

**CITY OF OCEANSIDE, CALIFORNIA**  
**SINGLE AUDIT OF FEDERAL AWARDS**  
**JUNE 30, 2007**

CITY OF OCEANSIDE, CALIFORNIA

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November 23, 2007

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and  
Members of City Council  
City of Oceanside  
Oceanside, California

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 Oceanside, California (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we have reported to the management of the City of Oceanside in a separate letter dated November 23, 2007.

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

*Diehl, Evans and Company, P.C.*



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

The Honorable Mayor and  
 Members of City Council  
 City of Oceanside  
 Oceanside, California

Compliance

We have audited the compliance of City of Oceanside (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 Finding No.'s 2007-01 and 2007-02.

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## Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in the City's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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

## 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 Oceanside, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 23, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Diell, Evans and Company, LLP*

March 27, 2008, except to the date for the Schedule of Expenditures of Federal Awards, to which the date is November 23, 2007.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF OCEANSIDE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant - Entitlement Grant	14.218	B06-MC-06-0547	\$ 2,335,464	\$ 315,000
Emergency Shelter Grants Program	14.231	S06MC060547	88,093	-
Supportive Housing Program	14.235	CA 16B510007	86,423	-
HOME Investment Partnership Program	14.239	M06-MC-06-0523	593,301	-
Section 8 Housing Choice Vouchers	14.871	CA 132VO	12,577,961	-
Total U.S. Department of Housing and Urban Development			15,681,242	315,000
<u>U.S. Department of Justice</u>				
Direct Programs:				
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0407	22,032	-
Public Safety Partnership and Community Policing Grant	16.710	2001CLWX0038	21,791	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-1300	44,760	-
Total U.S. Department of Justice			88,583	-
<u>U.S. Department of Transportation</u>				
Passed through California Department of Transportation:				
Highway Planning and Construction	20.205	BRLKS-5079(019)	4,362,036	-
		CML-5079(026)	59,699	-
Subtotal			4,421,735	-
Passed through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT0611	171,705	-
Total Department of Transportation			4,593,440	-

(Continued)

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 7).

CITY OF OCEANSIDE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)

For the year ended June 30, 2007

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Homeless Youth Shelter	93.623	09CY5132/02 09CY5132/01	\$ 97,354	\$ -
<u>U.S. Department of Homeland Security</u>				
Passed through City of San Diego, Office of Homeland Security:				
Urban Areas Security Initiative	97.008	2004-14	44,057	-
<u>Homeland Security Cluster</u>				
Passed through City of San Diego, Office of Homeland Security:				
State Homeland Security Program	97.073	2005-15	297,730	-
Passed through County of San Diego:				
State Domestic Preparedness Equipment Support Program	97.004	2004-45	6,992	-
Homeland Security Grant Program	97.067	2006-71	87,889	-
State Homeland Security Program	97.073	2005-15	66,138	-
Subtotal - Homeland Security Cluster			458,749	-
Total U.S. Department of Homeland Security			502,806	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 20,963,425	\$ 315,000

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 7).

CITY OF OCEANSIDE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2007

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Oceanside (the City). The City's reporting entity is defined in Note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies, federal financial assistance passed through other government agencies to the City, as well as federal financial assistance passed through the County of San Diego is included in the accompanying schedule.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in the Note 1 of the notes to the City's financial statements.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying schedule agree with amounts reported in federal financial reports.

5. FEDERALLY FUNDED LOANS:

The City administers loans, primarily deferred loans, made from funds provided by the following federal programs:

<u>Federal Programs</u>	<u>Loans Expended During the Year Ended June 30, 2007</u>	<u>Loans Outstanding as of June 30, 2007</u>
Community Development Block Grant - Entitlement Grant	\$ 98,691	\$ 1,875,654
HOME Investment Partnership Program	\$ 303,000	\$ 2,301,857

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and the Schedule of Expenditures of Federal Awards (pages 5 and 6).

