

**CITY OF GLENDALE**  
**SINGLE AUDIT REPORT**  
**JUNE 30, 2004**



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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*

To the Honorable Mayor and  
Members of the City Council  
Glendale, California

We have audited the financial statements of the City of Glendale (the City) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 10, 2004 (except for note (III-D), as to which the date is March 13, 2005). We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls over financial reporting that, in our judgment adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions have been communicated to the City's management in a separate letter dated March 20, 2005 as items 2004-1 through 2004-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that finding 2004-01 described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, the Honorable Mayor and Members of the City Council, management of the City of Glendale, federal and state awarding agencies and pass-through entities, and is not intended to be and used by anyone other than these specified parties.

*Varronek, Tami, Day & Co, LLP*

Rancho Cucamonga, California  
November 10, 2004 (except for  
finding 2004-1, as to which the date  
is March 13, 2005)



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

To the Honorable Mayor and  
Members of the City Council  
City of Glendale, California

Compliance

We have audited the compliance of the City of Glendale, California, (the City) with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of the City's major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters of internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Glendale as of and for the year ended June 30, 2004, and have issued our report thereon dated November 10, 2004 (except for note (III-D), as to which the date is March 13, 2005). Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Audit Committee, the Honorable Mayor and Members of the City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

*Vavermik, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
November 10, 2004



**CITY OF GLENDALE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Entity or Grant Identifying Number	Program Expenditures
<b>Federal</b>			
U.S. Department of Health and Human Services:			
Pass-through Los Angeles County Department of Community and Senior Citizens Services:			
Integrated Cash Management	93.042	CJ41848	\$ 102,746
Special Programs for the Aging-Title III, Part B	93.044	CJ41969	906
Special Programs for the Aging-Title III, Part C	93.045	CJ41969	<u>181,589</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>285,241</u></b>
U.S. Department of Agriculture:			
Pass-through Los Angeles County Department of Community and Senior Citizens Services:			
Food Distribution Program	10.570	CJ41969	<u>26,848</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Home Investment Partnership Act	14.239	M-03-MC-16-0512	<u>1,520,209</u>
Community Development Block Grant Entitlement Program	14.218	B-03-MC-06-0518	<u>3,687,292</u>
Emergency Shelter Grants Program	14.231	S-03-MC-06-0518	<u>139,527</u>
Supportive Housing Program-HMIS	14.235	CA16B11-2004	18,382
Supportive Housing Program-YWCA Step Ahead-Renewal	14.235	CA16B91-2002	112,268
Supportive Housing Program-Life Skills	14.235	CA16B81-2002	6,565
Supportive Housing Program-Street Outreach-Renewal	14.235	CA16B01-2001	23,565
Supportive Housing Program-Housing Placement Program	14.235	CA16B01-2002	46,593
Supportive Housing Program-Homeless Employment Project	14.235	CA16B01-2003	32,629
Supportive Housing Program-Substance Abuse Treatment Program	14.235	CA16B01-2004	33,492
Supportive Housing Program-Community Health Clinic of Glendale	14.235	CA16B01-2005	5,363
Supportive Housing Program-Hamilton Court Transitional	14.235	CA16B01-2006	169,284
Supportive Housing Program-			
Scatter Site Family Transitional Housing	14.235	CA16B11-2002	11,396
Supportive Housing Program-Veteran Outreach	14.235	CA16B11-2003	22,749
Supportive Housing Program-Street Outreach Expansion Program	14.235	CA16B11-2005	84,540
Supportive Housing Program-Gle Street Outreach Program	14.235	CA16B21-2002	104,374
Supportive Housing Program-Street Outreach Expansion	14.235	CA16B21-2003	75,812
Supportive Housing Program-Veteran Outreach	14.235	CA16B21-2004	65,288
Supportive Housing Program-Hamilton Court	14.235	CA16B21-2005	103,374
Supportive Housing Program-Substance Abuse Treatment Program	14.235	CA16B21-2006	49,981
Supportive Housing Program- Life Skills/Mental Health	14.235	CA16B21-2007	58,731
Supportive Housing Program-Homeless Employment Project	14.235	CA16B21-2009	85,207
Supportive Housing Program-Housing Placement Program	14.235	CA1621-2010	45,765
Supportive Housing Program- Community Health Clinic of Glendale	14.235	CA16B21-2011	33,546
Supportive Housing Program- Freedom House	14.235	CA16B31-2011	550
Supportive Housing Program-Family Transitional Housing	14.235	CA16B21-2012	<u>151,343</u>
<b>Subtotal</b>			<b><u>1,340,797</u></b>

[1] Denotes major program

See Accompanying Notes to Schedule of Expenditures of Federal and State Awards.

