	20.106		3-06-0088-20	-	1
FAA AIP 24 FF16	20.106		3-06-0088-24	-	189,962
<u>Total Federal Aviation Administration (FAA) - Direct Program</u>				-	4,428,275
<i>Highway Planning and Construction Program Cluster</i>					
Federal Highway Administration - Pass-Through Program					
Highway Research, Planning, and Construction Program	20.205	State of California Department of Transportation	Master Agreement 06-5060	-	13,521,616
<u>Total Federal Highway Administration - Pass-Through Program</u>				-	13,521,616
<i>Total Highway Planning and Construction Program Cluster</i>					
<i>Federal Transit Cluster</i>					
Federal Transit Administration - Capital Investment Grants - Direct Program					
2012 5309: Bus Rapid Transit - Very Small Starts	20.500		CA-03-0821-00	-	2,887,251
2011 State of Good Repair Grant: Buy 3 60' CNG Articulated Busses	20.500		CA-04-0213-00	-	76
2012 5309 Bus and Bus Facilities Livability Initiative	20.500		CA-04-0280-00	-	383,847
2012-14 5309: Bus Rapid Transit - Very Small Starts	20.500		CA-04-0282-00	-	5,297,572
<u>Total Federal Transit Administration - Capital Investment Grants - Direct Program</u>				-	8,568,746

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, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
US Department of Transportation (Continued)					
Federal Transit Administration - Formula Grants - Direct Program					
FY06 Urban Mass Transportation Capital, CMAQ	20.507		CA-90-Y726	-	231,047
FY10 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X072	-	2,637
FY11 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X181	-	484,138
FY12 Urban Mass Transportation Capital, CMAQ	20.507		CA-2017-118	-	911,737
FY14 Urban Mass Transportation Capital, CMAQ	20.507		CA-2017-144	-	1,048,707
FY16 Urban Mass Transportation Capital, CMAQ	20.507		CA-2018-004	-	1,113,439
FY11 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y843-00	-	9
FY12 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y947-00	-	30,223
FY13 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z026-00	-	96,534
FY14 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Z157-00	-	456,996
FY15 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-2017-081	-	3,249,076
FY16 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-2018-002	-	8,841,123
FY17 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-2018-006	-	9,398,460
<u>Total Federal Transit Administration - Formula Grants - Direct Program</u>				-	<u>25,864,126</u>
Federal Transit Administration - Formula Grants - Direct Program					
2013-2016 Bus and Bus Facilities Grant Program	20.526		CA-2016-106	-	417,258
<u>Total Federal Transit Administration - Formula Grants - Direct Program</u>				-	<u>417,258</u>
<i>Total Federal Transit Cluster</i>				-	<u>34,850,130</u>
<i>Transit Services Programs Cluster</i>					
Federal Transit Administration (FTA) Transit Formula Grants - Pass-Through Program					
Enhanced Mobility of Seniors and Individuals with Disability - Elderly Individuals and Individuals with Disabilities Grant Program - FTA 5310 Grants	20.513	Fresno Council of Governments	CA-16-X070	-	347,423
<u>Total Federal Transit Administration (FTA) Transit Formula Grants - Pass-Through Program</u>				-	<u>347,423</u>
<i>Transit Services Program Cluster</i>					
Federal Transit Administration - Pass-Through Program					
2010 Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X129-00	-	41,102
2012 Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X165	-	114,562
2008 New Freedom (NF)	20.521	Fresno Council of Governments	CA-57-X029-00	-	1,594
2010 New Freedom (NF)	20.521	Fresno Council of Governments	CA-57-X041 & CA-57-X054	-	29,633
<u>Total Federal Transit Administration - Pass-Through Program</u>				-	<u>186,891</u>
<i>Total Transit Services Program Cluster</i>				-	<u>534,314</u>
<i>Highway Safety Cluster</i>					
National Highway Traffic Safety Administration - Pass-Through Program					
State and Community Highway Safety-Selective Traffic Enforcement Program FY 17	20.600	CA Office of Traffic Safety	PT1743	-	122,925
State and Community Highway Safety-Selective Traffic Enforcement Program FY 18	20.600	CA Office of Traffic Safety	PT18047	-	442,418
<u>Total National Highway Traffic Safety Administration - Pass-Through Program</u>				-	<u>565,343</u>
<i>Total Highway Safety Cluster</i>				-	<u>565,343</u>
Federal Railroad Administration - Pass-Through Program					
High Speed Rail - Engineering and Plan Review Contract	20.319	California High Speed Rail Authority	HSR 16-37	-	57,831
<u>Total Federal Railroad Administration - Pass-Through Program</u>				-	<u>57,831</u>
ARRA - Federal Railroad Administration - Pass-Through Program					
ARRA - High Speed Rail - Engineering and Plan Review Contract	20.319	California High Speed Rail Authority	HSR 11-29	-	116,646
<u>Total ARRA - Federal Railroad Administration - Pass-Through Program</u>				-	<u>116,646</u>
Federal Transit Administration - Direct Program					
FY10 Electric Circulator (5308 - Clean Fuels)	20.519		CA-58-0007-00	-	795
<u>Total Federal Transit Administration - Direct Program</u>				-	<u>795</u>
TOTAL US DEPARTMENT OF TRANSPORTATION				-	54,074,950

