



Federal Awards Reports in Accordance with the
Single Audit Act and OMB Circular A-133
June 30, 2015

City of Buckeye, Arizona

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Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City Council of the
City of Buckeye, Arizona
Buckeye, Arizona

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the respective budgetary comparison for the general fund and major special revenue funds of the City of Buckeye, Arizona (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated December 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a deficiency in internal control that we consider to be a significant deficiency.

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 in the accompanying schedule of findings and questioned costs as 2015-A, 2015-B, 2015-C, 2015- D and 2014-E 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 in the accompanying schedule of findings and questioned costs as 2015-F to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona
December 15, 2015



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Honorable Mayor and City Council of the
City of Buckeye, Arizona
Buckeye, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Buckeye, Arizona’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, 2015. 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.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 item 2015-001. Our opinion on each federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *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.

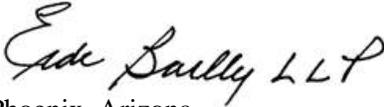
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Buckeye's basic financial statements. We issued our report thereon dated December 15, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Phoenix, Arizona
December 15, 2015

City of Buckeye, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Grantor Agency	Federal CFDA Number	Agency or Pass-through Contract Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
Bulletproof Vest Partnership Program	16.607	OMB#1121-0235	\$ 1,664
Bulletproof Vest Partnership Program	16.607		<u>1,454</u>
Total U.S. Department of Justice			<u>3,118</u>
<u>U.S. Department of Transportation</u>			
Airport Improvement Program	20.106	3-04-0005-013-2008	24,010
Airport Improvement Program	20.106	3-04-0005-017-2014	74,171
<i>Passed through the Governor's Office of Highway Safety</i>			
Highway Safety Cluster			
State and Community Highway Safety	20.600	2015-PT-050	10,590
State and Community Highway Safety	20.600	2015-TR-001	4,213
State and Community Highway Safety	20.600	2015-PT-500	9,160
State and Community Highway Safety	20.600	2015-CIOT-002	5,000
State and Community Highway Safety	20.600	2015-405d-043	33,379
Alcohol Impaired Driving Countermeasures			
Incentive Grants I	20.601	2014-401-017	28,867
National Priority Safety Programs	20.616	2015-405D-031	1,097
National Priority Safety Programs	20.616	2015-405d-043	<u>7,824</u>
Total Highway Safety Cluster			100,130
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	2015-164-001	<u>32,931</u>
Total U.S. Department of Transportation			<u>231,242</u>
<u>Environmental Protection Agency</u>			
<i>Passed through Water Infrastructure Finance Authority of Arizona</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	910158-13	3,461,506
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920240-15	521,000
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920239-13	139,358
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920241-13	<u>1,487,939</u>
Total Environmental Protection Agency			<u>\$ 5,609,803</u>

City of Buckeye, Arizona
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Grantor Agency	Federal CFDA Number	Agency or Pass-through Contract Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through the Area Agency on Aging, Region One, Inc.</i>			
Aging Cluster			
Special Programs for the Aging Title III-B, Grants for Supportive Services and Senior Centers	93.044	AAA	\$ 42,088
Special Programs for the Aging Title III-C, Nutrition Services	93.045	AAA	70,592
Nutrition Services Incentive Program	93.053	AAA	8,890
Total Aging Cluster			<u>121,570</u>
Social Services Block Grant	93.667	AAA	3,834
Total U.S. Department of Health & Human Services			<u>125,404</u>
<u>Executive Office of the President</u>			
<i>Passed through Maricopa County Sheriff's Office</i>			
High Intensity Drug Trafficking Areas Program	95.001	C-50-13-046-G-00	11,137
High Intensity Drug Trafficking Areas Program	95.001	C-50-15-075-G-00	5,814
Total Executive Office of the President			<u>16,951</u>
<u>U.S. Department of Homeland Security</u>			
Assistance to Firefighters Grant Program	97.044	EMW-2013-FO-02712	187,480
<i>Passed through Arizona Department of Homeland Security</i>			
Homeland Security Grant Program	97.067	140814-01	33,657
Homeland Security Grant Program	97.067	140815-01	46,624
Total U.S. Department of Homeland Security			<u>267,761</u>
Total Federal Expenditures			<u>\$ 6,254,279</u>

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Buckeye, Arizona, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. The City received federal awards both directly from federal agencies and indirectly through pass-through entities.

Note 2 – Significant Accounting Policies

Governmental fund types account for the City’s federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City’s summary of significant accounting policies is presented in Note 1 in the City’s basic financial statements.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major programs:	<u>CFDA Number</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

Material Weakness

2015-A Preparation of Financial Statements

Criteria or Specific Requirement: A good system of internal control contemplates the preparation of financial statements including the relevant footnote disclosures.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the City's financial statements and accompanying notes to the financial statements.

