

CITY OF EVANSTON, ILLINOIS

SINGLE AUDIT ACT
SUPPLEMENTARY FINANCIAL
AND COMPLIANCE REPORT

YEAR ENDED FEBRUARY 28, 2011

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CITY OF EVANSTON, ILLINOIS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2011
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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

To the Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
Evanston, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evanston, Illinois, as of and for the year ended February 28, 2011, which collectively comprise the City of Evanston's basic financial statements and have issued our report thereon dated August 26, 2011. We have also audited the adjustment that was applied to restate the 2010 financial statements in order to correct an error. In our opinion such adjustment is appropriate and has been properly applied. 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. The financial statements of the Township of Evanston were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Evanston'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 of Evanston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Evanston's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 some of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. The material weaknesses are items 2011-2 and 2011-3.

Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
Evanston, Illinois

A significant deficiency is a deficiency, or 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 some of the deficiencies described in the schedule of findings and questioned costs to be significant deficiencies. The significant deficiencies are items 2011-1 and 2011-4.

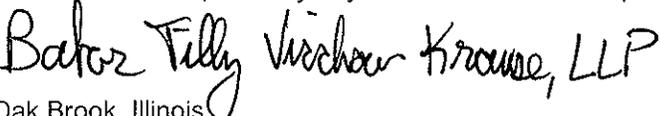
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Evanston'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 of Evanston in a separate letter dated August 26, 2011.

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

This report is intended solely for the information and use of the City of Evanston's management, the City Council, others within the entity, 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.


Oak Brook, Illinois
August 26, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
Evanston, Illinois

Compliance

We have audited the compliance of the City of Evanston, Illinois, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended February 28, 2011. The City of Evanston'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 Evanston's management. Our responsibility is to express an opinion on the City of Evanston'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 Evanston's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Evanston's compliance with those requirements.

In our opinion, the City of Evanston complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended February 28, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-5 and 2011-7.

Internal Control Over Compliance

The management of the City of Evanston 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 Evanston'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, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Evanston's internal control over compliance.

Honorable Elizabeth B. Tisdahl, Mayor and
Members of the City Council
Evanston, Illinois

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-5, 2011-6 and 2011-7. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evanston, Illinois, as of and for the year ended February 28, 2011, which collectively comprise the City of Evanston's basic financial statements and have issued our report thereon dated August 26, 2011. We have also audited the adjustment that was applied to restate the 2010 financial statements in order to correct an error. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Evanston'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 of Evanston's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Evanston's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Evanston's management, City Council, others within the entity, the 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.



Oak Brook, Illinois
November 10, 2011, except for the schedule
of expenditures of federal awards, as
to which the date is August 26, 2011

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Identifying Number	Expenditures for the Fiscal Year
Direct Programs - Grants			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
COMMUNITY PLANNING AND DEVELOPMENT			
Community Development Block Grants/Entitlement Grants			
Entitlement year 33	14.218	B07-MC-170012	\$ 11,449
Entitlement year 35	14.218	B09-MC-170012	165,706
Community Development Block Grants ARRA Entitlement Grants	14.253	B09-MC-170012	19,715
Entitlement year 36	14.218	B10MC-170012	<u>1,976,846</u>
Total Community Development Block Grant Cluster			<u>2,173,716</u>
 Emergency Shelter Block Grants Program	 14.231	 S10-MC-170012	 <u>85,729</u>
Total Emergency Shelter Block Grant			<u>85,729</u>
 HOME Investment Partnerships Program	 14.239	 M04-MC-170218	 112,787
HOME Investment Partnerships Program	14.239	M05-MC-170218	290,911
HOME Investment Partnerships Program	14.239	M06-MC-170218	23,911
HOME Investment Partnerships Program	14.239	M07-MC-170218	42,475
HOME Investment Partnerships Program	14.239	M08-MC-170218	119,264
HOME Investment Partnerships Program	14.239	M09-MC-170218	100,566
HOME Investment Partnerships Program	14.239	M10-MC-170218	<u>789</u>
Total HOME Investment Partnerships Program			<u>690,703</u>
 ARRA - Homeless Prevention and Rapid Pre-Housing Program (Recovery Act Funded) (HPRP) *	 14.257	 S09-HY-170012	 <u>401,943</u>
 ARRA - Neighborhood Stabilization Program (Recovery Act Funded) *	 14.256	 B-09-LN-II.-0026	 <u>4,207,261</u>
Total Department of Housing and Urban Development			<u>7,559,352</u>
 DEPARTMENT OF JUSTICE			
Public Safety Partnership & Community Policing Grants	16.710	2008CKWX0591	66,952
Public Safety Partnership & Community Policing Grants	16.710	2008CKWX0593	<u>136,229</u>
Total Public Safety Partnership & Community Policing Grants			<u>203,181</u>
 Crime Victim Assistance Grant	 16.575	 208045	 19,824
Crime Victim Assistance Grant	16.575	209045	<u>14,802</u>
Total Crime Victim Assistance Grant			<u>34,626</u>
 Juvenile Accountability Incentive Block Grants	 16.523	 506129	 5,248
Juvenile Accountability Incentive Block Grants	16.523	507029	<u>18,083</u>
Total Juvenile Accountability Incentive Block Grants			<u>23,331</u>
Total Department of Justice			<u>261,138</u>

