

**INDEPENDENT AUDITORS' 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***

The Honorable Mayor,
Members of the City Council and
Management of the
City of Henderson, Nevada

We have audited the basic financial statements of the City of Henderson (the City) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2010-1 and 2010-3 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2010-2 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

The Honorable Mayor,
Members of the City Council and
Management of the
City of Henderson, Nevada

Compliance and other matters. As part of obtaining reasonable assurance about whether the City's basic 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 including whether the funds established by the City, as described in Nevada Revised Statutes (NRS) 354.624(5)(a)(1) – (5), complied with the express purposes required by NRS 354.6241. 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*.

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

We noted certain matters that were reported to the City's management in a separate letter dated November 18, 2010.

This report is intended for the information and use of the Honorable Mayor, Members of the City Council, management of the City, federal awarding agencies and pass-through entities. However, this report is a matter of public record, and therefore, its distribution is not limited.

A handwritten signature in blue ink that reads "Percy Bowler Taylor" followed by a stylized flourish.

November 18, 2010

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

The Honorable Mayor,
Members of the City Council and
Management of the
City of Henderson, Nevada

Compliance. We have audited the City of Henderson's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which 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 items 2010-4 and 2010-5.

Internal Control over Compliance. 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 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 program to determine the 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, 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.

The Honorable Mayor,
Members of the City Council and
Management of the
City of Henderson, Nevada

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-4 and 2010-5. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards. We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic 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.

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

This report is intended for the information and use of the Honorable Mayor, Members of the City Council, management of the City, federal awarding agencies and pass-through entities. However, this report is a matter of public record, and therefore, its distribution is not limited.

A handwritten signature in blue ink that reads "Percy Bowler Taylor" followed by a stylized flourish.

November 18, 2010

CITY OF HENDERSON, NEVADA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Agriculture</u>			
<i>Food and Nutrition Service</i>			
Passed through State of Nevada Department of Education:			
<i>Child Nutrition Cluster:</i>			
Child and Adult Care Food Program			
Safekey Snack Program 07-08	10.558	--	\$ 1,388
Summer Food Program -06/09 - 8/098	10.558	--	15,447
Safekey Milk Grant FY10	10.558	--	<u>30,314</u>
Total U.S. Department of Agriculture			<u>47,149</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Community Planning and Development</i>			
Direct Programs:			
Community Development Block Grants/Entitlement Grants			
Entitlement Funds	14.218*	--	1,316,162
Amount Provided to Subrecipients	14.218*	--	10,445
American Recovery and Reinvestment Act (ARRA)	14.218*	--	<u>143,716</u>
Total Community Development Block Grants/Entitlement Grants			<u>1,470,323</u>
Passed through State of Nevada, Community Development			
Block Grants:			
NSP HERA Entitlement	14.218*	--	<u>1,411,565</u>
HOME Investment Partnerships Program			
HOME Grant - Program Income/Projects	14.239	--	66,424
HOME Grant - Administration	14.239	--	<u>42,631</u>
Total HOME Investment Partnerships Program			<u>109,055</u>
Passed through State of Nevada, Housing Division:			
HOME Investment Partnerships Program			
Program Income/Projects	14.239	--	<u>200,000</u>
Total Department of Housing and Urban Development			<u>3,190,943</u>
<u>U.S. Department of the Interior</u>			
<i>Bureau of Land Management</i>			
Recreation Resource Management			
Whitney Mesa Preserve	15.225*	NAA010005 NAF04HN07	25,855
Burkholder Trail	15.225*	NAA010005 NAF04HN09	989,372
St. Rose Trail Phase 2	15.225*	NAA010005 NAF05HN15	258,965
Hidden Falls Park	15.225*	NAA010005 NAF05HN13	474,627
Amador Vista Park	15.225*	NAA010005 NAF05HN14	1,109,284
Heritage Recreation Area	15.225*	NAA010005 NAF05HN12	4,180,899
Anthem East Trails	15.225*	NAA010005 NAF05HN16	36,749
Cornerstone Lake Park	15.225*	NAA010005 NAF05HN18	474,435
River Mountain Trail 13-14	15.225*	NAA010005 NAF05HN17	848,705
Amargosa Trailheads	15.225*	NAA010005 NAF05HN19	732,769
Bird View Preserve Improvement	15.225*	NAA010005 NAF05HN24	516,880

