



Compliance Section

KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the City of Henderson, Nevada as of and for the year ended June 30, 2002, and have issued our report thereon dated October 30, 2002. 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.

Compliance:

As part of obtaining reasonable assurance about whether the City of Henderson, Nevada's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting:

In planning and performing our audit, we considered the City of Henderson, Nevada's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Henderson, Nevada in a separate letter dated October 30, 2002.

This report is intended solely for the information and use of 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.

Kafoury, Armstrong & Co.

Reno, Nevada
October 30, 2002

KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control over Compliance in
Accordance with OMB Circular A-133

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

Compliance:

We have audited the compliance of the City of Henderson, Nevada 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 June 30, 2002. The City of Henderson, Nevada'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 of Henderson, Nevada's management. Our responsibility is to express an opinion on the City of Henderson, Nevada'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 of Henderson, Nevada'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 opinion does not provide a legal determination on the City of Henderson, Nevada's compliance with those requirements.

As described in item 02-1 in the accompanying Schedule of Findings and Questioned Costs, the City of Henderson, Nevada did not comply with requirements regarding reporting that are applicable to its Public Safety Partnership and Community Policing Grants. Compliance with such requirement is necessary, in our opinion, for the City of Henderson, Nevada to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Henderson, Nevada complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control over Compliance:

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Henderson, Nevada's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 02-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of 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.

Kafoury, Armstrong & Co.

Reno, Nevada
October 30, 2002

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CITY OF HENDERSON, NEVADA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

<u>Name of Agency or Department</u>	<u>CFDA Number</u>	<u>Grant I. D. Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U. S. Department of Housing and Urban Development</u>			
<u>Community Planning and Development</u>			
<u>Community Development Block Grants/Entitlement Grants</u>			
Entitlement Funds	14.218		\$ 570,051
Program Income			37,046
Amount Provided to Subrecipients			456,082
Total Community Development Block Grants/Entitlement Grants			<u>1,063,179</u>
<u>HOME Investment Partnerships Program</u>			
Passed through State of Nevada, Department of Commerce	14.239		
HOME Grant - Projects			279,191
HOME Grant - Administration			70,192
Program Income			142,624
Total HOME Investment Partnerships Program			<u>492,007</u>
Total Community Planning and Development			<u>1,555,186</u>
<u>Housing</u>			
<u>Federally Assisted Low-Income Housing Drug Elimination</u>			
Passed through from the Housing Authority of Clark County	14.193		
Community Policing Grant			25,000
Total Housing			<u>25,000</u>
Total U. S. Department of Housing and Urban Development			<u>1,580,186</u>
<u>Federal Emergency Management Agency</u>			
<u>Office of National Preparedness</u>			
<u>Emergency Management Performance Grants</u>			
Passed through State of Nevada, Department of Motor Vehicles and Public Safety	83.552		
Fire Department			57,725
Total U. S. Federal Emergency Management Agency			<u>57,725</u>
<u>U. S. Department of Justice</u>			
<u>Office of Justice Programs</u>			
<u>Violence Against Women Formula Grants</u>			
Passed through State of Nevada Office of the Attorney General	16.588		
City Attorney Department			30,000
Police Department			43,256
Total Office of Justice Programs			<u>73,256</u>
<u>Office of Justice Programs - Bureau of Justice Assistance</u>			
<u>Bulletproof Vest Partnership Program</u>			
Police Department - Bulletproof Vests	16.607		4,292
Total Bulletproof Vest Partnership Program			<u>4,292</u>
<u>Local Law Enforcement Block Grants Program</u>			
Local Law Enforcement Block Grant	16.592	1999	24,612
Local Law Enforcement Block Grant		2000	34,104
Local Law Enforcement Block Grant		2001	74,959
Total Local Law Enforcement Block Grant			<u>133,675</u>
<u>Byrne Formula Grant Program</u>			
Passed through State of Nevada, Department of Public Safety, Office of Criminal Justice Assistance	16.579		
Byrne Grant		01-NC-021	6,150
Total Byrne Formula Grant Program			<u>6,150</u>
Total Office of Justice Programs - Bureau of Justice Assistance			<u>144,117</u>
<u>Office of Juvenile Justice and Delinquency Prevention</u>			
<u>Juvenile Justice and Delinquency Prevention: Allocation to States</u>			
Passed through State of Nevada Juvenile Justice Commission	16.540		
Juvenile Justice and Delinquency Prevention Grant			15,052
Total Office of Juvenile Justice and Delinquency Prevention			<u>15,052</u>
<u>Office of Community Oriented Policing Services</u>			
<u>Public Safety Partnership and Community Policing Grants</u>			
COPS Technology Grant Award	16.710	2000CKWX0025	380,549
COPS MORE01 Award		2001CLWX0074	1,000,000
COPS Universal Hiring Award		2001UMWX0194	597,958
Total Office of Community Oriented Policing Services			<u>1,978,507</u>
Total U. S. Department of Justice			<u>2,210,932</u>

