

CITY OF WAUKEGAN, ILLINOIS

SINGLE AUDIT REPORT

For the Year Ended
April 30, 2017



CITY OF WAUKEGAN, ILLINOIS
TABLE OF CONTENTS

	<u>Page(s)</u>
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 <i>Government Auditing Standards</i>	1-2
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3-5
Schedule of Expenditures of Federal Awards.....	6-7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs.....	9-15
Corrective Action Plan.....	16-22

**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***

The Honorable Mayor
Members of the City Council
City of Waukegan, Illinois

We have audited, in accordance with the 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Waukegan, Illinois (the City), as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 8, 2017. The financial statements of the Waukegan Public Library, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Waukegan Public Library.

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.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control 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 or significant deficiencies may exist that were not identified. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that, we consider to be a material weakness.

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*.

The 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Naperville, Illinois
November 8, 2017



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor
Members of the City Council
City of Waukegan, Illinois

Report on Compliance for Each Major Federal Program

We have audited the City of Waukegan, Illinois’ (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended April 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Those standards and the Uniform Guidance 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 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 of Waukegan, Illinois complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 to 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

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.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of 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 the Uniform Guidance, 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 type of compliance requirement of a federal program 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 8, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Sikich LLP

Naperville, Illinois
November 8, 2017

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended April 30, 2017

Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA Number	Program/Grant Number	Expenditures	Amount Provided to Subrecipients
		CDBG - Entitlement Grants Cluster				
U.S. Department of Housing and Urban Development	N/A	Community Development Block Grants/Entitlement Grants	14.218*	N/A	\$ 1,277,473	\$ 127,134
		Total CDBG - Entitlement Grants Cluster			<u>1,277,473</u>	<u>127,134</u>
U.S. Department of Housing and Urban Development	Lake County Consortium	Home Investment Partnership Program	14.239	N/A	<u>134,068</u>	<u>-</u>
		Total US Department of Housing and Urban Development			<u>1,411,541</u>	<u>127,134</u>
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2013)	16.738	2013-DJ-BX-0311	25,000	-
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2014)	16.738	2014-DJ-BX-1219	5,929	-
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2015)	16.738	2015-DJ-BX-0107	34,724	-
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2016)	16.738	2016-DJ-BX-0243	35,077	-
U.S. Department of Justice	N/A	Bulletproof Vest Partnership Program (2016)	16.607	41-1458127	15,513	-
U.S. Department of Justice	N/A	Equitable Sharing Program	16.922	N/A	<u>219,318</u>	<u>-</u>
		Total U.S. Department of Justice			<u>335,561</u>	<u>-</u>
U.S. Department of Homeland Security	N/A	2014 - Assistance to Firefighters Grant	97.044	EMW-2014-fv-01227	<u>486,363</u>	<u>-</u>
		Total U.S. Department of Homeland Security			<u>486,363</u>	<u>-</u>
		Highway Safety Cluster				
U.S. Department of Transportation	Illinois Department of Transportation	FFY 2016 Sustained Traffic Enforcement Program (STEP Grant)	20.600	OP-16-0048	35,078	-
		FFY 2017 Sustained Traffic Enforcement Program (STEP Grant)	20.600	OP-17-0100	<u>27,106</u>	<u>-</u>
		Total Highway Safety Cluster			<u>62,184</u>	<u>-</u>
		Highway Planning & Construction Cluster				
U.S. Department of Transportation	Illinois Department of Transportation	Highway Planning & Construction	20.205	12-00239-00-BR	163,582	-
		Lakefront Bike Path	20.205	CMM-9003(018)	<u>9,155</u>	<u>-</u>
		Total Highway Planning & Construction Cluster			<u>172,737</u>	<u>-</u>
		Total U.S. Department of Transportation			<u>234,921</u>	<u>-</u>

