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To the Audit Committee and
    Management of the
City of Fresno, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Fresno, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2015. Our report includes a reference to other auditors who audited the financial statements of the City of Fresno Cultural Arts Properties, the City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement System, as described in our report on the City's financial statements. This letter 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.

In planning and performing our audit of the financial statements of the City, as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously communicated to you about the City's internal control in our letter dated March 19, 2015. This letter does not affect our report dated March 19, 2015, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City's written responses to these other control deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Newport Beach, California
March 31, 2015

2014-001 INFORMATION SYSTEMS MANAGEMENT

Observation

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

- *IT Governance*

  The City does not have a current IT Strategic Plan. While the Information Services Department has defined general strategic IT objectives, the City has only recently created an IT Steering Committee to create such a plan. The high interdependency of most departments on common IT infrastructure and core applications merits a Citywide IT strategic plan. The absence of a current IT strategic plan could place the City at increased risk of misalignment between IT projects and the goals and objectives of the City as a whole.

- *System Acquisition, Development and Program Change Management*

  The City does not have formal policies and procedures for managing new system development or acquisition. New system development and acquisition are formal processes used to ensure that new products or systems are introduced in a controlled and coordinated manner. Today's computer applications and network infrastructure are extremely complex, and require careful control and testing in order not to assure proper stewardship of public funds and fit-for-use within an organization's operations. The City, however, has no formal control documentation for how to develop or implement new systems or applications. Implementation, including testing, is currently only based on the institutional knowledge of those involved. This increases the risk of system development and implementation failures or that systems are developed and acquired that do not meet the overall strategic goals of the City.

- *Computer Operations*

  The City has not recently tested its Disaster Recovery Plan. Computer operations controls require that an entity has developed, documented, and implemented a disaster recovery/business continuity plan to provide contingency for unforeseeable events and assure that system and financial data can be recovered in a timely manner. The City created its Disaster Recovery plan in 2010, but it has not tested the plan since 2012. Without a fully-tested Disaster Recovery plan, the City cannot be fully assured that IT systems and data can be fully restored within a reasonable time after a disaster.

Recommendation

We recommend the following:

- The City Manager, working in conjunction with the Chief Information Officer, Controller, and other major users of IT services, should develop an IT strategic plan. The City Manager should ensure that the plan, at a minimum, include the following:

  o Identification and prioritization of IT initiatives.

  o Alignment with the goals and objectives of the City as a whole.

  o Provisions for the periodic review by the City-wide IT Steering Committee and periodic updates for continued relevance to strategic initiatives.

  o Provisions for periodic reporting to City Council and the City Manager on progress made towards the initiatives.

- The Chief Information Officer, along with the Controller and key IT staff and key functional stakeholders, should formally document new system development and acquisition processes. This process should include roles, ownership, and responsibility for providing overall leadership, requirements, testing, and approvals within key user groups and within the IT organization.

- The City should test its disaster recovery plan to assure that financial systems and data can be recovered. Findings from periodic testing should be incorporated into updates to the plan.

Management's Response

IT Governance - The City has an IT Strategic Plan that is dated 2012-2014. It was last accessed in calendar year 2014, however, most of the provisions within it are still valid. The plan itself was put together by internal staff when funds were not available for an external party to evaluate the operations and goals of the IT Department as well as the alignment with the Mayor's initiatives. The City of Fresno has been economically and financially challenged over the past few years and has just recently been allowing departments to invest in projects that revolve around IT needs. In essence, the plan needs to be reviewed and rewritten to reflect the onslaught of new programs that are being implemented. ISD is seeking third party review to rewrite and revise the current plan into a proper plan for the City of our size. There is a budget request for such a review for Fiscal Year 16. Depending upon the approval of funds, ISD will either contract a third party for the review or it will be revisited by internal staff. This plan shall also address Governance issues as they have been problematic over the past few years.

System Acquisition, Development and Change Management - As to new systems, any purchased new system that does not require development will follow the City's proper purchasing ordinances. There is a policy being created in the Fresno Innovative IT (FIIT) Advisory Committee that is to deal with City Wide implementations. As of now, the City does not develop its own software on an enterprise level, so there hasn't been a policy created for SDLC or programming procedures. The City does, however, have a proper Change Control Process/Policy for any system changes. It is has been in place for several years.

Operations/Disaster Recovery - While the City has a Disaster Recovery Plan, it is tested on a limited basis. Most of the verifications of the plan have been with backup restoration and with power outages with the most recent unplanned test being 02/14/2014. A formal annual plan for testing has not been created as we take advantage of unplanned outages to test our disaster recovery process; however, the plan is updated with new contact information as vendor roles change. An update was completed this fiscal year.