CITY OF HENDERSON, NEVADA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2002

<u>Name of Agency or Department</u>	<u>CFDA Number</u>	<u>Grant I. D. Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U. S. Department of Transportation</u>			
<u>National Highway Traffic Safety Administration</u>			
<u>State and Community Highway Safety</u>	20.600		
<u>Passed through State of Nevada, Department of Motor Vehicles and Public Safety - Office of Traffic Safety</u>			
Traffic Management - Turbo Flares			17,040
Joining Forces			52,036
Every 15 Minutes			14,381
Total National Highway Traffic Safety Administration			83,457
<u>Federal Highway Administration</u>			
<u>Recreational Trails Program</u>	20.219		
<u>Passed through State of Nevada, Department of Conservation and Natural Resources - Division of State Parks</u>			
River Mountain Loop Trail		B-99-18	45,000
Trail Safety Enhancements		FY2000-11	36,275
Total Federal Highway Administration			81,275
Total U. S. Department of Transportation			164,732
<u>U. S. Department of Health and Human Services</u>			
<u>Administration on Aging</u>			
<u>Special Programs for the Aging: Title III, Part C: Nutrition Services</u>	93.045		
<u>Passed through State of Nevada, Division for Aging Services</u>			
<u>Aging Cluster</u>			
Senior Nutrition Grant		0331-04-02 & 0331-07-02	162,286
U.S.D.A. Reimbursements			18,786
Program Income			62,232
Total U. S. Department of Health and Human Services			243,304
<u>U. S. Department of Agriculture</u>			
<u>Food and Nutrition Service</u>			
<u>Special Milk Program for Children</u>	10.556		
<u>Passed through State of Nevada Department of Education</u>			
Safekey Milk Program			26,585
<u>Summer Food Service Program for Children</u>	10.559		
<u>Passed through State of Nevada Department of Education</u>			
Summer Magic Program			538
Total U. S. Department of Agriculture			27,123
<u>U. S. Environmental Protection Agency</u>			
<u>Surveys, Studies, Investigations and Special Purpose Grants</u>			
<u>Water Street Transmission Main</u>	66.606		
		XP-98968801-1	10,000
<u>Office of Ground Water and Drinking Water</u>			
<u>Capitalization Grants for Drinking Water State Revolving Fund</u>	66.468		
<u>Passed through State of Nevada - Department of Human Resources - Nevada State Health Division</u>			
State Revolving Loan Fund		Henderson-1	2,823,473
Total U. S. Environmental Protection Agency			2,833,473
<u>U. S. Department of Energy</u>			
<u>Office of Energy Efficiency and Renewable Energy</u>			
<u>Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance</u>			
<u>Passed through State of Nevada - Nevada State Energy Office</u>	81.117		
<u>Community Energy Plan</u>			
		SEP/CA/02/004	16,500
Total U. S. Department of Energy			16,500
<u>U. S. Department of the Interior</u>			
<u>National Park Service</u>			
<u>Rivers, Trails and Conservation Assistance</u>	15.921		
<u>Passed through Bureau of Reclamation, Lower Colorado Region</u>			
Equestrian Park Trail and Landscaping		00-FG-30-0065	159,536
Total U. S. Department of the Interior			159,536
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 7,293,511

CITY OF HENDERSON, NEVADA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

1. REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the City of Henderson, Nevada (the "City"). The City's reporting entity is defined in Note I to the financial statements. All expenditures of awards from federal agencies as well as expenditures of awards passed through other government agencies by the City are included on the schedule. The schedule does not include the federal award program expenditures of the City of Henderson Redevelopment Agency, a blended component unit.

