



CITY OF OMAHA, NEBRASKA

OMB Circular A-133 Single Audit Report

Year ended December 31, 2009

(With Independent Auditors' Report Thereon)



CITY OF OMAHA, NEBRASKA
OMB Circular A-133 Single Audit Report
Year ended December 31, 2009

Table of Contents

	Page(s)
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <i>Accordance with Government Auditing Standards</i>	1 – 2
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	3 – 5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	9 – 14
The City of Omaha's audited financial statements as of and for the year ended December 31, 2009 are separately attached hereto.	



KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

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 and Members
of the City Council
City of Omaha, Nebraska:

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 Omaha, Nebraska (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 15, 2010. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the City's basic financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, 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.

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 discussed below, 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 over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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 in the City's internal control over financial reporting described in the accompanying schedule of findings and questioned costs to be material weaknesses (Findings #09-01, #09-02, and #09-03).

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the City's internal control over financial reporting described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (Findings #09-04 and #09-05).

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 management of the City in a separate letter dated July 15, 2010.

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

This report is intended solely for the information and use of the Mayor, members of the City Council, management, and 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.

KPMG LLP

Omaha, Nebraska
September 27, 2010



KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

**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 and Members
of the City Council
City of Omaha, Nebraska:

Compliance

We have audited the compliance of the City of Omaha, Nebraska (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The City's major federal programs are identified in the summary of auditors' 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.

The City's basic financial statements include the operations of a discretely presented component unit. Our audit, described below, did not include the operations of the discretely presented component unit because that discretely presented component unit engaged other auditors to perform an 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.

As described in Finding #09-06 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Special Tests and Provisions: Housing Quality Standards that are applicable to its HOME Investment Partnership Program (CFDA 14.239). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that 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 programs for the year ended December 31, 2009.

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 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding #09-06 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding #09-07 to be a significant deficiency.

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 as of and for the year ended December 31, 2009, and have issued our report thereon dated July 15, 2010. 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 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 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 the responses.

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

KPMG LLP

Omaha, Nebraska

September 27, 2010, except as to the paragraph 10, which is as of July 15, 2010.

CITY OF OMAHA, NEBRASKA
 Schedule of Expenditures of Federal Awards
 Year ended December 31, 2009



