

City of El Paso, Texas

Single Audit Reports

Year Ended August 31, 2008



City of El Paso, Texas
Year Ended August 31, 2008

Contents

Schedule of Expenditures of Federal and State Awards	1
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and the State of Texas <i>Uniform Grant Management Standards</i>	11
Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal and State Awards Programs and Schedule of Expenditures of Federal and State Awards	13
Schedule of Findings and Questioned Costs.....	16
Summary Schedule of Prior Audit Findings.....	23

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
High Intensity Drug Trafficking Areas	Executive Office of the President Office of National Drug Control Policy	7.000	I5PSWP574 (Sting)	\$ 11,949
			I5PSWP574 (Sting-RDI)	656
			I6PSWP574 (Sting)	49,380
			I7PSWP574 (Sting)	172,786
			I7PSWP574 (Stash House)	64,405
			I7PSWP574 (Enterprise)	5,400
			I7PSWP574 (Transportation)	7,725
			I7PSWP574 (OCDETF)	6,000
			SW-TXW-0433 (OCDETF)	12,570
			I8PSWP574 (Intelligence)	57,458
			I8PSWP574 (Multi Agency)	18,437
			I8PSWP574 (Transportation)	3,402
			I6PSWP574 (Intelligence Initiative)	2,825
			I8PSWP574 (Fugitive)	1,200
			I8PSWP574 (Sting)	365,335
			I8PSWP574 (Stash House)	196,241
			I6PSWP574 (Multi Agency)	11,190
			I8PSWP574 (Enterprise)	6,617
			I6PSWP574 (Stash House)	2,356
			I6PSWP574 (Transportation)	2,915
			I7PSWP574 (OCDETF)	1,690
			I7PSWP574 (Sting)	813,799
			I7PSWP574 (Intelligence)	92,077
I7PSWP574 (Stash House)	204,654			
I7PSWP574 (Multi Agency)	171,702			
I7PSWP574 (Enterprise)	12,872			
I7PSWP574 (Transportation)	9,523			
I7PSWP574 (Fugitive)	<u>12,418</u>			
				2,317,582
Special Supplemental Nutrition Program for Women, Infants, and Children	U.S. Department of Agriculture/ Texas Department of State Health Services	10.557	2007-020878-001 (Admin)	556,387
			2007-020878-001 (Breastfeeding)	53,759
			2007-020878-001 (Nutrition)	331,186
			2008-024651-001 (Admin)	3,582,969
			2008-024651-001 (Breastfeeding)	211,216
			2008-024651-001 (Nutrition)	<u>1,156,105</u>
				5,891,622
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installment	U.S. Department of Defense	12.607	RA0619-07-01	336,638

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Community Development Block Grants/Entitlement Grants	U.S. Department of Housing and Urban Development	14.218	B-02-MC-48-0015	459,266
			B-03-MC-48-0015	350
			B-04-MC-48-0015	92,471
			B-05-MC-48-0016	143,545
			B-06-MC-48-0016	3,125,291
			B-07-MC-48-0016	<u>4,424,174</u>
				8,245,097
Emergency Shelter Grants Program	U.S. Department of Housing and Urban Development	14.231	S-07-MC-48-0005	371,461
Supportive Housing Program	U.S. Department of Housing and Urban Development	14.235	TX01B902001	71,459
Home Investment Partnerships Program	U.S. Department of Housing and Urban Development	14.239	M-03-MC-48-0213	3,068,742
			M-04-MC-48-0213	34,816
			M-05-MC-48-0213	196,780
			M-06-MC-48-0213	11,463
			M-07-MC-48-0213	<u>420,351</u>
				3,732,152
Empowerment Zones Program	U.S. Department of Housing and Urban Development	14.244	EZ99TX0013	<u>270,222</u>
	Total U.S. Department of Housing and Urban Development			<u>12,690,391</u>
Juvenile Accountability Block Grants	U.S. Department of Justice/ Governor's Office of Criminal Justice	16.523	JB-05-J20-13359-08	611
			JB-06-J20-13359-09	16,019
			1335910	<u>2,121</u>
				18,751
Part E - Developing, Testing, and Demonstrating Promising New Programs	U.S. Department of Justice	16.541	2006RGCX0007	98,723
Crime Victim Assistance	U.S. Department of Justice	16.575	VA-06-V30-13590-08	1,538
Crime Victim Compensation	U.S. Department of Justice/ Office of the Attorney General	16.576	06-01454	1,966
			07-00337	<u>(30)</u>
				1,936