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, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
National Endowment for the Arts					
National Endowment for the Arts - Direct Program					
NEA Grant-Mariposa Plaza Activation Project	45.024		13-4292-7073	-	150,000
<u>Total National Endowment for the Arts - Direct Program</u>				-	150,000
TOTAL NATIONAL ENDOWMENT FOR THE ARTS				-	150,000
US Environmental Protection Agency (EPA)					
<i>Drinking Water State Revolving Fund Cluster</i>					
Office of Water - Pass-Through Program					
Capitalization Grants for Drinking Water State Loan - Southeast Water Treatment Facility	66.468	CA State Water Resources Control Board	D15-02012	-	29,771,589
Capitalization Grants for Drinking Water State Loan - KRP Kings River Pipeline	66.468	CA State Water Resources Control Board	D15-02042	-	(2,418,601)
Capitalization Grants for Drinking Water State Loan - Regional Transmission Mains	66.468	CA State Water Resources Control Board	D16-02031	-	7,798,623
<u>Total - Office of Water - Pass-Through Program</u>				-	35,151,611
<i>Total Drinking Water State Revolving Fund Cluster</i>				-	35,151,611
Office of Solid Waste and Emergency Response - Direct Program					
Brownfields Area-Wide Planning Cooperative Agreement	66.814		TR99T27301-1	-	55,924
<u>Total Office of Solid Waste and Emergency Response - Direct Program</u>				-	55,924
TOTAL US ENVIRONMENTAL PROTECTION AGENCY (EPA)				-	35,207,535
US Department of Health and Human Services					
<i>Aging Cluster</i>					
Administration for Community Living - Pass-Through Program					
Special Programs for the Aging Nutrition Services: Senior Hot Meals FY 17	93.045	Fresno Madera Area Agency on Aging	18-0310	-	68,000
<u>Total Administration for Community Living - Pass-Through Program</u>				-	68,000
<i>Total Aging Cluster</i>				-	68,000
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES				-	68,000

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 FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipients	Total Expenditures
US Department of Homeland Security					
<i>Homeland Security Grant Cluster</i>					
Homeland Security Grant Program - Pass-Through Program					
FY 16 Homeland Security Grant Program	97.067	CA Homeland Security & County of Fresno		-	114,173
<u>Total Homeland Security Grant Program - Pass-Through Program</u>				-	114,173
<i>Total Homeland Security Grant Cluster</i>				-	114,173
Homeland Security Grant Program - Pass-Through Program					
Homeland Security Grant Program 2014	97.004	CA Office of Emergency Services & County of Fresno	2014-00093	-	(149)
Homeland Security Grant Program 2015	97.004	CA Office of Emergency Services & County of Fresno	2015-0078	-	5,713
Homeland Security Grant Program 2016	97.004	CA Office of Emergency Services & County of Fresno	2016-0102	-	124,224
Homeland Security Grant Program 2017	97.004	CA Office of Emergency Services & County of Fresno	2017-0083	-	2,869
<u>Total Homeland Security Grant Program - Pass-Through Program</u>				-	132,657
Federal Emergency Management Agency - Direct Program					
FY 13 Staffing for Adequate Fire and Emergency Response (SAFER) Grant	97.044		EMW-2013-FH-00436	-	43,623
FY 15 Staffing for Adequate Fire and Emergency Response (SAFER) Grant	97.044		EMW-2015-FH-00440	-	1,169,478
FY 16 Assistance to Firefighters Grant (AFG)	97.044		EMW-2016-FO-6598	-	250,999
FY 16 Assistance to Firefighters Grant (Fire Prevention & Safety)	97.044		EMW-2016-FP-00620	-	24,284
<u>Total Federal Emergency Management Agency - Direct Program</u>				-	1,488,384
TOTAL US DEPARTMENT OF HOMELAND SECURITY				-	1,735,214
TOTAL EXPENDITURES OF FEDERAL AWARDS, EXCLUDING FEDERAL LOAN BALANCES				\$ 2,410,904	\$ 101,881,579
FEDERAL LOAN BALANCES WITH CONTINUING COMPLIANCE REQUIREMENTS					
US Department of Housing and Urban Development					
<i>Community Development Block Grants (CDBG) - Entitlement Grants Cluster</i>					
Office of Community Planning and Development - Direct Program					
Community Development Block Grants/Entitlement Grants	14.218		N/A	\$ -	\$ 827,000
<u>TOTAL FEDERAL LOAN BALANCES WITH CONTINUING COMPLIANCE REQUIREMENTS</u>				-	827,000
TOTAL EXPENDITURES OF FEDERAL AWARDS, INCLUDING FEDERAL LOAN BALANCES				\$ 2,410,904	\$ 102,708,579