Federal grantor/pass-through grantor/program title	Grant number	CFDA number	2009 expenditures
U.S. Department of Homeland Security:			
Direct programs:			
Assistance to Firefighters Grant	Various	97.044	\$ 817,571
National Explosives Detection Canine Team Program	HSTS0208HCAN438	97.072	126,000
Passed through Nebraska Emergency Management Agency:			
Federal Disaster Declaration 1770	Declaration 1770	97.036	106,705
Federal Disaster Declaration 1779	Declaration 1779	97.036	387,254
Federal Disaster Declaration 1878	Declaration 1878	97.036	507,559
			<u>1,001,518</u>
Homeland Security Grant Program	Various	97.067	5,855,857
Total U.S. Department of Homeland Security			<u>7,800,946</u>
U.S. Department of Housing and Urban Development:			
Direct programs:			
Community Development Block Grants/Entitlement Grants	B-09-MC-31-0002	14.218	6,605,318
Community Development Block Grants/Entitlement Grants	NE-26-C501001	14.218	113,516
			<u>6,718,834</u>
Community Development Block Grants/State's Program	Various	14.228	107,171
Emergency Shelter Grants Program	S-09-MC-31-0001	14.231	232,143
HOME Investment Partnership Program	M-09-DC-31-0203	14.239	5,359,807
Community Development Block Grants/Brownfields Economic Development Initiative	Various	14.246	111,463
ARRA - Community Development Block Grant - Recovery	B-09-MY-31-0002	14.253	648,044
ARRA - Homelessness Prevention and Rapid Re-Housing Program	S-09-MY-31-0001	14.257	140,225
Fair Housing Assistance Program	FF/207/208/209/K00/017008	14.401	120,223
Lead Based Paint Hazard Control	Various	14.900	1,589,394
Total U.S. Department of Housing and Urban Development			<u>15,027,304</u>
U.S. Department of Interior:			
Passed through Nebraska State Historical Society:			
Historic Preservation Fund Grants-in-Aid	N/A	15.904	49,986
U.S. Department of Justice:			
Direct programs:			
Juvenile Justice & Delinquency Prevention	2006-JL-FX-K073	16.540	812,839
Juvenile Justice & Delinquency Prevention	2009-JL-FX-K034	16.540	52,232
			<u>865,071</u>
Edward Byrne Memorial Discretionary Grants Program	2007-DBX-0604	16.580	251,924
Rural Domestic Violence, Dating Violence, Sexual Assault, & Stalking Assistance Program	2006-WR-AX-0005	16.589	70,101
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	2005-WE-AX-0035	16.590	447,570
Community Capacity Development Office	2009-WS-QX-0014	16.595	29,706
Public Safety Partnership and Community Policing Grants (COPS)	2007-CK-WX-0238	16.710	165,410
Weed & Seed	Various	16.725	173,521
Gang Resistance Education and Training (G.R.E.A.T.)	2008-JV-FX-0025	16.737	67,262
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	Various	16.738	441,150
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	2009-SB-B9-1369	16.804	319,411
High Intensity Drug Trafficking Area	Various	16.999	367,670
Passed through State of Nebraska Commission on Law:			
Enforcement and Criminal Justice:			
Juvenile Accountability Block Grant	07-JA-601	16.523	78,789
Juvenile Accountability Block Grant	08-JA-602	16.523	17,904
			<u>96,693</u>
Community Prosecution and Project Safe Neighborhoods	07-SN-8900	16.609	70,109
Community Prosecution and Project Safe Neighborhoods	08-SN-8904	16.609	33,884
			<u>103,993</u>
Metro Drug Task Force	Various	16.738	36,213
Total U.S. Department of Justice			<u>3,435,695</u>
U.S. Department of Transportation:			
Passed through State of Nebraska Department of Roads:			
Highway Planning and Construction	Various	20.205	2,098,678
ARRA - Highway Planning and Construction	STPC-5003 (8)	20.205	85,265
Total U.S. Department of Transportation			<u>2,183,943</u>
U.S. Environmental Protection Agency:			
Passed through State of Nebraska Department of Environmental Quality:			
Air Pollution Control Program Support	BG997325-06	66.001	33,234
U.S. Department of Education:			
Direct program:			
Fund for the Improvement of Education	U215K080281	84.215	501
U.S. Department of Energy:			
Direct program:			
ARRA - Energy Efficiency and Conservation Block Grant Program	DE-EE0000666	81.128	46,173
Total expenditures of federal awards			<u>\$ 28,577,782</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

CITY OF OMAHA, NEBRASKA

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

(1) Reporting Entity

The reporting entity for the schedule of expenditures of federal awards (SEFA) includes the City of Omaha, Nebraska (the City) and its blended component units. The discretely presented component unit, Metropolitan Entertainment and Convention Authority (MECA), is not included.

(2) Basis of Accounting

Amounts reported in the SEFA are on the accrual basis, while the amounts reported on federal financial reports are primarily on a cash basis.

(3) Outstanding Loan Principal Balances

The following is a list of the outstanding principal balances of Community Development Block Grant and related program loans due at December 31, 2009:

Community Development Block Grant	\$ 398,825
-----------------------------------	------------

The following is the outstanding principal balance of the HOME Investment Partnership Program at December 31, 2009:

HOME Investment Partnership Program	\$ 1,161,889
-------------------------------------	--------------

Current year loans of \$0 are included in the SEFA.

The following is a list of outstanding principal balances of capitalization grants for state revolving funds and related program loans at December 31, 2009:

Zorinsky Project	\$ 298,087
Capitalization Grants for Clean Water State Revolving Funds	<u>32,628,407</u>
Total	<u><u>\$ 32,926,494</u></u>

* The City has no continuing compliance requirements for these loans outstanding and is presented for informational purposes only.