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Crime Victim Assistance/Discretionary Grants	U.S. Department of Justice/ Office of the Attorney General	16.582	06-01918.A 08-02413	(3,374) <u>50,246</u> 46,872
Violence Against Women Formula Grants	U.S. Department of Justice	16.588	WF-06-V30-13413-09 WF-07-V30-13413-10	13,196 <u>67,466</u> 80,662
Local Law Enforcement Block Grant	U.S. Department of Justice	16.592	N/A	(9,551)
Bulletproof Vest Partnership Program	U.S. Department of Justice	16.607	N/A	9,100
Public Safety Partnership and Community Policing Grants	U.S. Department of Justice	16.710	95CCWX0207 2002CLWX0009 2003-CKWX-0444 2005-VTBX-0014 2005CKWX0222 2005CKWX0221 2005CKWX0432 2007CKWX0186	93,057 6,195 49 55,406 246,661 246,661 59,091 <u>40,819</u> 747,939
Edward Byrne Memorial Justice Assistance Grant Program	U.S. Department of Justice	16.738	2005-DJ-BX-0289 2006-DJ-BX-0121	22,587 <u>24,543</u> 47,130
Total U.S. Department of Justice				<u>1,043,100</u>
Safe Routes to Schools	U.S. Department of Transportation	20.000	N/A	317,434
Airport Improvement Program	U.S. Department of Transportation	20.106	AIP3-48-0077-2002	4,211,172
Highway Planning and Construction	U.S. Department of Transportation/ State Department of Highways and Public Transportation	20.205	N/A	1,650,032
Federal Transit Formula Grants	U.S. Department of Transportation	20.507	Various	19,568,337

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
State and Community Highway Safety	U.S. Department of Transportation/ State Department of Highways and Public Transportation	20.600	585XXF6045	20,853
			585XXF6175	(7,908)
			586XXF6027	6,479
			586XXF9199	(12)
			587XXF6001	21,251
			587XXF6048	43,439
			587XXF6107	227
			587XXF6126	11,220
			587XXF6174	16,330
			588EGF6034	508,225
			588EGF6368	18,048
			588XXF6166	76,278
				<u>714,430</u>
				<u>26,461,405</u>
Promotion of the Arts Grants to Organizations and Individuals	National Endowment for the Arts	45.024	29276	6,497
			07-28111	9,823
			N/A	51,554
				<u>67,874</u>
Promotion of the Arts Partnership Agreements	National Endowment for the Arts	45.025	07-6200-7034	10,000
			N/A	24,828
				<u>34,828</u>
				<u>102,702</u>
Promotion of the Humanities Federal/State Partnership	National Endowment for the Humanities	45.129	N/A	4,481
Promotion of the Humanities Public Programs	National Endowment for the Humanities	45.164	N/A	589
	Total National Endowment for the Humanities			<u>5,070</u>
Grants to States	Institute of Museum and Library Services/ Texas State Library	45.310	470-06-005	(342)
			470-07-005	1,501
			470-08005	279,635
			476-05-015	(381)
			476-07-015	75,345
				<u>355,758</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Air Pollution Control Program Support	U.S. Environmental Protection Agency/Texas Commission on Environmental Quality	66.001	582-5-55886	639
			582-6-72616	32,531
			582-6-74391	17,034
			582-7-72670	(6,133)
			585-5-55865	1,623
			A-006154-06-0	30,851
			A-006154-07-0	(24,258)
			EPA Air Pollution	39,043
			EPA Air Quality	31,119
			EPA Juarez Monitoring	30
			TCEQ Whole Air Pollution	207,051
			TCEQ Air Quality	270,045
			TCEQ Pass Thru	91,403
TCEQ PM Sampling	57,117			
	USMBHA MEDIA EDU GRANT		(95)	
			<u>748,000</u>	
Brownfields Hazardous Assessment Grant	U.S. Environmental Protection Agency/Texas Commission on Environmental Quality	66.818	BF-9666030-1	8,478
			BF-9666040-1	37,698
			N/A	(867)
				<u>45,309</u>
Total U.S. Environmental Protection Agency				<u>793,309</u>
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Department of Health and Human Services	93.116	2007-021980, Attach 001	59,082
			2008-025298, Attach 001	162,943
			7460007499-2007-01	(10,882)
			<u>211,143</u>	
Substance Abuse and Mental Health Services Projects of Regional and National Significance	Department of Health and Human Services	93.243	N/A	(2,500)
Immunization Grants	Centers for Disease Control/ Texas Department of State Health Services	93.268	N/A	4,327,693