CITY OF HENDERSON, NEVADA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of the Interior (continued)</u>			
<i>Bureau of Land Management (continued)</i>			
Recreation Resource Management (continued)			
UPRR Right of Way	15.225*	NAA010005 NAF05HN22	174,853
UPRR Phase III	15.225*	NAA010005 NAF05HN23	896,775
UPRR Phase II	15.225*	NAA010005 NAF05HN20	10,805
Mission View Park	15.225*	NAA010005 NAF05HN21	54,545
McCullough Hills Trail	15.225*	NAA010005 NAF05HN25	75,661
Arroyo Grande Project Green	15.225*	NAA010005 FAA060150	144,073
Whitney Mesa Trailhead	15.225*	NAA010005 FAA060156	103,055
Wetlands Trail Phase II	15.225*	NAA010005 FAA060158	20,739
Heritage Park Phase II	15.225*	NAA010005 FAA060163	220,068
Southeast Valley Acquisition	15.225*	NAA010005 FAA080033	91,933
Reunion Trails Park	15.225*	NAA010005 FAA060176	888,141
Downs 5/Downtown Trail	15.225*	NAA010005 FAA060173	898,943
Lake Mead Parkway Trail	15.225*	NAA010005 FAA060175	51,047
PPP Upper Pittman Wash W Henderson Drainage Corridor Feasibility	15.225*	NAA010005 FAA080013	22,467
PPP Lower Pittman Wash Corridor Feasibility Study	15.225*	NAA010005 FAA080016	25,344
PPP Black Mountain Nature Preserve	15.225*	NAA010005 FAA080012	63,641
PPP MacDonald Canyons Nature Park Study	15.225*	NAA010005 FAA080015	40,971
PPP RMLT to McCullough Hills Trail Connection & Equestrian	15.225*	NAA010005 FAA080017	38,695
PPP Nevada State College to Wetlands Corridor Feasibility Study	15.225*	NAA010005 FAA080014	2,366
McCullough Vista Park	15.225*	NAA010005 FAA080028	111,246
Green Valley Flood Control Panel	15.225*	NAA010005 FAA080045	3,246
			13,587,154
Southern Nevada Public Land Management			
Amargosa Trail	15.235	NAA010005 NAF04HN08	153,677
Whitney Mesa Nature Preserve Phase II	15.235	--	401
			154,078
<i>Bureau of Reclamation</i>			
Water Conservation Plan			
Bureau of Reclamation Turf Conversion	15.BBM	--	24,316
<i>National Park Service</i>			
Outdoor Recreation Acquisition, Development and Planning			
River Mountain Skateboard Feature	15.916	--	51,347
Bureau of Reclamation Acacia Gardens	15.916	--	20,000
Bureau of Reclamation Irrigation	15.916	--	11,205
			82,552
Total U.S. Department of the Interior			13,848,100

CITY OF HENDERSON, NEVADA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Justice</u>			
<i>Bureau of Justice Assistance</i>			
Direct:			
Bulletproof Vest Partnership Program 2007	16.607	--	5,492
Bulletproof Vest Partnership Program 2008	16.607	--	1,907
Edward Byrne Memorial State and Local Law Enforcement, Assistance Discretionary Grant Program	16.580	2008-DD-BX-0014	22,502
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-DJ-BX-0915	299
Edward Byrne Memorial Justice Assistance Grant Program American Recovery and Reinvestment Act	16.804*	--	60,850
<i>Office of Juvenile Justice and Delinquency Prevention</i>			
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	29-AL-5	21,078
Missing children's assistance	16.543	--	18,021
<i>Office of Community Oriented Policing Services</i>			
Public Safety Partnership and Community Policing Grants	16.710	2008CKWX0168	297,624
Public Safety Partnership and Community Policing Grants	16.710	2008CKWX0167	284,076
<i>Office of Drug Enforcement Administration</i>			
Domestic Cannabis Eradication	n/a	--	2,749
Total Direct			714,598
<i>Office of Juvenile Justice and Delinquency Prevention</i>			
Passed through State of Nevada Juvenile Justice Commission:			
Enforcing Underage Drinking Laws Program	16.727	COH-PD-2010-G0212	25,192
<i>Office on Violence Against Women</i>			
Passed through State of Nevada Office of Attorney General			
Violence Against Women Formula Grants	16.588	2007-STOP-01	18,993
Violence Against Women Formula Grants	16.588	2008-STOP-01	20,448
Total U.S. Department of Justice			779,231