2. BASIS OF ACCOUNTING

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

3. AMOUNTS PROVIDED TO SUBRECIPIENTS

Included on the Schedule of Expenditures of Federal Awards for the Community Development Block Grant, are expenditures related to payments to subrecipients. These expenditures include payments made to departments within the City of Henderson. For purposes of the Schedule of Expenditures of Federal Awards, the City considers these departments to be subrecipients, though they do not meet the definition of a subrecipient as described in OMB Circular A-133.

**CITY OF HENDERSON, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

Summary of Auditor's Results:

- Kafoury, Armstrong & Co. issued an unqualified opinion on the financial statements of the City of Henderson, Nevada for the year ended June 30, 2002.
- The audit disclosed no instances of noncompliance which were material to the financial statements of the City of Henderson.
- No reportable conditions or material weaknesses were disclosed during the audit of the financial statements.
- A reportable condition, not identified as material weaknesses, in the internal control over major programs was disclosed.
- Kafoury, Armstrong & Co. issued an unqualified opinion on compliance for major programs of the City of Henderson.
- Audit findings relative to the major federal award programs for the City of Henderson, which are required to be reported under section __.510(a) of OMB Circular A-133 are included on the following pages.
- The City of Henderson had three major programs for the year ended June 30, 2002, as follows:
 - Public Safety Partnership and Community Policing Grants – CFDA 16.710
 - Local Law Enforcement Block Grants – CFDA 16.592
 - Capitalization Grants for Drinking Water State Revolving Fund – CFDA 66.468
- The dollar threshold used to distinguish between Type A and Type B programs for the year ended June 30, 2002, was \$300,000.
- The City of Henderson qualified as a low risk auditee for the year ended June 30, 2002 under the criteria set forth in section __.530 of OMB Circular A-133.

Findings Relating to the Financial Statements Reported in Accordance with GAGAS:

There were no such findings in relation to the financial statements of the City of Henderson for the year ended June 30, 2002.

**CITY OF HENDERSON, NEVADA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

Findings and Questioned Costs for Federal Awards:

U.S. Department of Justice

Finding 02-1:

Public Safety Partnership and Community Policing Grants - CFDA #16.710

Grant Award Number: Potentially affects the grant awards included under CFDA 16.710 on the Schedule of Expenditures of Federal Awards.

Condition and Criteria: OMB Circular A-133 requires that reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

Two quarterly federal reports were selected for testing. Based on our testing, neither of the reports were prepared in accordance with the indicated basis of accounting. As a result, the reports did not agree to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards. Some required numerical fields on the reports included incorrect amounts or no amounts. In addition, one of the reports selected for testing did not accurately present the City's share of expenditures versus the federal share of expenditures. The City's share of total expenditures was not included on the reports as required.

Questioned Cost: None.

Context: The problem is systemic as there were not adequate control procedures in place to ensure that the reports were prepared accurately and in accordance with the required basis of accounting.

Effect: Reports may be completed incorrectly and consequently, funding could be temporarily withheld or terminated.

Cause: Adequate policies and procedures were not in place to provide for the accurate preparation of the SF-269 Financial Status Report. During the year, various personnel were given the responsibility of preparing these reports. Not all of these individuals were made aware of the appropriate reporting requirements. In addition, there was no independent review or approval of reports before they were submitted to the Department of Justice.

Recommendation: We recommend the City develop policies and procedures to ensure that the required Federal reports are accurately prepared.

These procedures should include ensuring the appropriate person prepares and submits the reports. This person should be provided with the necessary training to prepare accurate reports. In addition, we recommend that someone other than the person who prepares the reports, review and approve them before they are submitted to the Department of Justice.

Management's response:

See management's response on page 124.