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Centers for Disease Control and Prevention Investigations and Technical Assistance	Department of Health and Human Services	93.283	7460007499-2006-08 N/A	6,473 <u>153,406</u> 159,879
Health Care and Other Facilities	Department of Health and Human Services	93.887	529-07-0105-00024 2008-022928, Attach 001 2008-022962, Attach 001 7460007499-2006-07 N/A	194,983 1,141,284 239,192 (158,960) <u>73,806</u> 1,490,305
HIV Prevention Activities Health Department Based	Department of Health and Human Services	93.940	N/A	(18,263)
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Department of Health and Human Services	93.944	2007-021867, Attach 001 2008-025433, Attach 001 7460007499-2005-01	9,480 129,304 <u>135,037</u> <u>273,821</u>
Total U.S. Department of Health and Human Services				<u>6,442,078</u>
Retired and Senior Volunteer Program	Corporation for National and Community Service/ Texas Department of Aging	94.002	04SRWTX016 05SRWTX007	118,617 <u>6,442</u> 125,059
Foster Grandparent Program	Corporation for National and Community Service/ Texas Department of Aging	94.011	04SFWTX008 07SFWTX005	29,586 <u>475,217</u> <u>504,803</u>
Total Corporation for National Community Service				<u>629,862</u>
State Domestic Preparedness Equipment Support Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.004	EMW-2004-FG-07278	(380)
State and Local Homeland Security Training Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.005	2006-GE-T6-0068	497,812

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Urban Areas Security Initiative	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.008	2007-GE-T7-0024	821,490
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.036	DR-1658-TX	13
Emergency Management Performance Grant	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.042	N/A	195,858
Assistance to Firefighters Grant	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.044	N/A	846,404
Metropolitan Medical Response Support	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.071	EMW-2003-FP-02038 EMW-2004-FP-02039 2005 GE-T5-4025 N/A	296 12,508 15,989 <u>53,711</u> 82,504
National Explosives Detection Canine Team Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.072	N/A	493,590
State Homeland Security Program (SHSP)	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.073	2004 SHSP - 24000	10
Law Enforcement Terrorism Prevention Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.074	2004-GE-T4-0015 N/A	(10) <u>820</u> 810
Buffer Zone Protection Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.078	2005-BZPP-24000	<u>26,650</u>
	Total U.S. Department of Homeland Security			<u>2,964,761</u>
Total Federal Awards Expended				<u>60,034,278</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