Context: This finding impacts the City's ability to internally prepare their financial statements.

Effect: The financial disclosures in the financial statements could be incomplete.

Cause: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Recommendation: This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response: The Finance Department agrees with this finding. However, given expected continuing budget constraints on staffing, the Finance Department cannot commit that they will be able to prepare City financial statements internally in future years, but will continue to provide training and take other steps to increase the Department's direct involvement in annual financial statement preparation.

2015-B Material Audit Adjustments

Criteria or Specific Requirement: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Context: This finding impacts the City's internal control for all significant accounting functions.

Effect: A material misstatement of the City's financial statements that would not be prevented or detected.

Cause: City of Buckeye does not have an internal control system designed to identify all necessary adjustments.

Recommendation: A thorough review and reconciliation of accounts should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: The Finance department agrees with this finding. We continue to diligently review all accounts, but since management is completing most of the month-end and year-end entries it is difficult to identify possible mispostings. We have extremely limited staff with accredited accounting background. In addition to the limit staff we also started to implement a new enterprise resource program which further limited the amount of time staff was able to concentrate on the day-to-day activities.

2015-C Prior Period Adjustments

Criteria or Specific Requirement: A good system of internal controls incorporates an adequate system for reviewing and processing accounting entries.

Conditions: During the course of our engagement, we proposed material current period and prior period audit adjustments related to the proper recording of utility billings that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Specifically, the auditors proposed prior period audit adjustments to the financial statements as of the beginning of the fiscal year to adjust the City's beginning net position in the amount of \$1,054,609 and \$382,912 for the Water Fund and Sewer Fund, respectively. In addition, the auditors proposed audit adjustments to the financial statements to adjust revenue and accounts receivable as of June 30, 2015 in the amounts of \$714,164 and \$1,768,773, respectively, for the Water fund and \$355,061 and \$737,973, respectively, for the Sewer fund.

Context: This finding impacts the City's internal control for all significant accounting functions.

Effects: A material misstatement of the City's financial statements in previous years that was not prevented or detected by the City's internal control system.

Recommendations: A thorough review and reconciliation of accounts should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: The Finance department agrees with this finding and we now have a better understanding of what is required at year end. We further have assigned this task to a different staff person with the experience needed to complete this correctly.

2015-D Capital Assets

Criteria or Specific Requirement: Capital assets are a significant accounting area for the City. A strong internal control structure and reconciling system should be implemented over this area to ensure that all significant activity is properly identified and accounted for.

Condition: During the fiscal year, the City continued to make noticeable efforts to improve upon its controls and processes surrounding the identification and proper recording of capital assets. However, there were material audit adjustments in the current year identified by the auditor during fieldwork and potential internal control matters were noted.

Context: This finding impacts the City's internal control for capital asset activities.

Effect: Material audit adjustments in the area of capital assets continue to be identified during audit fieldwork, which signifies that the City's internal control system does not serve to prevent and detect such misstatements.

Cause: Given the size of the City's finance department, there are limited resources to apply to the reconciliation of capital asset activity throughout the year. There is inconsistent communication between the projects department and the finance department, where capital asset conveyances are at times, not effectively communicated to the finance department. There is also no formal process for determining when assets are placed in to service.

Recommendation: We encourage the continued improvement of controls and implementation of reconciling processes in the area of capital assets and therefore recommend the following:

- The Finance Department should perform quarterly reviews and reconciliations of capital asset activity to ensure the timely and proper recording of such activity. This process should include a review of Construction-in-Progress (CIP) balances to identify completed projects, as well as the recalculation and recording of depreciation expense. The quarterly process should culminate with a review of reconciliations and resulting entries by an individual independent of their preparation.
- Donated street assets should be evaluated annually for additional related conveyed assets and a systematic approach to the valuation of donated assets should be devised and consistently implemented.
- The City should consider acquiring a fixed asset system to account for and monitor its physical assets and related depreciation as currently all asset activity is manually maintained within an Excel spreadsheet.

Response: The Finance department agrees with this finding and we continue to put forth our best efforts regarding this issue. The workload increased and it was not possible to review on a quarterly basis. Even though the depreciation calculation was verified by another staff member some items were missed. This again will be reviewed more closely going forward. We are expecting to have a fixed asset system in place for fiscal year 2017.

2015- E Utility Billing

Criteria: A good system of internal controls incorporates an adequate system for reviewing and processing customer billing and accounting entries.