**CITY OF GLENDALE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Entity or Grant Identifying Number	Program Expenditures
<b>Federal, Continued</b>			
Special Needs Assistance-1998 Shelter Care Plus Grant	14.238	CA16C81-2001	\$ 79,050
Special Needs Assistance-1999 Shelter Care Plus Grant	14.238	CA16C91-2001	78,576
Special Needs Assistance-2001 Shelter Care Plus Grant	14.238	CA16C11-2001	2,671
			<u>160,297</u>
Section 8-Housing Assistance-Voucher Program [1]	14.871	CA114V	12,558,294
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>19,406,416</b></u>
<b>U.S Department of Labor</b>			
H-1B Technical Skill Training 2000-2002	17.261	AH-10848-00-60	31,782
Pass-through State of California Employment Development Department.:			
JTPA 85% Formula Welfare to Work 1999-2003	17.253	W965843	49,905
WIA Adult 2003-2005	17.258	R485318	420,732
WIA Dislocated Worker 2003-2005	17.260	R485318	432,549
WIA Youth 203-2005	17.259	R485318	308,234
WIA Rapid Response 2003-2005	17.260	R485318	7,606
			<u>1,169,121</u>
WIA Adult 2002-2004	17.258	R380546	349,869
WIA Dislocated Worker 2002-2004	17.260	R380546	312,899
WIA Youth 2002-2004	17.259	R380546	317,038
WIA Rapid Response 2002-2004	17.260	R380546	106,191
WIA Rapid Response (Tech to Teach) 2002-2004	17.260	R380546	64,489
			<u>1,150,486</u>
WIA Rapid Response 2001-2003	17.260	R275880	129,501
Pass-through City of Hawthorn: PAN (SCAIP-527)	17.261	03-H155	14,000
Pass-through State of California Department of Education: CDE Literacy Grant	84.002	19-V341	26,550
<b>Total U.S Department of Labor</b>			<u><b>2,571,345</b></u>
<b>U.S. Department of Justice:</b>			
Direct Programs:			
Law Enforcement Block Grant	16.592	2000LBBX0557	17,115
Law Enforcement Block Grant	16.592	2001 LBBX3009	159,309
COPS Ahead-Universal Hiring	16.710	95CCWXOO02	289,155
			<u>465,579</u>
2001 Nunn-Lugar-Domenici Domestic Preparedness Equipment Program	16.006	2002-TE-CX-0065	66,906
Pass-through Los Angeles County: 2000-01 OJP Equipment Grant	16.007	2002-AA	15,936
<b>Total U.S Department of Justice</b>			<u><b>548,421</b></u>

[1] Denotes major program

See Accompanying Notes to Schedule of Expenditures of Federal and State Awards.