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, 2018**

<u>State or Local Grantor/Program and/or Project Title</u>	<u>State Agency</u>	<u>Pass-Through Grantor</u>	<u>Grant Number</u>	<u>Passed-Through to Subrecipient</u>	<u>Total Expenditures</u>
Bureau of State and Community Corrections					
Public Safety and Victim Services Division - Direct Program					
CA Gang Reduction, Intervention and Prevention Program 2015	BSCC		BSCC806-14	\$ -	\$ 2,758
CA Gang Reduction, Intervention and Prevention Program 2016	BSCC		BSCC806-14	138,203	223,240
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Clovis	BSCC		13-566	58,510	58,510
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Fresno	BSCC		13-566	-	577,987
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - Fresno County	BSCC		13-566	129,187	129,187
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Kerman	BSCC		13-566	29,842	29,842
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Firebaugh	BSCC		13-566	10,136	10,136
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Mendota	BSCC		13-566	11,141	11,141
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Parlier	BSCC		13-566	10,929	10,929
Local Law Enforcement Statewide for Front Line Law Enforcement Needs Program - City of Reedley	BSCC		13-566	18,817	18,817
<u>Total Public Safety and Victim Services Division - Direct Program</u>				406,765	1,072,547
TOTAL BUREAU OF STATE AND COMMUNITY CORRECTIONS				406,765	1,072,547
CA State Department of Conservation					
Division of Recycling - Direct Program					
2016/2017 (FY17) - Recycling Program	DOC		2014/2015	-	62,419
2017/2018 (FY18) - Recycling Program	DOC		2015/2016	-	131,039
<u>Total Division of Recycling - Direct Program</u>				-	193,458
TOTAL CA STATE DEPARTMENT OF CONSERVATION				-	193,458

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, 2018**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
CA State Department of Finance					
Citizens Option for Public Safety - Direct Program					
Supplemental Law Enforcement Services Fund (SLESF) State Program COPS FY16	DOF		FY16	-	490
Supplemental Law Enforcement Services Fund (SLESF) State Program COPS FY17	DOF		FY17	-	732,097
Supplemental Law Enforcement Services Fund (SLESF) State Program COPS FY18	DOF		FY18	-	347,290
<u>Total Citizens Option for Public Safety - Direct Program</u>				-	1,079,877
CA Division of Mass Transportation - Direct Program					
PROP 1B-FAX	DOF		Prop 1B	-	2,322,384
<u>Total CA Division of Mass Transportation - Direct Program</u>				-	2,322,384
CA Office of Emergency Services - Direct Program					
PROP 1B-FAX	DOF		Prop 1B	-	220,197
<u>Total CA Office of Emergency Services - Direct Program</u>				-	220,197
Caltrans Division of Rail and Mass Transportation - Direct Program					
Transit Intercity Rail Capital Program	DOF		6FRESNOPS-01	-	2,407,996
<u>Total Caltrans Division of Rail and Mass Transportation - Direct Program</u>				-	2,407,996
TOTAL CA STATE DEPARTMENT OF FINANCE				-	6,030,454
CA State Department of Fish and Game					
Wildlife Conservation Board - Direct Program					
RiverPartners Riverbottom Park Grant	WCB		WC-1230SM	-	15,519
<u>Total Wildlife Conservation Board - Direct Program</u>				-	15,519
TOTAL CA STATE DEPARTMENT OF FISH AND GAME				-	15,519
CA State Department of Housing and Community Development					
PROP 1C - Direct Program					
California and Elm Improvements	HCD		14-HRPP-10344	-	2,405
Mosqueda Center Improvements	HCD		14-HRPP-10344	-	12,590
Vinland Park Improvements	HCD		14-HRPP-10344	-	58,719
Chandler Park Improvements	HCD		15-HRPP-10946	-	30,990
Frank H. Ball Improvements	HCD		15-HRPP-10946	-	230,712
Highway City Science Center Improvements	HCD		15-HRPP-10946	-	256,262
Mary Ella Brown Improvements	HCD		15-HRPP-10946	-	141,209
Mosqueda Improvements	HCD		15-HRPP-10946	-	73,190
<u>Total PROP 1C - Direct Program</u>				-	806,077
TOTAL CA STATE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT				-	806,077