Granting Agency/Grant Program	Grant or Identifying Number	Amount Expended
Texas State Library & Archive Commission		
E-Rate Library Funds	N/A	\$ 70,252
Loan Star Libraries Grant	442-07153	(263)
Loan Star Libraries Grant	N/A	89,800
		<u>159,789</u>
Texas Department of Aging		
Foster Grandparent Program	05SRWTX024	(90)
Retired Seniors Volunteer Program	07FZWTX005	5,000
Retired Seniors Volunteer Program	07RZWTX019	32,129
		<u>37,039</u>
Department of State Health Services		
TDH Tuberculosis	2008-023236, Attach 001	334,733
TDH Tuberculosis	7460007499-20056-07A	187,782
Medical Institute	N/A	43,853
HIV Surveillance	2008-023754, Attach 001	25,838
HIV Surveillance	7460007499B-2007	(13,650)
TDH Office Regional Planning	2008-024517, Attach 001	190,643
Immunizations FY06 DSH	2008-023559, Attach 001	912,155
Immunizations FY07 DSH	2007-021270, Attach 003B	(200,378)
CHS - Fee for Service FY07	2007-020437-001	(1,810)
CHS - Family Planning FY07	2007-020437-002	114
Title V FEES _ Carryover	N/A	(71,447)
Title V FEES _ Carryover	2008-024169, Attach 001	41,504
CHS Population Based FY07	2006-020403-001	6,589
CHS Population Based FY08	2008-022986, Attach 001	255,624
Environmental Health Group	2007-022828-001	2,053
Environmental Health Group	N/A	(16)
Border Health Dental	N/A	(316)
RLSS-LPHS FY07	7460007499B-2007, Attach 01	4,746
Zoonosis	N/A	3,170
		<u>1,721,187</u>
Texas Automobile Theft Prevention Authority		
ATPA Border Partners	SA-T01-10050-07	71,170
ATPA Border Partners	SA-T01-10050-08	965,238
		<u>1,036,408</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

<u>Granting Agency/Grant Program</u>	<u>Grant or Identifying Number</u>	<u>Amount Expended</u>
Operation Wrangler		(41,601)
Internet Crimes Against Children	Pass through City of Dallas	(30)
Texas Forest Service	Arborist 02-11-07	1
Division of Emergency Management/ Office of the Governor		
Local Border Security Protection		1,097,879
Border Star 3		373,084
		<u>1,470,963</u>
Total State Awards Expended		<u>4,383,756</u>
Total Federal and State Awards Expended		<u>\$ 64,418,034</u>

Notes to Schedule

1. This schedule includes the federal and state awards activity of all federal and state financial assistance programs of the City of El Paso, Texas, and is presented on the cash basis of accounting, except for the FAA Airport Improvement grant and the FTA Capital and Planning grants, which use the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The accompanying schedule of expenditures of federal and state awards presents activity of all federal and state financial assistance programs of the City for the year ended August 31, 2008, except for the financial assistance received by the Public Service Board – El Paso Water Utilities. The City’s reporting entity is defined in note 1(A) of the City’s basic financial statements. Federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other entities, are included on the schedule of expenditures of federal and state awards.

2. Amounts reported in the accompanying schedule of expenditures of federal and state awards may not agree with the amounts reported in the related federal and state financial reports filed with grantor agencies because of accruals that would be included in the subsequent reports filed with the agencies.
3. The Texas Department of Health provided vaccines to the El Paso City – County Health Department. All vaccines are funded by the Center for Disease Control in the amount of \$4,327,693 as shown in the schedule of expenditures of federal and state awards, CFDA No. 93.268.

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2008

4. Of the federal and state expenditures presented in this schedule, the City provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
Community Development Block Grant/Entitlement Grants	14.218	Various	\$ 1,314,351
Emergency Shelter Grants Program	14.231	Various	371,461
Supportive Housing Program	14.235	Various	71,459
			<u>\$ 1,757,271</u>

No State of Texas funds were passed through to subrecipients in 2008.

5. The City administers federal loan programs. These programs are initiated with a grant of federal funds and are sustained after the original money is distributed in loans by using principal payments for subsequent loans to qualified borrowers. The interest received is considered to be program income and is used to pay administrative costs associated with the programs as well as for subsequent loans. As of August 31, 2008, outstanding principal balances of these loans were as follows:

Federal Grantor/Program Title	CFDA Number	Loans Receivable Principal
Department of Housing and Urban Development:		
Community Development Block Grant/Entitlement Grants	14.218	\$ 16,410,707
Home Investment Partnerships Program	14.239	24,551,157
Empowerment Zones Program	14.244	2,884,603
		<u>\$ 43,846,467</u>
Total revolving loans		<u>\$ 43,846,467</u>