2013-A: COMPREHENSIVE RISK ASSESSMENT

Observation

During our audit of the City and discussion with the City's Internal Auditor, we noted the City has not performed a formal update to its risk assessment conducted in fiscal year 2011. Through the economic downturn, layoffs, and various other factors, the City may be exposed to risks not identified during the last comprehensive risk assessment. As conditions have changed.

Recommendation

We recommend that the City evaluate and perform a City-wide risk assessment, either through the utilization of the Internal Audit Department, or through a third party.

Status

Not implemented. This recommendation was revised and reported as a significant deficiency in the financial statement section in the Schedule of Findings and Questioned Costs, Item 2014-003, in the City's Single Audit Report and Other Compliance Reports for the year ended June 30, 2014.

2011-1: FUND BALANCE RESERVES

Observation (revised)

Effective July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The provisions of this statement revised the classifications of fund balances for governmental funds. As a result, the City Council established the Unappropriated Reserve Fund by adopting Resolution No. 2004-27, creating the General Fund Emergency Reserve Fund (Reserve Fund) at 5% of General Fund annual expenditures. This is reported as committed fund balance in the General Fund.

In November 2010, in accordance with Resolution No. 2004-27, the Mayor declared a fiscal emergency which was unanimously approved by the City Council in Resolution No. 2010-260, thereby reducing the Reserve Fund balance from $10.6M at July 1, 2010, to $1.4M at June 30, 2011. At June 30, 2013, the Reserve Fund balance was $1.9M, and was reported as committed fund balance in the General Fund.

Based upon the City's interpretation of the reserve policy, 5% of the 2013 Adopted General Fund Appropriation of $236.2M is $11.8M. According to the reserve policy, the Reserve Fund was underfunded by $9.9M at June 30, 2013, after considering the existing balance at fiscal year-end.

Recommendation

We recommend that the City review its current Reserve Fund policy and current financial position and develop and document a plan to be approved by City Council on how the Reserve Fund will be replenished to comply with the policy. In addition, the City Council should consider amending section 1212 of the Municipal Code to address how the Reserve Fund should be replenished.

Status

Implemented. The City of Fresno recognized that it has a critical need to establish and dedicate a funding stream to the General Fund reserve. In response, Resolution No. 2011-64, adopted by City Council on April 7, 2011 and approved by the Mayor, amended Executive Order 3.02 and Resolution 2004-27 by establishing the Reserve Management Act which set forth policy with stringent limitations on the reserve funds. This Act also increased the minimum reserve balance to ten percent 10% of the adopted budget for the next year's General Fund appropriations. Both the Government Finance Officers Association (GFOA)

and the City's Reserve Management Act recommend a minimum of a 10 percent reserve; this would mean $26.3 million in Fiscal Year 2015. However due to the global economic downturn, this provision was suspended until such time as the City could once again begin contributing to the Reserve.

While the General Fund reserve currently stands at $2.35 million ($1.6 million emergency reserve and $800,000 for the 27th pay period), in order to facilitate the growth and maintenance of a reserve, it is proposed in the 2015 Fiscal Year Budget that the amount of the annual estimated repayment of the Redevelopment Agency (RDA) Debt to the City be budgeted as going into the Emergency Reserve fund. Over the course of the five year budget planning window, this repayment would average $2.9 million per year. In addition, it is also proposed in the Budget that any surplus or deficit resulting from ongoing operations also be transferred to the reserve fund. These actions, if adhered to, will result in a General Fund reserve by Fiscal Year 2019 equal to approximately $27.7 million.

Given that on November 6, 2012 a ballot measure was taken to the voters which amended Section 1212 of the Charter to include the Reserve, management believes that this recommendation has been complied with.

2011-002: UTILITY BILLING RECEIPTS

Observation

During our consideration of internal controls over the utility billing system, we noted that the HTE (SunGard), the City's utility billing subsidiary ledger, does not interface with PeopleSoft, the City's general ledger system. The Finance Department until January 2012 (transferred to the Utilities Department subsequent to January 2012) prepares a manual entry as a result of a cumbersome reconciliation process.

Recommendation

We recommend that the City consider developing an automatic interface between the HTE and PeopleSoft systems to ensure utility revenue is accurately captured and reported in the financial statements reducing the risk of a misstatement occurring during the manual reconciliation process.

Status

The City continues to agree with this recommendation and ultimately intends to make this a reality.

A new accountant-auditor is currently identifying needs for interfacing. The SunGard application will provide flat file to PeopleSoft. The largest challenge is assuring proper mapping, as transactions currently post on a cash basis (A/R at end of fiscal year), and the interface will migrate this process to an accrual basis. Target implementation date is June 15, 2015.