A Place To Call Home

October 21, 2002

To: United States Department of Justice

From: Jean Santry, Internal Auditor

Subject: City of Henderson, Nevada Fiscal Year 2001-2002
External Auditor's Recommendations
Finding 02-1

A recent external audit made the following recommendation respecting reporting of this Department's Public Safety Partnership and Community Policing Grants, CFDA 16.710. We have been requested to provide you with our response to the recommendation.

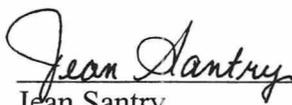
Text of Recommendation

We recommend the City develop policies and procedures to ensure that the required federal reports are accurately prepared. These procedures should include ensuring the appropriate person prepares and submits the reports. This person should be provided with the necessary training to prepare accurate reports. In addition, we recommend that someone other than the person who prepares the reports, review and approve them before they are submitted to the Department of Justice.

Department Response

Effective December 2002, policies and procedures will be implemented to insure that appropriate training is provided to a responsible employee to insure that SF-269 Financial Status Reports are prepared accurately. Additionally, procedures have been implemented to insure that the report is reviewed and approved by another individual before being submitted to the Department of Justice.

If you have any questions, please contact me at (702)565-2161.



Jean Santry
Internal Auditor

**THE CITY OF HENDERSON, NEVADA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Finding 01-1

Environmental Protection Agency

Capitalization Grants for Drinking Water State Revolving Fund – CFDA #66.468

There was no control procedure in place to ensure that the department responsible for entering into covered contracts or subawards for the above program obtain the required suspension and debarment certifications.

Current Year Status:

Corrective action was taken.

Finding 01-2

U.S. Department of Justice

Public Safety Partnership and Community Policing Grants (COPS) – CFDA #16.710

There was no control procedure in place to ensure that the department responsible for entering into covered contracts or subawards for the above program obtain the required suspension and debarment certifications.

Current Year Status:

Corrective action was taken.

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Auditor's Comments

AUDITOR'S COMMENTS

STATUTE COMPLIANCE

The required disclosure on compliance with the Nevada Revised Statutes and the Nevada Administrative Code is contained in Note III to the financial statements.

PROGRESS ON PRIOR YEAR STATUTE COMPLIANCE

The following action was taken during 2001-02 relating to potential statute violations as reported in the June 30, 2001, audit report:

- During the current year, efforts were made to monitor all expenditures and expenses. However, the City was unable to avoid all potential violations.

PRIOR YEAR RECOMMENDATIONS

There were no specific recommendations made in the audit report for the year ended June 30, 2001.

CURRENT YEAR RECOMMENDATIONS

We did not find any financial weaknesses of a magnitude to justify inclusion within our audit report. However, our audit activity did identify recommendations to improve procedures and accountability that have been included in our current management letter.

354.6115

- The financial statements of the Stabilization Fund are located in this report.
- As noted above, compliance with Nevada Revised Statutes is contained in Note III to the financial statements.

THE CITY OF HENDERSON, NEVADA
SCHEDULE OF FEES IMPOSED SUBJECT TO THE
PROVISIONS OF NRS 354.5989
LIMITATION OF FEES FOR BUSINESS LICENSES
FOR THE YEAR ENDED JUNE 30, 2002

Flat Fixed Fees:

Business license revenue for the year ended June 30, 2001 (Base Year)	\$1,294,556
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Adjustment to Base:

- | | | |
|--|--------------|----------------|
| 1. Percentage increase in population
of the local government | 5.59% | |
| 2. Percentage increase in the Consumer
Price Index for the year ending on
December 31, next preceding the
year for which the limit is being
calculated | <u>3.40%</u> | |
| | 8.99% | <u>116,381</u> |

Adjusted Base at June 30, 2002	1,410,937
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Actual Revenue	<u>1,454,771</u>
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Amount over (under) Allowable Amount	<u>\$ 43,834</u>
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Fees Calculated as a Percentage of Gross Revenue:

Business license revenue for the year ended June 30, 2001	\$8,241,600
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- | | | |
|---|-------|----------------|
| 1. Percentage increase in the Consumer
Price Index | 3.40% | <u>280,214</u> |
|---|-------|----------------|

Adjusted Base	8,521,814
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Actual Revenue	<u>8,074,466</u>
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Actual Amount over (under) Allowable Amount	<u>\$ (447,348)</u>
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