CITY OF OMAHA, NEBRASKA

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

(4) Subrecipients

Of the federal expenditures presented in the SEFA, the City provided federal awards to subrecipients as follows:

<u>Program title</u>	<u>Grant number</u>	<u>CFDA number</u>	<u>Amount provided to subrecipients</u>
Community Development Block Grants	B-09-MC-31-0002	14.218	\$ 432,362
Community Development Block Grants	NE-26-C501001	14.218	121,004
Community Development Block Grants/ State's Program	Various	14.228	15,000
Emergency Shelter Grants Program	S-09-MC-31-0001	14.231	166,413
HOME Investment Partnership Program	M-09-DC-31-0203	14.239	2,011,102
Community Development Block Grants/ Brownfield Economic Development Initiative	Various	14.246	39,586
Juvenile Justice & Delinquency Prevention	2006-JL-FX-K034	16.540	48,750
Juvenile Justice & Delinquency Prevention	2006-JL-FX-K073	16.540	553,919
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	2005-WE-AX-0035	16.590	347,299
Public Safety Partnership and Community Policing Grants (COPS)	2007-CK-WX-0238	16.710	104,973
Weed & Seed	Various	16.725	50,335
Edward Byrne Memorial Justice Assistance Grant (JAG) program	Various	16.738	288,363
ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) program	2009-SB-B9-1369	16.804	280,020
			\$ 4,459,126

CITY OF OMAHA, NEBRASKA

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: *Unqualified opinions*
- (b) Material weaknesses in internal control were disclosed by the audit of the basic financial statements: *Yes*

Significant deficiencies in internal control were disclosed which were not material weaknesses: *Yes*
- (c) Noncompliance which is material to the basic financial statements: *No*
- (d) Material weaknesses in internal control over major programs: *Yes*

Significant deficiencies in internal control over major programs which were not material weaknesses: *Yes*
- (e) The type of report issued on compliance for major programs: *Qualified opinion for HOME Investment Partnerships Program (CFDA 14.239); Unqualified opinions on remaining*
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: *Yes*
- (g) Major programs: *Community Development Block Grants/Entitlement Grants and Community Development Block Grant – Recovery (14.218/14.253); HOME Investment Partnerships Program (14.239); and Edward Byrne Memorial Justice Assistance Grant Program and Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program (16.738/16.804)*
- (h) Dollar threshold used to distinguish between Type A and Type B programs: *\$904,155*
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: *No*

(2) Findings Related to the Basic Financial Statements Reported in accordance with Government Auditing Standards

Finding #09-01

Criteria: The City is required to establish internal controls over access to IT systems.

Condition: The City's IT service provider did not have adequate controls over access to financial systems. Active accounts had system administrator responsibilities, terminated employees had access to the system, password complexity was not enforced, and user accounts did not have password expirations.

Questioned Costs: None.

Context: IT general internal controls were determined to be ineffective.

Cause: The service provider has not effectively monitored access.

Effect: Errors were not identified and audit procedures were adjusted accordingly.

CITY OF OMAHA, NEBRASKA

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

Recommendation: We recommend that the City work with its service provider establish internal controls over access to IT information systems. Access to the system administrator function should be limited to a few individuals. Password complexity should be enforced. Terminated employees should be removed from the system.

Management Response: The City, in conjunction with Douglas County and DOT.Comm, has completed a systematic review and update of Oracle access and user responsibility. As a result of that review, only users with a direct need for inquiry or entry or system administrative responsibility remain on the user list. All other users have been deactivated. The City has also instituted new password requirements. As users change their Oracle-access passwords, the number of required characters will be changed from seven to eight. Password complexity rules in place now include use of at least one letter and one number (prevents all numeric or all alpha passwords), character repetition is not allowed, and passwords cannot contain the user's name. Passwords must also be changed on a periodic basis. Working with Human Resources and Payroll, we are developing a plan to ensure that an employee's access to Oracle is ended upon termination or retirement. Currently a list of terminated employees is sent to DOT.Comm bi-weekly and the City is exploring other options to provide a list of terminated employees immediately upon termination.

Responsible Official: Al Herink or Pam Spaccarotella

Finding #09-02

Criteria: The City is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA) in accordance with OMB Circular A-133.

Condition: The information included in the SEFA was not appropriately reviewed for accuracy and contained numerous errors.

Questioned Costs: None.

Context: The SEFA was corrected for understatements totaling \$989,055.

Cause: Internal controls over preparation of the SEFA are ineffective.