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended April 30, 2017

Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA Number	Program/Grant Number	Expenditures	Amount Provided to Subrecipients
U.S. Department of Environmental Protection Agency	Illinois Department of Natural Resources	Great Lakes Program - Beach Sweeper	66.469	GLRI 2034	\$ 39,534	\$ -
		Facilitation of Waukegan Waterfront Working Group	66.469	GLRI 16-003	<u>16,573</u>	<u>-</u>
		Total U.S. Department of Environmental Protection Agency			<u>56,107</u>	<u>-</u>
U.S. Department of Commerce	Illinois Department of Natural Resources	Waukegan Harbor AOC Sustainable Shoreline Plan	11.419	15-048-N14-19	21,908	-
		Waukegan Beach Management Plan	11.419	NOAA 13 03 21	<u>27,708</u>	<u>-</u>
		Total U.S. Department of Commerce			<u>49,616</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS					<u>\$ 2,574,109</u>	<u>\$ 127,134</u>

* Denotes major federal program

CITY OF WAUKEGAN, ILLINOIS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended April 30, 2017

Note A - Basis of Accounting

The accompanying schedule of expenditures of federal awards has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). It is a summary of the activity of the City's federal award programs prepared on the accrual basis of accounting. Accordingly, expenditures are recognized when the liability has been incurred and revenues are recognized when the qualifying expenditure has been incurred.

Note B - Subrecipients

Of the federal expenditures presented in this schedule, the City provided federal awards to subrecipients from the Community Development Block Grants/Entitlement Grants Program (CFDA #14.218) in the amount of \$127,134.

Note C - Other Information

The City did not receive or provide any federal insurance, free rent, or noncash assistance during the year ended April 30, 2017.

Note D - Community Development Block Grant Loans (CFDA #14.218)

The amount of loans outstanding at April 30, 2017 under the Community Development Block Grants/Entitlement Grants Program (CFDA #14.218) was \$1,038,531. Current year disbursements totaled \$114,210. The current year loan disbursements are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The loans have no continuing compliance requirements aside from loan repayment.

Note E - 10% De Minimis Indirect Cost Rate

The City has not elected to use the 10% de minimis indirect cost rate as permitted by 2 CFR Section 200.414.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended April 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with Generally Accepted Accounting Principles (GAAP): *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified? X yes no
Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes X no
Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section II - Financial Statement Findings

2017-001: Internal Control over Financial Reporting

Repeat of Findings 2016-001 and 2016-002 (MATERIAL WEAKNESS)

Criteria: Statement on Auditing Standards (SAS) No. 115 requires auditors to communicate weaknesses in the City's internal control, and to report a material weakness if material journal entries are detected as a part of the financial audit, or the auditor prepares the annual financial statements and notes.

Condition: We noted a lack of review of certain documentation which contained clerical errors. Material journal entries were also identified during the course of the audit and we, as the auditors, assisted in the preparation of the annual financial statements. This Single Audit finding is a repeat finding and is also reported in Section IV - Prior Year Audit Findings as Single Audit Findings 2016-001 and 2016-002.

Cause: City staff was not able to identify certain adjusting journal entries and the City contracted with the auditors to assist in the preparation of the financial statements.

Effect: The financial statements need to contain all of the required disclosures and account balances without material changes by the auditors.

Recommendation: We recommend that the City put in place procedures in order to reduce the amount of errors noted and the risk of material journal entries, as well as determining if resources would be available to prepare a complete set of financial statements.

Views of Responsible Officials: Management agrees with the single audit finding and a response is included in the corrective action plan.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section III - Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

2017-002: Lack of Documentation Regarding Suspension and Debarment of Contractors

Program: Community Development Block Grants/Entitlement Grants Cluster (CDBG) - CFDA # 14.218

Criteria: Non-Federal entities are prohibited from contracting with, or making subawards, under covered transactions to parties that are suspended or debarred. The non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at sam.gov.

Condition: The City is not documenting the review of Sam.gov to ensure it's vendors in the CDBG program are not suspended or debarred. Statistical sampling was not used within making sample selections.

Questioned Costs: Not determinable.