6. During fiscal year ended August 31, 1992, the City received a \$3,000,000 federal loan for construction work on the International Zaragosa Bridge. The balance of the loan at August 31, 2008 is \$1,350,000.
7. The accompanying schedule reflects certain adjustments resulting from fiscal adjustments to closed grants and transfers between grants. As a result, certain grants show negative expenditures.
8. Federal and state financial assistance programs are reported in the City's financial statements primarily in the Community Development Block Grants and Non-Major Governmental Funds. Certain programs are included in the enterprise funds, of which certain grants are reported as capital contributions in the Income (Loss) Before Capital Contributions and Transfers section of the Statement of Revenue, Expenses, and Changes in Fund Net Assets (Deficit) Proprietary Funds.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards and the State of Texas Uniform Grant
Management Standards**

The Honorable Mayor and Members of the City Council
City of El Paso, Texas
El Paso, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of El Paso, Texas (the City) as of and for the year ended August 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 27, 2009, which contained a reference to the reports of other accountants and contained an explanatory paragraph regarding changes in accounting principles. 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 and the State of Texas *Uniform Grant Management Standards*, issued by the Governor's Office of Budget and Planning. The financial statements of the El Paso City Employees' Pension Fund, a component unit included in the financial statements of the aggregate remaining fund information, were not audited in accordance with *Government Auditing Standards* and the State of Texas *Uniform Grant Management Standards*. Other accountants audited the financial statements of the El Paso Firemen and Policemen's Pension Fund and the Public Service Board - El Paso Water Utilities, as described in our report on the City's financial statements. This report does not include the results of the other accountants' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those accountants. The financial statements of the El Paso Firemen and Policemen's Pension Fund, a component unit included in the financial statements of the aggregate remaining fund information, were not audited in accordance with *Government Auditing Standards* and the State of Texas *Uniform Grant Management Standards*. The financial statements of the Public Service Board - El Paso Water Utilities were not audited in accordance with the State of Texas *Uniform Grant Management Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

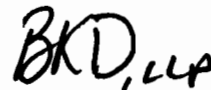
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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*.

We noted certain matters that we reported to the City's management in a separate letter dated February 27, 2009.

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



February 27, 2009

Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal and State Awards Programs and Schedule of Expenditures of Federal and State Awards

The Honorable Mayor and City Council
City of El Paso, Texas
El Paso, Texas

Compliance

We have audited the compliance of the City of El Paso, Texas (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the State of Texas *Uniform Grant Management Standards* that are applicable to each of its major federal and state programs for the year ended August 31, 2008. The City's major federal and state programs are identified in the summary of 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 and state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of the City based on our audit.

The City's basic financial statements include operations of the Public Service Board –El Paso Water Utilities (EPWU), a discretely presented component unit of the City, which received \$2,713,373 in federal awards which are not included in the schedule during the year ended August 31, 2008. Our audit, described below, did not include the operations of the EPWU because the component unit engaged other accountants to perform the audit in accordance with OMB Circular A-133.

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*, and the State of Texas *Uniform Grant Management Standards*. 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 or state 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.

As described in item 2008-02 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding subrecipient monitoring that are applicable to its Empowerment Zone Grant major federal program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-01. The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported under the State of Texas *Uniform Grant Management Standards*.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-01 and 2008-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the City's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal 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 of the City of El Paso, Texas as of and for the year ended August 31, 2008, and have issued our report thereon dated February 27, 2009, which contained a reference to the reports of other accountants and contained an explanatory paragraph regarding changes in accounting principles. Our audit was performed

for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State of Texas *Uniform Grant Management Standards* 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.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, CP

May 11, 2009

City of El Paso, Texas
Schedule of Findings and Questioned Costs
Year Ended August 31, 2008

Summary of Auditor's Results

1. The opinion(s) expressed in the independent accountants' report was (were):
(Check each description that applies)
- Unqualified Qualified Adverse Disclaimed
2. The independent accountants' report on internal control over financial reporting described:
- Significant deficiency(ies) noted considered material weakness(es)? Yes No
- Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No
3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
- Significant deficiency(ies) noted considered material weakness(es)? Yes No
- Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No
5. The opinions expressed in the independent accountants' report on compliance with requirements applicable to major federal awards were unqualified, except for the Empowerment Zone grant which was qualified.
6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2008

7. The City's major federal programs were:

Cluster/Program	CFDA Number
High Intensity Drug Trafficking Areas	7.000
Community Development Block Grants/Entitlement Grants	14.218
Empowerment Zones Program	14.244
Airport Improvement Program	20.106
Federal Transit Formula Grants	20.507

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$1,801,028.