Effect: CFDA 14.231 was understated by \$48,692, CFDA 97.036 was understated by \$507,559, CFDA 97.044 was understated by \$406,802, and CFDA 97.072 was understated by \$26,002 for a total understatement of \$989,055. The SEFA was subsequently corrected.

Recommendation: We recommend the City assign responsibility to review the SEFA after preparation.

Management Response: During 2009, we initiated the centralization and standardization of grant processing within the City of Omaha Finance Department. An additional Grant Accountant was hired to assist in monitoring and reporting of grant funds. Progress was made in 2009 and we will continue refining the processes in 2010 by reviewing and closing the Grant Special Revenue Funds on a monthly basis. In 2010, the final SEFA schedule will be reviewed and signed off by the Grant Accountants, Accounting Manager, and Comptroller prior to forwarding to the auditors.

Responsible Official: Al Herink or Pam Spaccarotella

CITY OF OMAHA, NEBRASKA
Schedule of Findings and Questioned Costs
Year ended December 31, 2009

Finding #09-03

Criteria: The City should have a review process over the recording of capital assets.

Condition: Numerous audit errors in the financial statements related to capital assets were identified and corrected. Specifically, approximately 50% of the pedestrian bridge recorded by the City was actually owned by Council Bluffs, and assets contributed by Douglas County to the City were not recorded.

Questioned Costs: None.

Context: A net audit adjustment was made to increase capital assets by \$10,424,075, contribution revenue by \$4,405,522, and accumulated depreciation by \$6,018,553.

Cause: The City's internal controls failed to consider transactions with other entities.

Effect: The financial statements were misstated.

Recommendation: The review process over capital assets needs to be improved.

Management Response: The City's review process of recording the majority of capital assets is extensive and complete. In 2009, two issues relating to the ownership of fixed assets were discovered:

- 1) An agreement signed in 2000 between the City of Omaha and the City of Council Bluffs split ownership of a yet to be built pedestrian bridge. The bridge was subsequently built and placed into service in 2009. The City of Omaha, being the grant recipient, erroneously recorded 100% ownership.
- 2) Some assets received upon annexation were not recorded. Upon review, it was determined that the only assets recorded were those contributed by the annexed Sanitary Improvement Districts. Connecting streets and other assets owned by Douglas County were not recorded.

Item 1 is a very rare transaction. The original agreement took place before the City recorded infrastructure, and ten years prior to the actual recording of the asset. All accountants have been reminded to review the agreements prior to capitalizing the assets, however, we also believe our current system will track these types of ownership changes.

Regarding item 2, the process for adding contributed assets as a result of annexation will be expanded. All public fixed assets from all governmental entities will be recorded and ownership transferred. The fixed asset accountant, along with the Comptroller, will review the addition of fixed assets as a result of annexation to ensure all assets are properly recorded.

Responsible Official: Al Herink or Pam Spaccarotella

Finding #09-04

Program: Not applicable.

Federal Grantor Agency: Not applicable.

CITY OF OMAHA, NEBRASKA

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

Criteria: The City should have internal controls in place to accurately and completely prepare the comprehensive annual financial report.

Condition: The internal controls and review process over the preparation of the comprehensive annual financial report need to be strengthened. Numerous audit differences, audit adjustments, and errors in the financial statement drafts were discovered during the audit.

Questioned Costs: None.

Context: Nineteen audit adjustments were made totaling \$40,511,281.

Cause: The fund closing process is ineffective.

Effect: The financial statements were misstated.

Recommendation: The internal controls over the preparation of the comprehensive annual financial report need to be strengthened.

Management Response: The Finance Department will continue to educate and train the accounting staff. We believe that staff development will improve accuracy and reduce errors. The City has strengthened review activity by initiating a monthly close/review of all funds. The year-end review process conducted by the Manager of Accounting and the City Comptroller will be more extensive. It will include a standardized checklist for all funds. Computerized schedules and reports are being developed to assist in the preparation and review process.

Responsible Official: Al Herink or Pam Spaccarotella

Finding #09-05

Criteria: The City should have internal controls in place to properly account for nonroutine transactions.