*Denotes a major program

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Identifying Number	Expenditures for the Fiscal Year
FEDERAL EMERGENCY MANAGEMENT AGENCY			
STATE AND LOCAL PROGRAMS AND SUPPORT			
Passed through the Illinois Emergency Services and Disaster Agency			
Emergency Management Performance Grants	97.042	497-58830-4400	\$ 31,769
Emergency Management Performance Grants	97.042	18000312458200	<u>6,347</u>
Total Federal Emergency Management Agency			<u>38,116</u>
 DEPARTMENT OF AGRICULTURE			
Summer Food Service Program for Children	10.559	05016510P00	76,130
Child & Adult Care Food Program	10.558		15,634
Summer Food Inspection Program for Children	10.559		<u>450</u>
Total Department of Agriculture			<u>92,214</u>
 DEPARTMENT OF HEALTH AND HUMAN SERVICES			
OFFICE OF HUMAN DEVELOPMENT SERVICES			
Passed through Suburban Area Agency on Aging Ombudsman (Older Americans Act Title III B)			
Title III Part D Disease Prevention and Health Promotion Services	93.043	B119	2,082
Title III Part B Grants for Supportive Services and Senior Centers	93.044	B119	<u>28,972</u>
Total Office of Human Development Services			<u>31,054</u>
 HEALTH CARE FINANCING ADMINISTRATION			
Passed Through State of Illinois Department of Human Services			
Maternal and Child Health Services Block Grants to the States	93.994	11GL095000	6,626
Maternal and Child Health Services Block Grants to the States	93.994	11GM095000	<u>28,922</u>
Total Maternal and Child Health Services Block Grants to the States			<u>35,548</u>
Social Services Block Grant	93.667	11GM095000	<u>15,129</u>
Total Teen Parent Services			<u>15,129</u>

*Denotes a major program

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Identifying Number	Expenditures for the Fiscal Year
Passed Through State of Illinois Department of Public Health Beach Monitoring and Notification Program Implementation Grants	66.472	15380158	\$ 11,135
Total Beach Water Testing			<u>11,135</u>
Total Department of Health and Human Services			<u>92,866</u>
DEPARTMENT OF TRANSPORTATION			
REGIONAL TRANSPORTATION AUTHORITY			
Chicago Ave Traffic Signal Project			66,400
Highway Planning and Construction	20.205	08-00251-00-13R	48,179
Highway Planning and Construction	20.205	HPP-0299 (106)	1,252
Highway Planning and Construction	20.205	102121	<u>86,518</u>
Total Department of Transportation			<u>202,349</u>
DEPARTMENT OF ENERGY			
ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT			
ARRA EECBG-Residential Weatherization Program	81.128		213,873
ARRA EECBG-Water Plant HVAC System	81.128		6,760
ARRA EECBG-Water Plant HVAC System	81.128		<u>52,265</u>
Total Energy Efficiency & Conservation Grant			<u>272,898</u>
Total Federal Financial Awards			\$ <u>8,518,933</u>

CITY OF EVANSTON
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended February 28, 2011

NOTE 1 – REPORTING ENTITY

This report on Federal Awards includes the federal awards of the City of Evanston, Illinois. The reporting entity for the city is based upon criteria established by the Governmental Accounting Standards Board.