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, 2018

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
CA State Department of Parks and Recreation					
Off-Highway Motor Vehicle Recreation Division - Direct Program					
OHV-Related Law Enforcement Grant	MVRD		G16-03-94-L01	-	13,899
<u>Total Off-Highway Motor Vehicle Recreation Division - Direct Program</u>				-	13,899
Office of Grants and Local Services - Direct Program					
Hinton Park Improvements	OGALS		YR-10-002	-	506,000
Cultural Arts District (CAD) Parks	OGALS		SW-10-002	-	67,210
Martin Ray Reilly (MRR) Park	OGALS		SW-10-004	-	28,557
<u>Total Office of Grants and Local Services - Direct Program</u>				-	601,767
TOTAL CA STATE DEPARTMENT OF PARKS AND RECREATION				-	615,666
CA State Department of Transportation					
Aeronautics Division of the CA Transportation Commission - Direct Program					
State Match to AIP 24 FF17	CTC		Fre-2-18-2-Mat	-	9,633
<u>Total Aeronautics Division of the CA Transportation Commission - Direct Program</u>				-	9,633
Division of Local Transportation Assistance - Direct Program					
Highway Research, Planning, and Construction Program (State Program)	DOT		Master Agreement 06-5060	-	13,460
Trail Network Expansion Feasibility Plan	DOT		SC-74A0952	-	2,139
<u>Total Division of Local Transportation Assistance - Direct Program</u>				-	15,599
CalTrans - Pass-Through Program					
Bike Pedestrian Education Safety Training	DOT	Fresno Council of Governments	ATPLNI-5060(287)	-	30,378
<u>Total CalTrans - Pass-Through Program</u>				-	30,378
CalTrans - Direct Program					
Sustainable Communities Grant	DOT		74A0925	-	72,029
Low Carbon Transit Operations Program (LCTOP) - CA Cap and Trade Funding	DOT		LCTOP Allocs	-	1,026,570
<u>Total CalTrans - Direct Program</u>				-	1,098,599
TOTAL CA STATE DEPARTMENT OF TRANSPORTATION				-	1,154,209
CA State Environmental Protection Agency					
Integrated Waste Management Board - Direct Program					
2016/2017 Waste Tire Amnesty Grant	CIWMB		TA4-17-0013	-	16,194
2015/2016 Waste Tire Enforcement Grants	CIWMB		TEA23-15-0006	-	(5,009)
2016/2017 Waste Tire Enforcement Grants	CIWMB		TEA24-16-0016	-	105,455
FY 17 CalRecycle - Oil Payment Program	CIWMB		OPP7	-	140,762
FY 18 CalRecycle - Oil Payment Program Open	CIWMB		OPP8	-	2,699
<u>Total Integrated Waste Management Board - Direct Program</u>				-	260,101
TOTAL CA STATE ENVIRONMENTAL PROTECTION AGENCY				-	260,101
CA Department of Forestry and Fire Protection					
CALFIRE - Direct Program					
	CALFIRE		8GG16427	-	84,672
<u>Total CALFIRE - Direct Program</u>				-	84,672
TOTAL CA DEPARTMENT OF FORESTRY AND FIRE PROTECTION				-	84,672

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, 2018

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Subrecipient	Expenditures
CA State Water Resources Control Board					
Division of Financial Assistance - Direct Program					
Clean Water State Revolving Fund - Southwest Recycled Water Distribution System	CSWRCB		C-06-8061-110	-	9,357,758
Capitalization Grants for Drinking Water State Loan - Southeast Water Treatment Facility	CSWRCB		D15-02012	-	34,666,613
Capitalization Grants for Drinking Water State Loan - OCSD Consolidation with City of Fresno	CSWRCB		D15-02030	-	181,530
Capitalization Grants for Drinking Water State Loan - FKCP Friant Kern Canal Pipeline	CSWRCB		D15-02040	-	3,923,993
Capitalization Grants for Drinking Water State Loan - KRP Kings River Pipeline	CSWRCB		D15-02042	-	29,312,226
Capitalization Grants for Drinking Water State Loan - Regional Transmission Mains	CSWRCB		D16-02031	-	19,529,020
Cleanup and Abatement Account (CAA)	CSWRCB		C/A 962	-	47,965
<u>Total Division of Financial Assistance - Direct Program</u>				-	97,019,105
TOTAL CA STATE WATER RESOURCES CONTROL BOARD					97,019,105
CA Governor's Office of Emergency Services					
Victim Services & Public Safety Branch - Direct Program					
Law Enforcement Specialized Units Program	OES		LE17-01-6675	-	22,343
<u>Total Victim Services & Public Safety Branch - Direct Program</u>				-	22,343
TOTAL CA GOVERNOR'S OFFICE OF EMERGENCY SERVICES					22,343
CA State Department of Public Health					
CA Department of Public Health - Direct Program					
Walk With Ease	CDPH		17-10579	-	1,282
<u>Total CA Department of Public Health - Direct Program</u>				-	1,282
TOTAL CA STATE DEPARTMENT OF PUBLIC HEALTH					1,282
National Recreation and Park Association (NRPA)					
NRPA - Direct Program					
Meet Me at the Park 2018	NRPA			-	2,308
Parks Build Program 2017 (Renamed Meet Me at Park)	NRPA			-	18,093
Parks Build Program 2016	NRPA			-	(17,898)
Parks Build Program 2016	NRPA			-	805
<u>Total NRPA - Direct Program</u>				-	3,308
TOTAL NATIONAL RECREATION AND PARK ASSOCIATION (NRPA)					3,308
PG&E					
PG&E - Direct Program					
PG&E Movies in the Park 2016	PGE			-	3,526
PG&E Movies in the Park 2017	PGE			-	1,440
PG&E Cooling Center	PGE			-	25,000
PG&E Cooling Center	PGE			-	10,560
Science Camp at Highway Cty - PG&E 2014	PGE			-	1,818
Science Camp at Highway Cty - PG&E 2015	PGE			-	3,363
<u>Total PG&E - Direct Program</u>				-	45,707
TOTAL PG&E					45,707
CA Strategic Growth Council					
National Resources Agency - Direct Program					
Master Urban Greening Plan	SGC		U59301-0	-	250,000
<u>Total National Resources Agency - Direct Program</u>				-	250,000
TOTAL CA STRATEGIC GROWTH COUNCIL					250,000