9. The City qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

State Awards

10. The independent accountants' report on internal control over compliance with requirements applicable to major state awards programs described:

Significant deficiency(ies) noted considered material weakness(es)? Yes No

Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

11. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major state awards was

Unqualified Qualified Adverse Disclaimed

12. The audit disclosed findings required to be reported by the State of Texas *Uniform Grants Management Standards*: Yes No

13. The City's major state programs were:

Cluster/Program
Local Border Security Grant/BorderStar 3
TDH Tuberculosis Prevention and Control

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2008

14. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the State of Texas *Uniform Grants Management Standards* was \$300,000.
15. The City qualified as a low-risk auditee as that term is defined in the State of Texas *Uniform Grants Management Standards*? Yes No

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2008

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Findings Required to be Reported by the State of Texas *Uniform Grants Management Standards*

No matters are reportable.

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2008

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
2008-01	<u>Federal Transit Formula Grants</u> <u>CFDA No. 20.507</u> <u>U.S. Department of Transportation</u> <u>Reporting</u>	None

Criteria or Specific Requirement:

Pursuant to 49 CFR Section 26.11, SunMetro is required to file a special report with the Federal Transit Administration on the progress of their DBE program semi-annually.

Condition:

The City did not file the August 2008 DBE report timely.

Context:

Out of two DBE reports required to be filed during the year, only one was filed timely. Therefore, the program's special reporting requirements were not followed in the manner required by Federal regulations.

Effect:

Special reporting requirements were not met.

Cause:

As a result of employee turnover within the department, internal controls were not properly maintained to help ensure compliance with federal regulations.

Recommendation:

We recommend SunMetro update its internal control procedures to specifically address the special reporting requirements of the program.

Views of Responsible Officials and Planned Corrective Actions:

DBE report was not filed due to lack of proper training. Sun Metro administrative employee attended a DBE training course from NTI March 23rd-27th 2009.

Responsible Official- Kimberley Phillips, Business and Finance Manager

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2008

Reference Number	Finding	Questioned Costs
2008-02	<u>Empowerment Zones Program</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	None

Criteria or Specific Requirement:

Per OMB A-133 Section 400(d), the City is responsible for monitoring subrecipients for compliance with grant agreements and other OMB requirements.

Condition:

On October 12, 1999 the City of El Paso (City) contracted with a third party to administer its Empowerment Zone Grants. In the fall of 2006, while conducting its subrecipient monitoring duties, the City identified findings regarding business and accounting practices, lack of internal controls and potential illegal acts and abuse involving the disbursement of grant funds. In December 2006, the third-party's independent auditor completed an audit in accordance with OMB A-133 and identified similar findings.

Subsequent to the third-party's independent audit, the Department of Housing and Urban Development (HUD) conducted their own investigation and found similar findings which led to an investigation by the Federal Bureau of Investigation which is still ongoing. In May of 2007, HUD agreed to allow the City to transition the administration of the Empowerment Zone Grant from the third party.

Context:

Due to the transition of the administration of the program back to the City, the City was only able to monitor 4 out of an unknown amount of subrecipient programs.

Effect:

The City is not in compliance with the requirements of the Empowerment Zone Grant due to its inability to monitor the subrecipients of the program

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2008

Reference Number	Finding	Questioned Costs
2008-02 (Continued)	<u>Empowerment Zones Program</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	None

Cause:

During the investigation of the outside administrator by Federal authorities certain of the program records were seized and the City was unable to obtain timely custody of the necessary documents which prohibited it from performing its subrecipient monitoring duties.

Recommendation:

We recommend the City begin monitoring all subrecipients as quickly as possible.