**CITY OF GLENDALE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Entity or Grant Identifying Number	Program Expenditures
<b>Federal, Continued</b>			
<b>U.S. Department of Transportation</b>			
Pass-through State Department of Transportation:			
SR134& San Fernando Phase II	20.205	PBNO-07-9814	\$ 582,078
Hazard Elimination Safety	20.205	STPLH-5144	1,116
<b>Total U.S. Department of Transportation</b>			<b>583,194</b>
<b>Federal Emergency Management Agency:</b>			
2002 Assistance to Firefighters Act.	85.554	EMW-2002-FG-11780	7,623
Pass-through State Office of Emergency Services:			
FEMA Public Open Space Vegetation Management Unit	83.548	1005-DR-CA-OES-54	26,523
<b>Total Federal Emergency Management Agency</b>			<b>34,146</b>
<b>Department of Homeland Security</b>			
Pass-through Governor's Office of Emergency Services			
Sylmar Generation Retrofit [1]	97.036	037-30000	4,093,990
Pass-through Los Angeles:			
FY 2003 State Homeland Security Grant	97.067	2003-167	1,705
FY 02 State Domestic Preparedness	97.067	2002-133	106,931
FY 2003 Part 2 State Homeland Security Grant	97.067	2003-35	106,500
			215,136
<b>Total Department of Homeland Security</b>			<b>4,309,126</b>
<b>Institute of Museum and Library Services</b>			
Pass-through California State Library:			
Reach Out and Read Grant	45.310	40-5980	2,501
Public Library Staff Education Program	45.310	40-5902	8,780
Senior Internet Training Video	45.310	40-5641	870
Library Services for People with Disability	45.310	40-5806	3,164
<b>Total Institute of Museum and Library Services</b>			<b>15,315</b>
<b>Environmental Protection Agency</b>			
Vulnerability Assessment and Security Improvements at Water Utilities	66.476	HS-82991401	108,974
Chromium 6 Removal Studies	66.606	X-97947901	408,298
<b>Total Environmental Protection Agency</b>			<b>517,272</b>
			<b>\$ 28,297,324</b>
<b>STATE</b>			
Office of Criminal Justice Planning:			
California Law Enforcement Technology Equipment Purchase Program	N/A	L099016763	45,502
California Law Enforcement Technology Equipment Purchase Program	N/A	L099016763	44,336
<b>Total Office of Criminal Justice Planning</b>			<b>\$ 89,838</b>

[1] Denotes major program

See Accompanying Notes to Schedule of Expenditures of Federal and State Awards.

**CITY OF GLENDALE**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
JUNE 30, 2004**

***NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**A. Basic of Presentation**

The accompanying schedule of expenditures of federal and state awards (Schedule) includes the Federal and applicable State grant activity of the City of Glendale, California (the City) and is presented on the modified-accrual basis of accounting which is described in the notes to the City's basic financial statements. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**B. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified-accrual basis of accounting, which is described in Note #1 to the City's financial statements.

**C. Relationship to Basic Financial Statements**

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements.

Federal award revenues are reported principally in the City's financial statements as revenue from other agencies in the General, Special Revenue Funds, and Enterprise Funds.

**D. Relationship to Federal Financial Reports**

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, with the amounts reported in the related federal financial reports.

**E. Outstanding Loans**

At June 30, 2004, outstanding loans under the Department of Housing and Urban Development – Section 108 are \$1,700,000.

**CITY OF GLENDALE**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
JUNE 30, 2004**

**F. Amount Provided to Subrecipients**

Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Award Expenditures</u>
Community Development Block Grant	14.218	\$ 644,644
Workforce Investment Act	17.259	<u>612,426</u>
Total Amount Provided to Subrecipients		<u>\$ 1,257,070</u>

**G. Office of Criminal Justice Planning Disclosures**

The expenditures incurred under the California Law Enforcement Technology Equipment Purchase Program, Grant No. L099016763 for the year ended June 30, 2004, were for police equipment upgrades in the amount of \$89,838.

**CITY OF GLENDALE**

**SUMMARY OF AUDITORS' RESULTS  
YEAR ENDED JUNE 30, 2004**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>Yes</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>14.871</u>	<u>Section 8 - Housing Assistance</u>
<u>97.036</u>	<u>Sylmar Generation Retrofit</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 794,920</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

## CITY OF GLENDALE

### SCHEDULE OF FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS JUNE 30, 2004

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Audit Standards*.

#### CAPITAL ASSETS

##### 2004-1 Finding

During our examination of the City's capital assets, it was noted the City does not maintain adequate procedures to:

1. Reconcile the fixed asset subsidiary ledgers to the general ledger on a periodic basis:
  - As a result of our testwork, we noted several substantial reconciling differences between the City's fixed asset subsidiary ledger and the general ledger. The differences were coded in the general ledger as "Reconcile GL to Barscan". The City could not provide adequate supporting documentation to validate the reconciling adjustments. After the City's analysis of the reconciling items, a difference of \$9,037,478 affecting the prior balances was noted to exist between the fixed asset sub ledger and the general ledger for the City's governmental fixed assets. We also noted material differences in the City's Enterprise Funds including the Sewer Fund, the Refuse Fund and the Parking Fund. The City posted audit adjustments to correct each of the Enterprise Fund differences.
2. Identify and record fixed asset additions including construction in progress on a timely basis:
  - As a result of our testwork, we noted the City was approximately one-year behind in recording its current year construction in progress and capital asset additions and deletions. As a result, the City was required to devote a substantial amount of time and effort to properly record and reconcile the fixed asset subledger to the general ledger.
3. Account for and track fixed asset disposals:
  - The City retired approximately \$11 million in property and equipment but did not maintain detailed records or consistently record the related loss or gain in its general ledger. Additionally, retirements were not authorized by a person with appropriate authority (in some instances, the fixed asset clerk determines what assets should be retired based on his internal review).
4. Maintain compliance with establish capitalization policies and procedures:
  - As a result of our testwork, we noted the City charged off approximately \$8,500,000 in Governmental capital assets that represents assets with individual historical cost values below the City's \$5,000 capitalization threshold. It is noted the City's capitalization threshold policy was established in the prior year and those assets charged off were acquired in prior fiscal years.

## CITY OF GLENDALE

### SCHEDULE OF FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS JUNE 30, 2004

5. Periodically inspect to ensure that recorded assets exist:
- A fundamental element of an effective system of internal controls is proper controls over fixed assets. The City has not performed a certification process to verify their assets at the department level. In addition, the City has not performed random inspections in the last four years to ensure the tagging assets.

As a result, the balances and amounts reported for fixed assets and depreciation may not be fairly presented or recorded. It is also noted the above differences and adjustments were not recorded or corrected by the City.

#### Recommendation

We recommend that the City develop internal procedures to adequately track the additions and deletions of all City-wide capital assets. In addition, these procedures should include reconciling the City's general ledger to subsidiary ledgers on a monthly basis as well as perform periodic inventories of its capital assets.

#### City's Responses

- We do not agree that this is a material weakness since Capital Assets are not an integral part of any financial management decision.
- In prior years our capitalization threshold was \$1,000. Accordingly we booked those assets and are currently depreciating them. Two years ago we increased the limit to \$5,000 but the assets that were already on the books at the time remained and are being depreciated. When they run their useful life thru depreciation then they will be off the books.
- We agree with the recommendation that we need to perform an inventory of our assets. Once the fixed asset sub-system is current then we plan on performing an inventory check.

### MONTHLY AND PERIOD-END CLOSING

#### 2004-2 Finding

The City did not reasonably close its general ledger and trial balances as of June 30, 2004. As a result, the City is required to post material adjustments to many balance sheet and revenue/expenditure accounts in order to conform to generally accepted accounting principles. In addition we noted that some of the year-end closing entries did not have the appropriate level of review.



**CITY OF GLENDALE**

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2004**

Recommendation

Prudent accounting practices require general ledger accounts to be reconciled on a periodic basis to ensure that balance sheet and revenue/expenditure accounts are properly stated. In addition, closing procedures are utilized to properly record infrequent transactions and analyze activity to reduce to a relatively low level that material misstatements have not occurred.

We recommend that the City develop monthly and annual closing procedures to ensure that general ledger accounts reflect proper and complete activity consistent with their basis of accounting.

City's Response

We do have monthly and year-end procedures that have been in place for many years. Fiscal year 2004 was a difficult year due to the financial system upgrade, which occurred in September 2004, involving a one-year effort by key accounting personnel. This upgrade, in essence, caused an accounting staff shortage.

**LONG-TERM DEBT MANAGEMENT**

2004-3 Finding

During our examination of the City's long-term debt, it is noted that on August 1, 2003, the City failed to make a scheduled interest payment for its 2003 GWP Electric Revenue Bonds. As a result, the Bond's trustee was forced to utilize cash maintained in the reserve accounts established at the time of the bond issuance. According to the bond covenants for the 2003 Bonds, the City is required to maintain a reserve amount of \$1,070,383. It is noted the trustee transferred \$263,218 from the 2003 Bond's reserve account to cover the shortage of funds available to pay the total interest due. As a result, we noted that the City is not in compliance with the cash reserve requirements for the 2003 GWP Electric Revenue Bonds. We also noted the City may be in non-compliance with the reserve covenant for its 2002 GRA Tax Allocation Bonds. At June 30, 2004, the City's cash reserve funds held with fiscal agents for the 2003 GWP Bonds and the 2002 GRA Bonds were deficient by \$263,000 and \$50,000, respectively. In response to the City's non-compliance with its debt reserve requirement, the finance department recorded a post-closing journal entry, increasing cash with fiscal agent equal to the debt covenant reserve deficiency, and increasing a liability account. It is noted that this post-closing adjustment effectively created cash in order to present compliance on the Agency's general ledger.