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, 2018**

State or Local Grantor/Program and/or Project Title	State Agency	Pass-Through Grantor	Grant Number	Passed-Through to Subrecipient	Total Expenditures
Office of Traffic Safety					
<i>Highway Safety Cluster</i>					
CA Office of Traffic Safety - Pass-Through Program					
Pedestrian and Bicycle Education Safety	20.600	Federal Highway Safety Program	PS18010	17,397	52,292
<i>Total Highway Safety Cluster</i>				17,397	52,292
<u>Total CA Office of Traffic Safety - Pass-Through Program</u>				17,397	52,292
TOTAL OFFICE OF TRAFFIC SAFETY				17,397	52,292
AT&T					
AT&T - Direct Program					
Romain Summer Science Camp - AT&T	ATT			-	(239)
<i>Total AT&T - Direct Program</i>				-	(239)
TOTAL AT&T				-	(239)
State CRT Class Settlement Fund					
CYPRESS Settlement - Direct Program					
Frank H. Ball Technology Improvements	CPT			-	(1,349)
<i>Total CYPRESS Settlement - Direct Program</i>				-	(1,349)
TOTAL STATE CRT CLASS SETTLEMENT FUND				-	(1,349)
US Soccer Foundation					
USCF - Direct Program					
US Soccer Foundation	USCF			-	54,879
<i>Total USCF - Direct Program</i>				-	54,879
TOTAL US SOCCER FOUNDATION				-	54,879
TOTAL EXPENDITURES OF STATE AWARDS				\$ 424,162	\$ 107,680,031

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, 2018**

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 ended June 30, 2018, 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	\$ 845,503
Community Development Block Grants/Entitlement Grants Program	14.218	377,499
Emergency Solutions Grant Program	14.231	301,582
Home Investment Partnership Program	14.239	474,168
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	286,279
Project Safe Neighborhoods	16.609	<u>125,873</u>
Total		<u>\$ 2,410,904</u>

NOTE 3 – SECTION 108 LOANS

The City has two (2) Section 108 loans outstanding at June 30, 2018. 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 loans totaled \$524,776, of which \$273,929 was used to pay off the balance of the Section 108 Note for the Regional Medical Center (RMC), for the year ended June 30, 2018, and the total loans outstanding as of year-end is \$827,000.

NOTE 3 – SECTION 108 LOANS (Continued)

A summary of Section 108 loans outstanding as of June 30, 2018, is as follows:

CFDA #	Grant Loan Program	Unspent Loan Proceeds as of June 30, 2018	Outstanding Loan Balances as of June 30, 2018
14.218	Section 108 Note - Fresno-Madera Area Agency on Aging	\$ -	\$ 255,000
14.218	Section 108 Note - Neighborhood Streets/Parks	-	572,000
		<u>\$ -</u>	<u>\$ 827,000</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, 2018, 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, 2018
2007	SRF06CX150	Wellsite Chlorination Project	10100007-004	\$ 2,210,000	2.2923% / 20 yrs*	\$ 1,409,976
2009	SRF08SWX101	Enterprise/Jefferson Canal Project	10100007-011	1,968,136	2.2923% / 20 yrs*	901,143
2011	SFR11CX104	Residential Water Meter Project	10100007-026C	51,405,432	0.0000% / 20 yrs*	41,124,346
2015	14-817-550	Wastewater Tertiary Plant	C-067893-110	33,138,638	1.00 - 1.70% / 30 yrs*	32,249,924
2016	D15-01011	Recycled Water Distribution Southwest	C-068061-110	52,475,049	1.00% / 30 yrs*	20,205,685
2016	D15-02012	Southeast Surface Water Treatment Facility	1010007-028C	195,489,000	1.66300% / 30 yrs*	153,560,173
2017	D16-02031	Regional Transmission Mains	1010007-030C	75,900,000	1.6% / 30 yrs*	48,611,671
						<u>\$ 298,062,918</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 \$35,151,611 under the loans during fiscal year 2018 and has reported these amounts on the SEFA as follows:

CFDA #	Project Name	Loan #	Total Expenditures
66.468	Southeast Water Treatment Facility	D15-02012	\$ 29,771,589
66.468	KRP Kings River Pipeline	D15-02042	(2,418,601)
66.468	KRP Kings River Pipeline	D16-02031	7,798,623
			<u>\$ 35,151,611</u>

NOTE 5 – PRE-AWARD AUTHORITY SPENDING IN 2017

The City incurred costs totaling \$226,498 under the Airport Improvement Program (AIP) during the year ended June 30, 2018, 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, 2018.

The City incurred pre-award costs as follows: \$8,473,301 under the fiscal year 2018 Urban Mass Transportation Capital, Planning, Operating Assistance Grant under the CFDA #20.507; and \$6,725,910 under the fiscal year 2016 5309: Bus Rapid Transit – Very Small Starts Grant under the CFDA #20.500 during the year ended June 30, 2018, 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 Federal Transit Administration – Formula Grants expenditures under the SEFA for the year ended June 30, 2018. They will be reported in fiscal year 2019.

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, 2018, is as follows:

Balance of RLF loans outstanding at June 30, 2018	\$ 650,601
Cash and investment balance at June 30, 2018	144,072
Administrative expenses paid out	<u>50,830</u>
Subtotal	<u>845,503</u>
Federal share	100%
Total expenditures reported at June 30, 2018	<u>\$ 845,503</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 \$116,506 under the AIP during the year ended June 30, 2017, for which funding in the amount of \$9,060 was approved in fiscal year 2018. These expenditures are included on the SEFA as part of the AIP (CFDA #20.106) expenditures for year ended June 30, 2018. The \$107,446 balance of the pre-award expenditures will be reported when awarded.

The City incurred Pre-Award costs as follows: \$347,708 under the FY14 Urban Mass Transportation Capital, CMAQ Grant; \$669,641 under the FY16 Urban Mass Transportation Capital, Planning, Operating Assistance Grant; and \$9,055,312 under the FY17 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 award. Expenditures were included on the SEFA as part of CFDA #20.507 in FY18 as follows: \$347,708 for the FY14 Urban Mass Transportation Capital, CMAQ Grant; \$669,629 for the FY16 Urban Mass Transportation Capital, Planning, Operating Assistance Grant, (the \$12 difference was due to a match miscalculation); and \$8,938,512 under the FY17 Urban Mass Transportation Capital, Planning, Operating Assistance Grant, (the \$116,800 difference was due to ineligible expenditures).

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 2018 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, 2018**

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
15.507	Water SMART (Sustaining and Manage America's Resources for Tomorrow)
20.205	Highway Planning and Construction 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

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

2018-001: Construction in Progress (CIP) Additions (Significant Deficiency)

Criteria:

Internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, and reliable financial reporting in accordance with Governmental Accounting Standards and accounting principles generally accepted in the United States of America. In addition, to be considered a capital cost, the expenditure must be incurred and the asset must be acquired (i.e., purchased, fabricated, constructed, or donated).

Condition:

During our testing of capital additions, we noted 5 out of 23 governmental-type CIP samples tested were improperly capitalized as CIP and included in the CIP additions schedule. The 5 samples were actually pre-billings from the General Services fund to various City Departments for construction projects that had not yet begun as of year-end.

Cause of Condition:

The City's practice has been to accept pre-billings from the General Services department. However, the City did not have adequate review procedures in place over CIP to ensure capitalization was appropriate.

Effect or Possible Effect of Condition:

Improper classification of the 5 samples resulted in over-reporting of CIP of approximately \$1.3 million.

Recommendation:

We recommend City Departments, as well as staff involved with the financial reporting of capital assets, review project costs to ensure expenditures were incurred prior to capitalization.

Management Response/Corrective Action Plan:

A pre-bill reconciliation has been incorporated into the capital asset procedures. This reconciliation will serve to remove from CIP all pre-bills until such time that construction on the items has begun. The Finance Department will communicate with the departments who have submitted pre-bills to determine their status and include in the CIP total only amounts for which construction has begun. This procedure was put into place for FY18 and all pre-billed projects were removed from CIP.

The City's departments are also looking into pre-billing as a whole in order to improve reporting.