CITY OF HENDERSON, NEVADA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Transportation</u>			
<i>Federal Motor Carrier Safety Administration</i>			
National Motor Carrier Safety	20.218	27XX32MH08HEND15780	13,141
<i>Federal Highway Administration</i>			
Highway Planning and Construction - American Recovery and Reinvestment Act (ARRA)	20.205*	--	2,969,732
<i>National Highway Traffic Safety Administration</i>			
Passed through State of Nevada, Department of Motor Vehicles and Public Safety - Office of Traffic Safety:			
State and Community Highway Safety			
Joining Forces 2010	20.600	28-JF-1.08	110,568
Joining Forces 2009	20.600	29-JF-1.06	46,278
Joining Forces Initiative 2009	20.600	--	9,997
Preliminary Breath Test	20.600	--	34,000
			<hr/>
Total U.S. Department of Transportation			3,183,716
<u>U.S. Environmental Protection Agency</u>			
Office of the Chief Financial Officer			
Congressionally Mandated Projects	66.202	XP96908901	388,000
<u>U.S. Department of Energy</u>			
<i>Energy Efficiency and Conservation Block Grant Program (ARRA)</i>			
Energy Efficiency and Conservation Block Grant Program (ARRA)	81.128*	--	649,196
<i>Office of Energy Efficiency and Renewable Energy</i>			
Passed through State of Nevada Housing Division			
Weatherization Assistance for Low-Income Persons- American Recovery and Reinvestment Act (ARRA)	81.042*	--	1,011,380
			<hr/>
Total U.S. Department of Energy			1,660,576

CITY OF HENDERSON, NEVADA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Health and Human Services</u>			
<i>Centers for Disease Control and Prevention</i>			
<i>Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems</i>			
Diabetes Demonstration Project	93.988	1H75DP001876-01	<u>74,117</u>
<i>Administration on Aging</i>			
Passed through State of Nevada, Division of Aging Services:			
<i>Aging Cluster:</i>			
Special Programs for the Aging: Title III, Part C: Nutrition Services			
Senior Nutrition	93.045	--	221,886
Senior Nutrition Homebound 2009	93.045	03-031-04-2X-09	49,303
Senior Nutrition Congregate 2009	93.045	03-031-07-1X-09	<u>29,744</u>
			<u>300,933</u>
Aging Home-Delivered Nutrition Services for States - American Recovery and Reinvestment Act (ARRA)	93.705	--	<u>90,108</u>
Nutrition Services Incentive Program			
Black Mountain Senior Nutrition	93.053	--	52,156
Black Mountain Senior Nutrition 2009	93.053	03-031-57-NX-09	<u>49,604</u>
			<u>101,760</u>
<i>Administration For Children and Families</i>			
Passed through State of Nevada, Department of Business and Industry-Housing Division, Weatherization Assistance Program			
Low Income Home Energy Assistance	93.568	LIHEA/09/04	<u>23,495</u>
Total U.S. Department of Health and Human Services			<u>590,413</u>
<u>Department of Homeland Security</u>			
<i>Federal Emergency Management Agency</i>			
FY2008 Assistance to Firefighters Grant	97.044	EMW-2008-FO-05878	130,859
Homeland Security Grant Program	97.067	--	3,191
Passed through the State of Nevada, Department of Motor Vehicles and Public Safety, Division of Emergency Management:			
Emergency Management Performance Grants			
Fire Department	97.042	9704209	132,453
Passed through Clark County Emergency Management & Homeland Security Safety, Division of Emergency Management:			
Non-Profit Security Program	97.008	97067U09	<u>91,528</u>
Total Department of Homeland Security			<u>358,031</u>
Total Expenditures of Federal Awards Excluding Loans			<u>24,046,159</u>

CITY OF HENDERSON, NEVADA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements/ Expenditures
<u>Federal Loan Balances With a Continuing Compliance Requirement</u>			
<u>U.S. Department of Housing and Urban Development</u>			
Passed through State Department of Housing and Community Development:			
Community Development Block Grants/States Program	14.218*	--	199,259
Home Investment Partnership Program	14.239	--	2,798,639
<u>U.S. Environmental Protection Agency</u>			
Passed through the Nevada Division of Environmental Protection			
Capitalization Grants for Clean Water State Revolving Funds			
American Recovery and Reinvestment Act (ARRA)			
Pittman Wash Relocation	66.458	--	691,065
 Federal Loan Balances with a Continuing Compliance Requirement			 <u>3,688,963</u>
 Total Expenditures of Federal Awards Including Loans			 <u>\$ 27,735,122</u>

* Major Program

CITY OF HENDERSON, NEVADA

Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

Note 1. Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the City of Henderson (the City), except for those activities of the City's Redevelopment Agency (the Agency). The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule. The Agency is a component unit of the City. A separate report has been issued for the Agency.