The City of Evanston is the primary government according to GASB criteria, while the Town of the City of Evanston (Township) is a component unit.

Federal awards received directly by the Township are not included in this report since the Township's maintains a different fiscal year end. Those amounts, if any, are audited in conjunction with that fiscal year end and reported in a separate report.

NOTE 2 – BASIS OF PRESENTATION

The accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

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*.

NOTE 3 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City of Evanston provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Emergency Shelter Block Grant	14.231	\$81,444
Community Development Block Grant (CDBG)	14.218	\$453,397
ARRA – Homeless Prevention Assistance (HPRP)	14.257	\$338,207

CITY OF EVANSTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2011

NOTE 4 – PROGRAM INCOME

The City of Evanston received the following program income amounts for the year ended February 28, 2011. The balances of receipts are from letter of credit drawdowns for the program. The program expenditures for the year include expenditures of this program income.

<u>Program</u>	<u>CFDA No.</u>	<u>Amount</u>
Community Development Block Grant (CDBG)	14.218	\$145,855
HOME Investment Partnership (HOME)	14.239	\$27,384

NOTE 5 – LOANS RECEIVABLE OUTSTANDING

The City of Evanston had the following loan receivable balances outstanding at February 28, 2011:

<u>Program</u>	<u>CFDA No.</u>	<u>Amount</u>
Community Development Block Grant (CDBG)	14.218	\$1,951,071
HOME Investment Partnership (HOME)	14.239	\$2,586,776

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no	
Significant deficiency(s) identified?	<u> X </u> yes	<u> </u> none reported	

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(s) identified?	<u> X </u> yes	<u> </u> none reported	

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
ARRA - Neighborhood Stabilization Program 2 (NSP2)	14.256
ARRA - Homeless Prevention Assistance (HPRP)	14.257

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section II-Financial Statement Findings

Finding number: 2011-1

Criteria: The City must have functioning internal controls over information technology.

Condition: Significant deficiencies in internal control over information technology were found during our audit.

Context: During the course of our audit, we assessed the internal controls over information technology (IT). We noted that some of the City's software systems such as CryWolf, JDE, and RecTrac require passwords but the passwords do not meet industry standards for length, expiration, characters, and history (passwords cannot be repeated).

Effect: Deficiencies in control over information technology could result in system errors or the compromise of the City's systems and thus impact the financial information of the City.

Cause: This finding was caused by deficiencies in the information technology systems and procedures.

Recommendation: We recommend that management evaluate their internal controls over information technology and develop controls to prevent and detect system errors or breaches.

Management Response: The referenced systems - CryWolf, JDE and RecTrac are purchased packages and the City cannot change the password handling in these systems. JDE could be upgraded to use our Active Directory and then would be in compliance with best practices.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section II-Financial Statement Findings

Finding number: 2011-2

Criteria: The City must have functioning internal controls over its various transaction cycles.

Condition: The City has a material weakness in its internal controls over journal entries.

Context: The ability to prepare and initiate journal entries is delegated to various levels of finance employees. These entries do not post to the system until the Accounting Manager reviews and approves them. However, there is no review and approval of journal entries initiated and recorded by the Accounting Manager. An entry could be made or improperly supported without the City's knowledge.

Effect: Lack of proper internal controls could result in a potential material misstatement of the financial statements.

Cause: This material weakness was caused by a lack of adequate staffing and procedures in place to have an effective system of internal controls.

Recommendation: We recommend that management review this material weakness and decide which controls management can implement to address it.