2018-002: 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 recently implemented regular reviews of PeopleSoft Financials and PeopleSoft HRMS user accounts and their associated permissions. However, reviews of Active Directory user accounts and their assigned group memberships/permissions are not performed on a regular basis.

Additionally, while the City currently performs regular reviews of NaviLine/SunGard user accounts for appropriate permission provision within the system, reviews for potential user accounts requiring disabling/removal are not performed on a regular basis.

Finally, we noted that functional leads are currently still granted administrative access that allow 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 daily reviews of the auditing logs implemented to track changes to user profiles and permissions assigned within the PeopleSoft systems as recommended in the prior year.

Cause of Condition:

There is a shortage of staff due to budget constraints.

Effect or Possible Effect of Condition:

Failure to perform regular reviews of Active Directory user accounts and their assigned group memberships/permissions 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), and increases the risk that unneeded or unauthorized user accounts are not identified and removed or disabled on a timely basis.

Additionally, failure to perform regular reviews of NaviLine/SunGard accounts for potential user accounts requiring disabling/removal increases the risk that unneeded or unauthorized user accounts are not identified and removed or disabled on a timely basis.

Recommendation:

It is recommended that the City implement regularly scheduled (on an annual basis, at a minimum) reviews of Active Directory user accounts and their associated group memberships/permissions to ensure that no unneeded or unauthorized user accounts exist, and that the group memberships/permissions assigned within the system are appropriate for the individuals' job responsibilities and/or the user accounts' purposes. It is further recommended that the City implement regularly scheduled (on an annual basis, at a minimum) reviews of NaviLine/SunGard user accounts to ensure that no unneeded or unauthorized user accounts exist. 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 group memberships/permissions are appropriately provisioned, the associated department head responsible for the function under review should examine all group membership and permission assignments to determine if access permissions are appropriate, but if the review is performed by City 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.

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 the auditing logs the City has implemented to track changes to user profiles and permissions assigned within the PeopleSoft systems are automatically reported by the PeopleSoft application and reviewed on a daily basis to confirm that all changes during the prior 24 hours had been properly approved per the City's policy. This review should be performed by a member of management without administrative access permissions to change user access permissions.

Management Response/Corrective Action Plan:

We agree that improvements can be made and will take the recommendations under advisement. We are in the process of hiring an Information Systems Supervisor specializing in security as part of our efforts to enhance the City's security program. We intend this function to be placed within this position's job duties. This position is currently in the interview process and we anticipate having this person on board within the next few weeks.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-003: Findings from the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) (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 2017-2018

Compliance Requirement: Various

Questioned Costs: None

Criteria:

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

Condition:

From fiscal year 2016-2017, the audit report dated August 9, 2017, from HUD 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.

Due to the above results, HUD estimated questioned costs to be \$428,373 at the time.

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 or 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:

Yes, see prior year finding 2017-005.

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/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 repay \$163,555 of ineligible costs from non-federal funds:

RESPONSE: As previously reported, the City repaid \$143,449 of the \$163,555 amount to the City's Line of Credit on December 7, 2017. For several months, the City submitted additional documentation supporting eligibility of the remaining \$20,106. The City concluded that after considerable effort, repayment was the most efficient and timely method and repayment was completed. Documentation of repayment was provided to CPD on July 25, 2018, with a request to close this recommendation. The City continues awaiting feedback from CPD.

2. Provide support for more than \$7.9 million in CDBG costs or repay the program from non-federal funds:

RESPONSE: The City has provided seven significant packages of documents to CPD, including the original response to the OIG finding including an outline of the status of each recommendation (a-l) on November 20, 2017, as well as six submissions with hundreds of pages of documentation to support eligibility and address recommendations on December 4, 2017, January 9, 2018, April 20, 2018, May 4, 2018, July 25, 2018, and September 28, 2018. In addition to these comprehensive packets, the City has also responded to many electronic inquiries from CPD. The CPD must work with the OIG to provide final closure on this finding. As previously reported, the City retained a

consulting firm to assist with the closure of the OIG finding, and pending needed feedback from CPD, the City and consultant will be able to address any outstanding items. The last submission to CPD was September 28, 2018. It is assumed that the government shutdown has had an impact on CPDs responsiveness. The City continues awaiting feedback from CPD.