Note 2. Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Note 3. Relationship to Financial Statements

The 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 intergovernmental revenues in the Multipurpose Special Revenue fund.

Note 4. Subrecipients

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

Federal CFDA	Program Title	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 10,445

(continued)

CITY OF HENDERSON, NEVADA

Notes to Schedule of Expenditures of Federal Awards (continued)
June 30, 2010

Note 5. Program Clusters

Federal programs relating to the aging of the City’s population, which are considered together as a program cluster, include the following:

Federal CFDA	Program Title	Federal Expenditures
93.045	Special Programs for the Aging – Nutrition Services	\$ 300,933
93.705	Aging Home-delivered Nutrition Services for States	90,108
93.053	Nutrition Services Incentive Program	<u>101,760</u>
	Total	<u>\$ 492,801</u>

Note 6. American Recovery and Reinvestment Act (“ARRA”)

Expenditures of ARRA funding are included in the following federal programs:

Federal CFDA	Program Title	ARRA Expenditures
14.218	Community Development Block Grants/Entitlement Grants	\$ 143,716
20.205	Highway Planning and Construction	2,969,732
81.042	Weatherization Assistance for Low-income Persons	1,011,380
93.705	Aging Home-delivered Services for States	90,108
66.458	Capitalization Grants for Clean Water State Revolving Funds	691,065
81.128	Energy Efficiency and Conservation Block Grant	<u>649,196</u>
	Total	<u>\$ 5,555,197</u>

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	None reported

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	None reported
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditors’ report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133	None reported

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grants/ Entitlement Grants
15.225	Recreation Resource Management
16.804	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units Of Local Government
20.205	Highway Planning and Construction
81.042	Weatherization Assistance for Low-income Persons
81.128	Energy Efficiency and Conservation Block Grant Program

Dollar threshold used to distinguish between Type A and Type B programs	\$860,553
Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133	No

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs (continued) For the Fiscal Year Ended June 30, 2010

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States:

2010-1

Criteria	Agreements that could have a potentially material effect on the City's financial statements should be reviewed, with the salient provisions abstracted and summarized to support and document the rationale for the accounting treatment applied.
Condition/context	Certain Owner Participation Agreements (OPAs) and Disposition and Development Agreements (DDAs), each of which include material commitments that may potentially obligate the City's Redevelopment Agency (the Agency) over the next several years, have not been abstracted. In addition, although Agency management appears familiar with the various OPAs and DDAs, documentation supporting prior decisions regarding the accounting treatment for certain provisions of each OPA or DDA has not been created and reviewed by an appropriate level of management.
Effect	A material commitment to a developer and a \$9.1 million liability to various developers were not reported in the prior year financial statements, and a \$2.3 million adjustment to the amount owed to developers was not recorded in the current year.
Cause	The majority of OPAs and DDAs were originally written and maintained by individuals who are no longer with the Agency. However, current management has not adequately summarized and documented its understanding of the material provisions of all of the agreements, including documenting its rationale for the accounting treatment applied to each agreement.
Recommendation	We recommend that management create documentation summarizing its understanding of the salient, material provisions of the OPAs and DDAs and the rationale for the accounting treatment applied to those provisions. These abstracts should be updated periodically to document the status of the related development, the perceived financial condition of the developer and the perceived value of collateral for notes receivable, if any. The abstracts and updates thereto should be reviewed periodically by an appropriate level of management to provide reasonable assurance that all material provisions are properly reported and adequately disclosed in the notes to the City's basic financial statements.
Management response	Management has informed us that because of the recent changes in management and staff, management has again been reviewing all of the agreements with the Agency's legal counsel. Due to limited staff, not all agreements have been reviewed; however, the review is well underway and is scheduled to be complete no later than the end of fiscal year 2011. While management is very familiar with the salient, material provisions of each agreement, written summaries have not been completed. Management will complete documented summaries and abstracts indicating the reasoning for specific accounting treatment.