Views of Responsible Officials and Planned Corrective Actions:

The City monitored the subrecipient as required by contract and OMB Circular A-133.

The City believes HUD is questioning \$815,608.62 in costs. The City is not in possession of the Empowerment Zone records and can not make any decision until after a review is performed. Based upon the City's review of its records, the City disputes approximately \$495,470.03 of the questioned costs. No determination is possible without access to the Empowerment Zone records on the remaining \$320,138.59 of questioned costs.

City of El Paso, Texas
Summary Schedule of Prior Audit Findings
Year Ended August 31, 2008

Findings Required to be Reported by OMB Circular A-133

Reference Number	Summary of Finding	Status
07-2	<u>Airport Improvement Programs/U.S. Dept of Transportation, Community Development Block Grants/U.S. Dept of Housing and Urban Development, and Federal Transit Formula Grants/U.S. Dept of Transportation. CFDA Nos. 20.106, 14.218, and 20.507 Procurement, Suspension and Debarment</u>	Resolved

Criteria:

Per 2 CFR part 180, nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction that is expected to equal or exceed \$25,000. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended, debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Condition/Context

The City of El Paso does not require suspension and debarment certifications from vendors entering into A&E (architectural, engineering, and surveying) contracts. This is not in compliance with the federal regulations. During suspension and debarment testwork, the following instances were noted in which the City neither had documentation that the vendor was not included on the list of Parties Excluded from Federal Procurement or Nonprocurement nor obtained certifications:

- For the Airport Improvement Program a sample of 8 procurement transactions (100% of population) was selected for testwork. Of the eight samples selected, five exceptions were noted all of which related to A&E contracts.
- For the Community Development Block Grants, a sample of 16 procurement transactions (100% of the population) was selected for testwork. Of the 16 samples selected, 6 exceptions were noted all of which related to A&E contracts.

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2008

Reference Number	Summary of Finding	Status
07-2 (Continued)	<p style="text-align: center;"><u>Airport Improvement Programs/U.S. Dept of Transportation, Community Development Block Grants/U.S. Dept of Housing and Urban Development, and Federal Transit Formula Grants/U.S. Dept of Transportation.</u> <u>CFDA Nos. 20.106, 14.218, and 20.507</u> <u>Procurement, Suspension and Debarment</u></p> <p>For the Federal Transit Administration Grants, a sample of 11 procurement transactions (100% of the population) was selected for testwork. Of the 11 samples selected, 4 exceptions were noted, all of which related to A&E contracts.</p> <p>Upon review of the EPLS, none of the vendors were listed as being suspended or debarred.</p> <p>Cause: The City does not have a control in place to ensure compliance with applicable compliance requirements related to suspension and debarment.</p> <p>Effect: This could result in the City procuring services with an ineligible vendor.</p> <p>Recommendation: It was recommended that the City’s purchasing department should ensure that suspension and debarment checks/certifications are performed prior to awarding all contracts, including A&E contracts.</p> <p>Views of Responsible Officials and Corrective Action Plan: The City developed a procedure for ensuring that suspension and debarment certifications are performed on all A&E contracts prior to the award of those contracts. The Purchasing Division of the Financial Services Department now certifies that all A&E vendors are checked for suspension and debarment prior to the issuance of the purchase order. This is now documented by a certified statement completed by the vendor or through a screen print from the http://www.epls.gov/epls.search website and placed in the contract file.</p>	Resolved

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2008

Reference Number	Summary of Finding	Status
07-3	<u>Community Development Block Grants</u> <u>CFDA No. 14.218</u> <u>U.S. Department of Housing and Urban Development</u> <u>Allowable Cost/Cost Principles</u>	Resolved

Criteria:

In accordance with OMB Circular A-87, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by federal cognizant agency.

Condition/Context:

Out of four payroll expenditures selected, we noted one employee that worked on multiple cost objectives whose salary was solely charged to the Community Development Block Grant.