Management Response: The City believes there are adequate controls in place for journal entry management. It is not common for organizations to have three steps in journal entry review and is much more accepted to have entries done by one staff member and reviewed by the manager. To add another level of management/review would be overly redundant and not cost efficient.

The City made changes during the fiscal year allowing only the Accounting Manager to approve journal entries based on the auditor's recommendation last year. Department directors periodically review transactions posted to their business units to identify/investigate any material variances from the budget numbers. The Budget Division prepares monthly financials which would serve as yet another tool to discover any material misstatements.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section II-Financial Statement Findings

Finding number: 2011-3

Criteria: The City must have functioning internal controls over external financial reporting.

Condition: Material audit entries and corrections to the footnotes were required for the financial statements to be properly stated as of February 28, 2011.

Context: During the course of our audit, material misstatements of the financial statements were found, resulting in an audit adjustment. The adjustment to the financial statements included the following:

1. A restatement of net assets to record the prior year ERI liability in the Governmental Activities, Water Fund, Sewer Fund and Parking Fund for \$6,798,305, \$711,451, \$158,100 and \$237,150 respectively.

Effect: The material ERI liability was not identified and properly recorded in prior years.

Cause: This finding was caused by insufficient internal controls over the external financial reporting process.

Recommendation: We recommend that management evaluate their internal controls over financial reporting and develop controls to prevent and detect material misstatements in the financial records. Management might consider seeking additional training in this area.

Management Response: The City issued \$8,000,000 Series 2010B Bonds during the fiscal year to pay off Early Retirement Incentive (ERI) Pension liability to IMRF. The liability was the result of ERI offer accepted by several employees during the FY 2007-08. While performing the Audit for FY 2010-11, the Auditors felt the need to restate the financials for Governmental activities, Water Fund, Sewer Fund and Parking Fund for the proportionate amount of Series 2010B Bonds as mentioned above. This liability was actually incurred in 2007-08 and 2008-09. During 2008-09 and 2009-10 the City paid an additional charge to IMRF for the defeasance of the ERI.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section II-Financial Statement Findings

Finding number: 2011-4

Criteria: The City must have functioning internal controls over the cash receipts process, including appropriate segregation of duties.

Condition: Significant deficiencies in internal control over the cash receipts process were found during our audit.

Context: During the course of our audit, we noted that the Operations Coordinator in the Collector's Office is responsible for reconciling daily cash receipts collected by the cashiers, preparing the deposit for pickup by Garda, and posting receipts to the City's accounting system. This presents a risk of the misappropriation of cash receipts to be concealed within the accounting system. We recommend that a second individual review the amount prepared for deposit in comparison to the original cash register reports and amounts posted to the general ledger for accuracy.

Effect: The City is at risk of misappropriation of cash receipts being concealed with the accounting system as one person is responsible for reconciling, recording, and posting functions.

Cause: This finding was caused by insufficient internal controls over the cash receipts process.

Recommendation: We recommend that management evaluate their internal controls over cash receipts and develop controls that focus on segregating, initiating, recording and control functions to prevent misappropriation of cash receipts.

Management Response: The City specifically asked for and received an audit of Collector's Office operations, which is attached. The City concurs with the Auditor's recommendation of review by second person.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section III-Federal Award Findings and Questioned Costs

Finding number: 2011-5

CFDA # 14.256

Program Title: ARRA - Neighborhood Stabilization Program (Recovery Act Funded)

Criteria: The City must have functioning internal controls over the grant reporting process.

Condition: Significant deficiencies in internal control over the grant reporting process were found during our audit.

Context: During the course of our audit we noted that the City did not submit HUD form 60002, which is a required performance report for grant 14.256, Recovery Funded Neighborhood Stabilization Program. This report was due as of January 10, 2011.

Effect: The City as at risk of facing corrective action from HUD for not being in compliance with required performance reporting.

Questioned Costs: \$0

Cause: This finding was caused by insufficient internal controls over the grant reporting process.

Recommendation: We recommend that management evaluate their internal controls over the grant reporting process and develop controls that ensure all required grants reports are identified and are being submitted on a timely basis in accordance with documented due dates.