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2010

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States (continued):

2010-1 (continued)

Management response
(continued)

Management has also informed us that they agree with this very conservative approach to the recording of current financial resources available to make future payments as advances are added to the note payable, upon the developer meeting all of the requirements of the agreement.

Lastly, management informed us that it extensively discussed the agreements, including all material provisions, with the two previous auditing firms agreeing with the reporting of a contingent liability for each agreement. Because GASB is silent on this issue, management was reporting the contingent liability in the notes to the financial statements during the time that the developers had not completed all of the requirements to the agreements.

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2010

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States (continued):

2010-2

Criteria	Notes receivable are periodically evaluated for impairment based on evolving events and circumstances that may be impairment indicators (<i>i.e.</i> , those that increase the risk that the recorded balance may not be collectible).
Condition/context	The City’s Redevelopment Agency (the Agency) has several notes receivable from developers which, due to the current economic climate and the hardships being experienced by developers, should be evaluated for impairment.
Effect	The Agency’s notes receivable were overstated by \$775,000 due to an unrecorded impairment charge.
Cause	Due to ineffective monitoring, a formal impairment analysis on the Agency’s notes receivable was not completed.
Recommendation	The collectibility of the Agency’s notes receivable from developers should be evaluated at least annually for impairment based on evolving events and circumstances that may be indicators of impairment. The perceived financial condition of the counterparty, as well as the Agency’s collateral should be considered in determining if the receivable is impaired.
Management response	Management has informed us that the collateral for notes will be reviewed by appropriate staff (<i>i.e.</i> , property experts, <i>etc.</i>) annually to validate notes receivable balances or recommend impairments.

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs (continued) For the Fiscal Year Ended June 30, 2010

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States (continued):

2010-3

Criteria	Accurate and complete subsidiary ledgers are maintained for CDBG/HOME low income program loans receivable.
Condition/context	The subsidiary ledger for CDBG/HOME program loans receivable was not accurate and complete.
Effect	The general ledger was improperly adjusted to agree to the inaccurate subsidiary ledger and as a result, was understated by \$1,341,718.
Cause	Ineffective monitoring and review of the subsidiary ledger for all CDBG/HOME low income program loans receivable.
Recommendation	The CDBG/HOME low income program loan subsidiary ledger should be periodically reconciled to the actual note receivable documentation (<i>i.e.</i> , original note agreements, subsequent amendments, documentation of advances, <i>etc.</i>) to verify that all activity has been properly recorded.
Management response	<p>Management has informed us that Neighborhood Services will update their loan tracking reports to include the beginning fiscal year expended balance amounts for each project, any additions and deletions during the fiscal year and the ending expended balance. Neighborhood Services will review each loan record on a consistent and regular basis against the actual note receivable documentation in each loan file; the date and name of the reviewer will be documented in each file and the loan report. Each month, Neighborhood Services will reconcile the updated report to the General Ledger. Any discrepancies will be researched and corrected; the reconciled report will be forwarded to Finance for their review.</p> <p>Each voucher request for loan expenditures from Neighborhood Services will include line items for the Note Receivable and Deferred Revenue entry. The voucher request will be reviewed by an Accountant II prior to being processed for payment.</p> <p>In the event that a loan is paid off, the payment distribution will also include line items for the Note Receivable and Deferred Revenue entry. The account codes for the payment will be reviewed by an Accountant II prior to being processed.</p>

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2010

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

2010-4

Programs:	Community Development Block Grants/ Entitlement Grants (CFDA # 14.218) Recreation Resource Management (CFDA #15.225) Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units Of Local Government (CFDA #16.804) Highway Planning and Construction (CFDA #20.205) Weatherization Assistance for Low-income Persons (CFDA #81.042) Energy Efficiency and Conservation Block Grant Program (CFDA # 81.128)
Specific requirements:	The schedule of expenditures of federal awards (SEFA) should be complete and accurate.
Condition / context:	The unaudited SEFA included four programs with incorrect/missing CFDA numbers, one program which included expenditures of state grant funding and one program which was incorrectly not identified as American Recovery and Reinvestment Act (ARRA).
Questioned costs	Not applicable
Effect	The unaudited SEFA was not complete and accurate.
Cause	Controls over the preparation of the SEFA did not function as intended, due to ineffective monitoring for compliance therewith.
Recommendation	Management should instruct personnel as to the importance of compliance with the requirements applicable to ensuring the completeness and accuracy of the SEFA, and it should exercise additional control by monitoring such compliance.
Management response	Management has informed us CFDA project numbers will be verified with the latest amendments received at the department level. All ARRA projects will have the ARRA identification in the project name. Also, to ensure there is no miscommunication, responses to verbal requests will be in writing.