**CITY OF GLENDALE**

**SCHEDULE OF FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2004**

Recommendation

We recommend that the City implement policies and procedures to ensure the City maintain compliance with all of its debt covenants and timely submission of debt service payments. Additionally, all entries made by the Accounting Manager should be reviewed and approved by the Assistance Finance Director or person with similar supervisory responsibilities. Adequate documentation should be attached to the entry so that an effective review can be performed. Implementation of review and approval procedures will reduce errors in the general ledger and improve financial reporting.

City's Response

The City of Glendale has \$12 million in debt service expenditures for 2004. We believe that \$263,000 and \$50,000 are minimal in relation to the \$12 million. We agree that we need to update our procedures for debt service and provide more oversight in that area.

**CITY OF GLENDALE**

**SCHEDULE OF FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2004**

There were no findings representing reportable conditions, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

**CITY OF GLENDALE**

**SCHEDULE OF STATE AWARDS FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2004**

There were no findings representing instances of noncompliance or questioned costs relating to state program laws and regulations.

**CITY OF GLENDALE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2004**

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior audit's schedule of financial statement findings.

**ENERGY TRADING RECONCILIATION**

2003-1 Finding

Monthly reconciliations of the Electric Fund's "energy trading system" with the City's financial system are not being performed. The current energy trading system is not integrated with the City's financial system. Consequently, reconciliations between the two systems are necessary to ensure the complete and proper recording of energy trading transactions. This is a repeat condition that was previously reported in connection with the audit of the City's basic financial statements for the year ended June 30, 2002.

Working with the City's internal audit function, a reconciliation of the June 2003 energy trading activity with the financial system was performed. The reconciliation revealed discrepancies. Specifically, there was a significant underaccrual of revenue, and revenue and expense transactions with the same counterparty were reported net (offset against one another) thereby understating actual revenue and expense transactions.

Recommendation

The City's internal audit function has formally recommended corrective actions. We concur with those recommendations, which include performing reconciliations between the Henwood Energy Trading System and the PeopleSoft Financial System. We urge management to deploy the necessary resources to implement the corrective actions in full by June 30, 2004.

Current Status

Implemented

**DEPRECIATION**

2003-2 Finding

Errors in computing depreciation and accumulated depreciation for non-infrastructure capital assets of governmental activities as of July 1, 2001, were discovered by finance staff during their closing procedures for the year ended June 30, 2003. This discovery resulted in a significant restatement of the City's net assets of governmental activities as previously reported at June 30, 2002.

While the errors were due largely to implementation/usage difficulties with the software program for computing depreciation, the sizable error was not detected in the normal course of the Finance Department's review process.

**CITY OF GLENDALE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2004**

Recommendation

Management should determine if the software is capable of functioning in a manner that will allow for capital asset reporting, including associated depreciation, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Furthermore, management should confirm that personnel who use the software are familiar with its functionality and the capital asset requirements of GMP. In addition, the Finance Department should consider if any change to its internal review processes for detecting errors is necessary.

Current Status

Not implemented

**ACCOUNTS PAYABLE/ACCRUED EXPENSES CUTOFF**

2003-3 Finding

During our search for unrecorded liabilities, we noted several instances in which invoices/billings for goods or services provided to the City prior to June 30, 2003, have not been submitted to the Finance Department in a timely fashion and thus were not recorded as payables at year-end. Proper cutoff is critical for budgetary compliance and the accuracy of accrual basis accounting.

Recommendation

The City Manager's Office should formally remind other departments of their need to forward invoices to Finance in a timely manner.

Current Status

Implemented