Condition: Near the end of the fiscal year, the City's utility billing department identified an isolated billing error in a bill sent to a customer in the amount of \$13,459,780 for water billings and \$1,749,977 for sewer billings, which was the result of an initial meter read error for one new customer. Upon identification of the billing error, the utility billing department corrected the customer account and the impact on the City financial statements. As a result, we noted:

- A material error in utility billings that was not identified before utility bills were sent to customers.
- Lack of consistent and effective review over utility customer billing prior to bills being sent to customers.

Context: This finding impacts the City's internal control for all significant accounting functions.

Effect: As a result of the conditions noted, an isolated billing error was not caught before mailing utility bills to customers, resulting in errors in the utility billing revenue and receivable accounts. A material misstatement of the City's financial statements was not prevented or detected by the City's internal control system prior to customer billing. The error was identified after bills were sent to customers and was corrected during the next utility billing cycle.

Cause: The City of Buckeye's internal control system failed to identify a material billing error prior to utility bills being sent to customers.

Recommendation: We recommend the utility billing department perform a thorough review of all utility billings before utility bills are sent to customers.

Response: The Utility Billing department has reviewed and updated their billing processes to include a thorough review of utility bills prior to being sent to customers.

Significant Deficiency

2015 –F Payroll

Criteria or Specific Requirement: Payroll is a significant area for the City. A strong internal control structure and reconciling system should be implemented over this area to ensure that payroll related expenses are recorded and paid accurately and in accordance with approved wages.

Condition: During the course of our engagement, we selected five employees to verify that they were being paid in accordance with their approved wage rate. One out of the five employees selected was not being paid at their agreed upon rate.

Context: This finding impacts the City’s internal control for payroll related activities.

Effect: The effect of this error was the one employee was over paid for an extended period of time.

Cause: City of Buckeye does not have an internal control system designed to identify all necessary adjustments and does not have sufficient review process over this area.

Recommendation: A thorough review and reconciliation of payroll should take place prior to the payment and recording. This review should be done at both the accounting staff and accounting supervisor levels.

Response: The Human Resources department agrees with the finding and has implemented the following procedure to mitigate the possibility of further occurrences of this nature. When payroll receives a new Personnel Action Form, once the information has been entered into the payroll system, another Human Resources staff member will review the entry to confirm its accuracy.

Section III – Federal Award Findings and Questioned Cost

Significant Deficiency

2015-001 Reporting

Capitalization Grants for Clean Water State Revolving Funds 66.458

Capitalization Grants for Drinking Water State Revolving Funds 66.468

Criteria or Specific Requirement: The Water Infrastructure Finance Authority of Arizona’s (the Authority) Annual Loan Review Form and annual financial statements in a format approved by the Authority, including the report of any annual audits and all audit reports required by governmental auditing standards and any applicable Arizona rules, shall be provided by the City of Buckeye, Arizona (the Local Borrower) to the Authority within one-hundred and eighty (180) days after the end of each fiscal year of the Local Borrower. The Local Borrower

shall complete all audits and submit all reports required by the federal Single Audit Act within the time limits under that federal law, currently within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the federal agency that provided the funding or a different period is specified in a program-specific audit guide.

Condition: In testing of three federal loans outstanding and passed through the Authority to the City in the prior fiscal year, we found that no loan file reviews were submitted to the Authority.

Questioned Costs: None.

Context: These instances of noncompliance were found on three loans outstanding with the Authority in the prior fiscal year.

Effect: Reports may not be filed timely such that the federal awarding agency could withhold reimbursement for otherwise appropriate grant expenditures.

Cause: Annual Loan File Review Forms were not received by the City from the Authority for any of the three loans selected.

Recommendation: We recommend that the City implement a process to request the Annual Loan File Review Forms from the Authority in order to receive them and submit them in the time requirement prescribed in the loan agreements.

Response: The Finance Department agrees with the finding and going forward will ensure the Authority will send all the necessary forms for all the loans and not just one. We will contact the Authority at year end and request the necessary paperwork.

Section IV – Summary of Prior Findings

2014-001 Procurement

Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468

Recommendation: A thorough review of current City policies, procedures, and best practices should be undertaken to bring the City into compliance with state and federal requirements. Controls should be developed and implemented to provide for full and open competition. Cost or price analysis should be performed in connection with procurement actions.

Status of Corrective Action Plan: Does not warrant further action.

2014-002 Cash Management and Reporting

U.S. Department of Housing and Urban Development Community Development Block Grant CFDA 14.218

Recommendation: We recommend that the City implement a formal and consistent process by which required federal and programmatic cash management reports are reviewed by an individual independent of their preparation to ensure timely and accurate reporting.

Status of Corrective Action Plan: Implemented.