Management Response: Representatives at HUD have not contacted us about the form 60002 and there has not been clear direction from HUD regarding when it is to be filed, although staff has reviewed the City's Section 3 plan and discussed its implementation at HUD trainings, including the NSP Problem Solving Clinic in Detroit in December 2010. For 2010, there was minimal Section 3 activity to report, as almost all contracts covered by Section 3 have occurred in calendar year 2011. Staff will confirm with HUD if the 60002 report for calendar year 2010 should be filed.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section III-Federal Award Findings and Questioned Costs

Finding number: 2011-6

CFDA # 14.256

Program Title: ARRA - Neighborhood Stabilization Program (Recovery Act Funded)

Criteria: The City must have functioning internal controls over the grant reporting process.

Condition: Significant deficiencies in internal control over the grant reporting process were found during our audit.

Context: During the course of our audit we noted that the City did not have a process to agree reported expenditures to reliable system data for the grant 14.256, Recovery Funded Neighborhood Stabilization Program. Being able to support reported expenditures with reliable system data such as general ledger expenditure detail is a required internal control requirement.

Effect: The City as at risk of reporting inaccurate expenditures as expenditures cannot be agreed back to reliable system data.

Questiond Costs: \$0

Cause: This finding was caused by insufficient internal controls over the grant reporting process.

Recommendation: We recommend that management evaluate their internal controls over the grant reporting process and develop controls that ensure all reported expenditures can be supported by reliable system data.

Management Response:

This finding relates to the total dollars reported as expended in the Q4 2010 DRGR report. Following HUD guidance staff estimated administrative and program delivery costs that had been incurred, but not billed or drawn down in DRGR. The purpose of this estimate was to reflect activities that had been undertaken during the report period but that had not been billed or drawn down in DRGR. These unbilled expenses were not yet in the general ledger, therefore could not be matched.

All NSP2 funds that were drawn in DRGR had supporting documentation that was thoroughly reviewed by staff before being drawn. The estimate of expended NSP2 funds that had not been drawn down was based on administrative costs, including staff time, as well as estimates from the developer of program delivery costs such as appraisals that had been incurred but not paid.

As of the 1Q2011 DRGR report, staff has been reporting only those funds drawn down for expended NSP2 funds and is not including estimates of costs incurred but not billed or drawn.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 28, 2011

Section III-Federal Award Findings and Questioned Costs

Finding number: 2011-7

CFDA # 14.257

Program Title: ARRA - Homeless Prevention and Rapid Pre-Housing Program

Criteria: The City must have functioning internal controls over the grant reporting process.

Condition: Significant deficiencies in internal control over the grant reporting process were found during our audit.

Context: During the course of our audit we noted that the City did not submit report SF-272, which is required performance report for grant 14.257, Homeless Prevention and Rapid Re-Housing Program (HPRP) Recovery Act Funded. This is a required Financial report for the HPRP Grant.

Questioned Costs: \$0

Effect: The City as at risk of facing corrective action from HUD for not being in compliance with required performance reporting.

Cause: This finding was caused by insufficient internal controls over the grant reporting process.

Recommendation: We recommend that management evaluate their internal controls over the grant reporting process and develop controls that ensure all required grants reports are identified and are being submitted on a timely basis in accordance with documented due dates.

Management Response: The City did not submit quarterly SF-272 reports for HPRP because staff was not aware of this requirement. Guidance on HPRP reporting on HUD's Homelessness Resource Exchange, the primary resource for the program, does not include any mention of this report in the section titled "Data Collection and Reporting" at <http://hudhre.info/hprp/index.cfm?do=viewHPRPData>. Staff contacted the City's HUD Representative in the Chicago field office, who confirmed with her Program Manager that the SF-272 should be filed for this grant. Staff asked if reports should be filed for past quarters and received direction on August 16, 2011 to begin submitting them on a quarterly basis, but not to submit for past quarters. The City will file the SF-272 for HPRP for Q3 2011 and subsequent quarters per this direction.

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