Cause and Effect:

The City did not comply with documentation requirements when charging payroll to the Community Development Block Grant. It appears that the Community Development Block Grant was overcharged while other housing grants were undercharged. The exact amount overcharged is unable to be determined since effort reports were not maintained. The employee in question is the City's Community Development Department Director. Per City personnel, only the Director and certain administrative personnel work on multiple awards and cost objectives.

Recommendation:

It was recommended the City should implement procedures to ensure the time and effort reporting is in compliance with federal regulations.

Views of Responsible Officials and Corrective Action Plan:

The City of El Paso concurred with the finding and the Director of Community Development and other employees who work on multiple activities immediately began keeping time sheets for the different programs that they manage. Manual allocations to the various programs are made on an "after the fact" distribution of payroll based on the timesheets provided.

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2008

Reference Number	Summary of Finding	Status
07-4	<u>Empowerment Zone</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	Unresolved See Current Year Finding 2008-02

Criteria:

Per OMB Circular A-133 (§ __.225 and § __.400(d)), the program is responsible for assuring before disbursing and Empowerment Zone funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient, which shall include provisions concerning the statement of work, records, reports, program income, uniform administrative requirements, and reversions of assets. In addition, the program is responsible for monitoring subrecipients for compliance with agreements and other OMB requirements.

Condition/Context:

The City utilized only one subrecipient in the delivery of services related to this grant. During the City's subrecipient monitoring activities in fall 2006, the City identified concerns regarding the subrecipient's utilization of federal grant funds. The concerns involve allegations regarding business and accounting practices, lack of sufficient controls and possible illegal acts and abuse regarding the payment of certain expenditures. In December 2006, the subrecipient's independent external auditor completed an audit in accordance with OMB Circular A-133 and identified two findings and questioned costs of \$611,520.

Subsequent to the identification of the issues noted above, the Department of Housing and Urban Development (HUD) conducted their own investigation into the Empowerment Zone grant with a particular focus on the subrecipient's activities. Based on HUD's review, HUD has issued notices of preliminary findings regarding the City's management of the program which included the \$611,520 of questioned costs noted above plus an additional \$508,025 (total of \$1,119,545). Per an April 10, 2008 letter from HUD, the City cleared \$320,006 of the questioned cost. The remaining \$799,539 of questioned costs is being discussed.

Cause and Effect:

The subrecipient under this grant expended funds in manner that may not be in compliance with the terms of the grant agreement and, based on this, HUD has raised questions regarding the City's subrecipient monitoring practices. As a result of the concerns noted, HUD has requested the City

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2008

Reference Number	Summary of Finding	Status
07-4 (Continued)	<u>Empowerment Zone</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	Unresolved See Current Year Finding 2008-02

to reimburse HUD for amounts it believes the subrecipient improperly expended. Potential questioned costs range from \$0 up to \$799,539.

Recommendation:

We recommend that the City complete its investigation into the potentially unallowable expenditures. We also recommend that the City evaluate their subrecipient monitoring procedures for opportunities to improve this process in the future.

Views of Responsible Officials and Corrective Action Plan:

The City of El Paso is working diligently with the U.S Department of Housing and Urban Development to resolve all pending issues and restore the program.

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2008

Reference Number	Summary of Finding	Status
07-5	<u>State of Texas - TDH</u> <u>7460007499-20056-07A</u> <u>Texas Department of Health</u> <u>Matching, Earmarking, and Level of Effort</u>	Resolved

Criteria:

The City's grant agreement with the Texas Department of Health requires the City to match the State funds.

Condition/Context:

Per review of the City's grant agreement, the City is required to provide \$157,429 of funds to match the State provided grant funds. The City only provided \$137,386 of matching funds.

Cause and Effect:

The City experienced significant turnover during the fiscal year and did not adequately monitor its matching requirements under the terms of the grant document. The questioned cost is equal to the deficit matching amount.

Recommendation:

We recommend that the City evaluate the circumstances that resulted in the deficient match amount and implement appropriate controls to prevent a reoccurrence.

Views of Responsible Officials and Corrective Action Plan:

The City of El Paso concurs with this finding and will ensure that all grant match is posted in an accurate and timely manner. Grant match will be posted as funds are requested from funding agency.