- The City has provided supporting documentation for \$3,966,298, and repaid \$30,621.31. The City has proposed to CPD that a repayment of \$2,532,581.63 to the City's line of credit will address the final outstanding item. As mentioned above, the City submitted the most recent supporting documentation on September 28, 2018, and continues awaiting feedback from CPD. (\$6,529,500)
 - The City has provided supporting documentation for \$1,107,000 on November 20, 2017, December 4, 2017, April 20, 2018, May 4, 2018, and September 28, 2018. The City also responded to several email follow up questions and requested that CPD close this recommendation. On November 15 and November 16, 2018, a CPD representative indicated via email to the City that the supporting documentation was considered acceptable. The City continues awaiting feedback from CPD related to closure of this recommendation. (\$1,107,000)
 - The City provided supporting documentation for \$218,028 in graffiti activities. However, after several attempts to close this recommendation, the City concluded that after considerable effort, repayment was the most efficient and timely action. Repayment to the City's line of credit was completed, and the City requested that CPD close this recommendation on July 25, 2018. The City continues awaiting feedback from CPD. (\$218,028)
 - The City has provided supporting documentation for \$55,000 on November 20, 2017, December 4, 2017, April 20, 2018, May 4, 2018, and September 28, 2018. The City has requested that CPD close this recommendation and is awaiting feedback from CPD.
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:

RESPONSE: As previously reported, 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. CPD was aware of this, and was also notified through the November 20, 2017, documentation package submitted by the City. CPD notified the City that this item was closed on April 4, 2018.

4. Implement policies and procedures to ensure that \$428,373 in CDBG funds is used in accordance with program requirements:

RESPONSE: As previously reported, 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, and April 4, 2018, submission to the CPD. Also, see response to #5 below.

The City provided additional documentation to CPD on April 20, 2018, and further documentation on July 25, 2018 to address this recommendation and requested CPD to close this item. The City continues awaiting feedback from CPD.

5. Provide training or obtain technical assistance on CDBG program requirements:

RESPONSE: As previously reported, supporting documentation was provided to CPD on November 20, 2017, December 4, 2018, and January 9, 2018, requesting that CPD close this recommendation detailing the training and technical assistance on program requirements continuing to be offered by the City. On April 4, 2018, the City provided further evidence of completed trainings, certificates of completion, sign-in sheets, information packets and presentations from trainings. The City again requested CPD to close this recommendation on April 4, 2018. The City continues awaiting feedback from CPD.

2018-004: Reporting Procedures (Other Matter)

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 2017-2018

Compliance Requirement: Reporting

Questioned Costs: None

Criteria:

In accordance with the reporting requirements of HUD, the Federal Financial Report Standard Form 425 (SF-425) is to be submitted quarterly to the HUD Field Office within 30 days after the period end date, and the Section 3 Form 60002 is to be submitted electronically at the same time the Consolidated Annual Performance Evaluation Report (CAPER) is due.

Condition:

During our audit procedures, we noted two out of four quarterly SF-425s selected for testing were not submitted timely. In addition, the Section 3 Form 60002 was not filed at the same time as the CAPER.

Cause of Condition:

The City's Development and Resource Management 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 or Possible Effect of Condition:

Noncompliance can result in repayment of past awards and jeopardize funding of future awards.

Questioned Costs:

None.

Repeat Finding:

No.

Recommendation:

We recommend the Department cross train multiple employees on how to submit the financial and performance 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/Corrective Action Plan:

Management concurs with the finding and agrees with the recommendation. All SF-425 reports were submitted for fiscal year 2017-2018; however, reports for two periods were submitted late. This was due to a continuation of the staffing issue previously cited. During the first of quarter of the fiscal year, the City Council authorized the hiring of a consulting firm responsible for, amongst other things, CDBG reporting. This firm became responsible for SF-425 reporting on October 1, 2018. Since then, the September 30, 2018 and the December 31, 2018 quarterly SF-425 reports have been submitted on time. It is expected that the March 31, 2019 and June 30, 2019 SF-425 reports will be prepared and submitted on time.

**CITY OF FRESNO
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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 of Condition:

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.

Current Year Status:

Implemented.

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 of Condition:

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.

Current Year Status:

The Internal Audit Unit conducted a risk assessment of the City's various departments in February 2018. The results of the risk assessment were presented to and reviewed by the City Manager and other key Administration personnel in March 2018. Based on areas of risk identified by the risk assessment coupled with areas of concern to the City Manager and Administration personnel, an audit plan was

developed. Internal Audits has completed two audits and is in the process of finalizing two others. Reports for the two completed audits have been distributed to the audit committee, the City Manager, and the Mayor.

Internal Audits will be performing a second annual risk assessment in February 2019 in order to determine the areas of highest risk for the City, and will compile a second annual Audit Plan accordingly.

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:

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- *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:

System	Reviewed for Potential User Accounts Requiring Removal?	Reviewed for Appropriate Role Provision?
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 of Condition:

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.

Current Year Status:

Partially implemented; see current year finding 2018-002.

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.

Cause of Condition:

There is a shortage of staff due to budget constraints.

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/Corrective Action Plan:

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.

Current Year Status:

Implemented.

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 or 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, implement policies and procedures to ensure that \$428,373 in CDBG funds is used in accordance with program requirements, and
4. 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/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.

Current Year Status:

Partially implemented; see current year finding 2018-003.

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 or 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/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.

Current Year Status:

Implemented.