CITY OF OCEANSIDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2007

1. Summary of Auditors' Results:

a. Type of Report on Financial Statements:

Unqualified Opinion

b. Significant Deficiencies at Financial Statement Level:

None noted

c. Noncompliance Material to Financial Statements:

None noted

d. Significant Deficiencies for Major Programs:

None noted

e. Type of Report on Compliance for Major Programs:

Unqualified opinion

f. Findings Required to be Reported Under Section 510(a) and OMB Circular A-133:

See Finding No.'s 2007-01 and 2007-02

g. Dollar Threshold Used to Distinguish Between Type A and Type B Programs:      \$ 628,903

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF OCEANSIDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2007

1. Summary of Auditors' Results (Continued):

h. Major Programs:

The programs tested as a major programs were:

Community Development Block Grant - Entitlement Grant - CFDA No. 14.218

Section 8 Housing Choice Vouchers - CFDA No. 14.871

Highway Planning and Construction - CFDA No. 20.205

Homeland Security Cluster

State Domestic Preparedness Equipment Support Program - CFDA No. 97.004

Homeland Security Grant Program - CFDA No. 97.067

State Homeland Security Program - CFDA No. 97.073

i. Low-Risk Auditee:

The City of Oceanside was determined to be a high-risk Auditee.

2. Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards:

None noted

3. Findings and Recommendations Relating to Major Federal Awards:

Finding No. 2007-01 - Earmarking

**Major Program**

U.S. Department of Housing and Urban Development - Community Development Block Grant - Entitlement Grant (CFDA No. 14.218).

**Condition**

The results of our earmarking test work indicated the City used more than 20 percent of the total grant for planning and administration costs.

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF OCEANSIDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2007

3. Findings and Recommendations Relating to Major Federal Awards (Continued):

Finding No. 2007-01 - Earmarking (Continued)

**Criteria**

The applicable federal code (24 CFR 570.205 and 570.206) states, "Not more than 20 percent of the total grant, plus 20 percent of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration".

**Effect**

The City may be penalized or fined for its noncompliance with program compliance requirements.

**Questioned Cost**

\$945

**Recommendation**

We recommend that the City establish procedures to ensure that they do not obligate more than 20 percent of the total grant and 20 percent of program income for planning and administration activities during a program year. The performance of these procedures should be documented to ensure compliance with the monitoring and review programs.

**Management Response**

The City will review Planning and Administration costs carefully prior to the end of Program Year 2007 and before submitting the final CDBG drawdown request to ensure that the City meets this requirement.

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF OCEANSIDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2007

3. Findings and Recommendations Relating to Major Federal Awards (Continued):

Finding No. 2007-02 - Reporting

**Major Program**

U.S. Department of Housing and Urban Development - Community Development Block Grant - Entitlement Grant (CFDA No. 14.218).

**Condition**

The results of our reporting test work indicated the City did not file the Federal Cash Transactions Reports for the quarters ended September 30, 2006 and December 31, 2006.

**Criteria**

The OMB Circular A-133 compliance guidelines require the City to file the quarterly Federal Cash Transactions Reports.

**Effect**

The City may be penalized or fined for its noncompliance with program compliance requirements.

**Questioned Cost**

None noted.

**Recommendation**

We recommend that the City establish procedures to ensure that required reports are filed on a timely basis. The performance of these procedures should be documented to ensure compliance with the monitoring and review programs.

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF OCEANSIDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2007

3. Findings and Recommendations Relating to Major Federal Awards (Continued):

Finding No. 2007-02 - Reporting (Continued)

**Management Response**

The City has established a program to ensure prompt and timely filing of the SF 272 Federal Cash Transaction reports. Reports were filed for quarters ending 03/31/2007 and 6/30/2007.

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF OCEANSIDE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2007

Finding No. 2006-1 - Grant Administration

**Major Program**

The City did not report all federal expenditures in the Schedule of Expenditures of Federal Awards.

**Condition**

Because of the failure to report all federal expenditures in the Schedule of Expenditures of Federal Awards, major programs were not identified.

**Questioned Costs**

None noted

**Recommendation**

We recommend that the City setup grant handling policy and report all Federal expenditures in the Schedule of Expenditures of Federal Awards.

**Current status**

This finding has been corrected.

Finding No. 2004-2 - U.S. Department of Housing and Urban Development EDI Grant - Libby LK CC (CFDA Number 14.246) - Reporting

**Condition**

During the performance of our audit, we noted the following:

- a. Progress reports, which were required to be filed every 6 months, were not submitted as stated in the grant document.
- b. Grant close-out agreement, final financial report and final performance report, which were required to be filed within 90 days of the project completion, were not completed in a timely manner.

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF OCEANSIDE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(CONTINUED)

For the year ended June 30, 2007

Finding No. 2004-2 - U.S. Department of Housing and Urban Development EDI Grant - Libby LK CC  
(CFDA Number 14.246) - Reporting (Continued)

**Questioned Costs**

None noted

**Recommendation**

We recommend that the City strengthen its control governing financial report submission process to ensure that it is performed in a timely manner.

**Current status**

This finding has been corrected.

See 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 and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards (pages 1 through 4).