CITY OF HENDERSON, NEVADA

Schedule of Findings and Questioned Costs (continued)
For the Fiscal Year Ended June 30, 2010

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a) (continued):

2010-5

Programs:	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units Of Local Government (CFDA #16.804) Energy Efficiency and Conservation Block Grant Program (CFDA # 81.128)
Specific requirements:	Periodic Federal Financial Reports (FFRs) should only include federal expenditures that were incurred during the reporting period.
Condition / context:	FFRs inappropriately excluded \$260,482 of payroll and other expenditures that were incurred during the reporting period.
Questioned costs	Not applicable
Effect	FFRs were not completed correctly.
Cause	Controls over the preparation of FFRs did not function as intended, due to ineffective monitoring for compliance therewith.
Recommendation	Management should instruct personnel as to the importance of compliance with the requirements applicable to ensuring the completeness and accuracy of FFRs, and it should exercise additional control by monitoring such compliance.
Management response	Management has informed us that the exclusion of expenditures from the Federal Financial Reports for the reporting period of April 1 – June 30, 2010 is a timing difference between the date of submission to the Federal agencies and the date of the City’s financial close of the General Ledger. The due dates for the 4th quarter reports for the Federal agencies are early in July. Expenditures incurred through June 30th are recorded in the General Ledger through late July. The Federal Financial Reports reflect actual expenditures recorded in the General Ledger as of the date of the report. The expenditures not included with the 4th quarter Federal Financial Reports are included in the July1 – September 30, 2010 reports, so the cumulative amounts are correct.

CITY OF HENDERSON, NEVADA

**Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010**

Section II – Findings relating to the financial statements, which are required to be reported in accordance with auditing standards generally accepted in the United States:

No findings were reported in the prior year.

Section III – Findings and questioned costs for federal awards, including audit findings as defined in Circular A-133 Section .510(a):

No findings were reported in the prior year.

CITY OF HENDERSON, NEVADA

**SCHEDULE OF BUSINESS LICENSE FEES
SUBJECT TO THE PROVISIONS OF NRS 354.5989
FOR THE YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Nevada Revised Statutes (NRS) 354.5989: As required by NRS 354.624, Section 4(a), all fees imposed by the City are subject to the provisions of NRS 354.5989. The City may adopt new business license fees only if the revenue from the fees is less than the calculated maximum prescribed by the statute. Total revenues for the year ended June 30, 2010, from business license fees did not exceed the allowable maximum revenue in the flat or fixed fee revenue category.

Fees calculated as a percentage of gross revenue:

Business license revenue for the year based on percentage of gross		<u>\$ 5,546,501</u>
Less maximum allowable revenue:		
Prior actual revenue (Base)	\$ 6,807,347	
Times increase in Consumer Price Index	<u>2.70%</u>	
Total adjustment to Base	<u>183,798</u>	
Adjusted business license gross revenue		<u>6,991,145</u>
Amount over (under) allowable maximum		<u><u>\$ (1,444,644)</u></u>

Fees calculated on a flat or fixed rate:

Business license revenue for the year based on a flat or fixed rate		\$ 2,076,135
Less maximum allowable revenue:		
Prior actual revenue (Base)	\$ 2,177,167	
Percentage increase in population of the City of Henderson	0.85%	
Percentage increase in CPI for the year ending December 31 preceding the year for which the limit is being calculated	<u>2.70%</u>	
Total adjustment to Base	3.55% <u>77,289</u>	
Adjusted business license gross revenue		<u>2,254,456</u>
Amount over (under) allowable maximum		<u><u>\$ (178,321)</u></u>



Mayor and Council

Andy Hafen, Mayor

Gerri Schroder, Council Ward I

Debra March, Council Ward II

Kathleen Boutin, Council Ward III

Steven D. Kirk, Council Ward IV

City Manager's Office

Mark T. Calhoun, City Manager

Bristol S. Ellington, Assistant City Manager

Finance Department

Richard A. Derrick, Finance Director