Condition: A notes payable reported on the MECA financial statements was not appropriately recorded as a notes receivable on the City's financial statements.

Questioned Costs: None.

Context: An audit adjustment of \$4,833,675 was made.

Cause: The City failed to properly understand and account for the transaction discussed above.

Effect: The financial statements were misstated.

Recommendation: The review process over the MECA financial statements needs to be strengthened.

Management Response: The City Comptroller will annually review MECA's financial statements.

Responsible Official: Al Herink or Pam Spaccarotella

CITY OF OMAHA, NEBRASKA

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

(3) Findings and Questioned Costs Relating to Federal Awards

Finding #09-06

Programs: HOME Investment Partnership Program (14.239).

Federal Grantor Agency: U.S. Department of Housing & Urban Development.

Criteria: The City is required to ensure that on-site inspections to determine compliance with property standards are performed for HOME assisted rental housing during the period of affordability. In addition, the on-site inspection must also verify the information submitted by the owners. These inspections are to be performed every three years for projects with 1 to 4 units, every two years for projects with 5 to 25 units, and every year for projects with 26 or greater units.

Condition: The City did not perform on-site inspections within the required time period or maintain documentation of the on-site inspections.

Questioned Costs: None.

Context: The City did not have documentation supporting an on-site inspection for one project out of the 40 inspections completed in 2009. In addition, the City did not have an on-site inspection performed timely for another project.

Cause: The City had internal controls in place, however due to employee turnover, the control was not performed.

Effect: Noncompliance with property standards could go undetected.

Recommendation: The City needs to ensure that as there is employee turnover, key controls will be monitored.

Management Response: The City Planning Department has a management database that identifies required on-site inspections. The Construction Specialist should perform the inspection at the time required. As a result of a human error, the property at 2940 Woolworth Avenue was not inspected in 2006. The Construction Specialist assigned to the property resigned and a new inspector was unaware of the need for an inspection. The property was inspected on August 14, 2009 and deficiencies were found. However, the ownership has changed and the property owner has not permitted the City to inspect the property to ensure that the deficiencies were corrected. The City is in second position on its deed of trust and is not able to foreclose. After numerous attempts to obtain compliance, the property was turned over to the Planning Department Code Enforcement Division who is inspecting the property from the exterior to force compliance. To ensure that human error does not recur, the Planning Department is modifying its database to send email notices every month to the assigned Construction Specialist and the Construction Division Manager until the inspection is performed, a report prepared, and the information is entered into the database. In the case of the second property cited, the inspection must be completed before the end of 2010 and will be performed on time.

Responsible Official: Al Herink or Pam Spaccarotella

CITY OF OMAHA, NEBRASKA
Schedule of Findings and Questioned Costs
Year ended December 31, 2009

Finding #09-07

Programs: HOME Investment Partnership Program (14.239).

Federal Grantor Agency: U.S. Department of Housing and Urban Development (HUD).

Criteria: The City is required to ensure that the required reports for federal awards are accurate and complete.

Condition: The HUD 60002 was not prepared accurately. On the HUD 60002, the total amount of the award was incorrect, the number of new hires that are Section 3 residents was incorrect, and the total number of Section 3 businesses receiving construction contracts was incorrect.

Questioned Costs: None.

Context: The annual HUD 60002 contained the errors discussed above.

Cause: Internal controls were in place, but not operating effectively.

Effect: The information submitted to the U.S. Department of Housing and Urban Development is not accurate.

Recommendation: A detailed review of the HUD 60002 should be performed by someone other than the preparer before the HUD 60002 is filed.

Management Response: Ensuring accuracy in Section 3 reporting:

The City will have two individuals independently check the accuracy of HUD form 6002 to ensure that calculation and transcription errors have not occurred. This will be done prior to passing the form to the Assistant Director for review, approval, and sign-off.

The independent check will involve reviewing the accuracy 1) of the number of Section 3 new hires, 2) of the number of Section 3 businesses receiving construction contracts, and 3) of the amount of those contracts.

This independent check will examine calculations and transcriptions of the above items from the reports submitted by contractors to a summary form where all contractor information is listed, and from that summary form to HUD form 6002.

Responsible Official: Al Herink or Pam Spaccarotella