Context: We selected 25 expenditures for testing, to determine that the City verified the vendor's suspension and debarment status on the Sam.gov website, indicating that the vendor was neither suspended nor debarred. We noted that 2 of the 25 expenditures did not satisfy the stated criteria. We view this as instances of noncompliance in regards to lack of documentation related to suspension and debarment of contractors program.

Effect: The City could enter into a contract for services under the CDBG program with a vendor that has been either suspended or debarred via Sam.gov.

Recommendation: The City should implement a process that ensures that the file for all vendors the City contracts with for the CDBG program includes evidence that the City checked the vendor's suspension and debarment status on the Sam.gov website.

Views of Responsible Officials: Management agrees with the single audit finding and a response is included in the corrective action plan.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section III - Federal Award Findings and Questioned Costs (Continued)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) (Continued)

2017-003: Documentation of Environmental Review/Evaluation

Program: Community Development Block Grants/Entitlement Grants Cluster (CDBG) - CFDA # 14.218

Criteria: CDBG projects must have an environmental review conducted, unless they meet criteria specified in the regulations that would exempt or exclude them from Request for Release of Funds (RROF) and environmental certification requirements (24 CFR sections 58.1, 58.22, 58.34, 58.35, and 570.604).

Condition: The City did not maintain documentation that an environmental review/evaluation was performed. Statistical sampling was not used within making sample selections.

Questioned Costs: Not determinable.

Context: We selected 25 expenditures for testing, to determine that the City had an environmental review/evaluation performed on the project and maintained documentation of such evaluation. We noted that 1 of the 25 expenditures did not satisfy the stated criteria. We view this as an instance of noncompliance in regards to lack of documentation related to environmental review/evaluation.

Effect: The City is not in compliance with the Federal requirements for the performance and documentation of environmental reviews.

Recommendation: The City should implement a process that ensures that an environmental review is conducted for each project and is adequately documented in the project file. If an environmental review was not required for a certain project, documentation of this decision should be documented in the project file.

Views of Responsible Officials: Management agrees with the single audit finding and a response is included in the corrective action plan.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section III - Federal Award Findings and Questioned Costs (Continued)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) (Continued)

2017-004: Timely Submission of Quarterly Financial Reports

Program: Community Development Block Grants/Entitlement Grants Cluster (CDBG) - CFDA # 14.218

Criteria: Federal Financial Report SF-425 is used as a standardized format to report program expenditures under Federal awards. The City is required to submit the SF-425 report for the CDBG program on a quarterly basis. These reports are required to be submitted within 30 days of the period end.

Condition: The City is not submitting the required SF-425 report within 30 days of the period end. Statistical sampling was not used within making sample selections.

Questioned Costs: Not determinable.

Context: We tested all four quarterly SF-425 reports to determine the accuracy of the expenditures reported and timely submission of the reports to HUD. We noted that 2 of the 4 reports were not submitted timely, within 30 days of the period end. We view this as instances of noncompliance in regards to timely submission of quarterly financial reports.

Effect: The City is not in compliance with Federal requirements for the timely submission of financial reports.

Recommendation: The City should implement a process that will ensure that all reports are submitted on a timely basis.

Views of Responsible Officials: Management agrees with the single audit finding and a response is included in the corrective action plan.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section III - Federal Award Findings and Questioned Costs (Continued)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) (Continued)

2017-005: Required Elements of Subrecipient Contract Provisions

Program: Community Development Block Grants/Entitlement Grants Cluster (CDBG) - CFDA # 14.218

Criteria: OMB Compliance Requirements state that, before disbursing any CDBG funds to a subrecipient, the City should enter into a written agreement with the subrecipient. The agreement must include provisions concerning the statement of work, records and reports, program income, and uniform administrative requirements (24 CFR Section 570.503).

Condition: The contract the City uses to execute agreements with subrecipients is missing several of the required elements in the provisions of the agreement.

Questioned Costs: Not determinable.

Context: We reviewed the standard agreement the City uses to execute agreements with subrecipients for the CDBG program. We noted that the provisions of the agreement are missing elements such as CFDA #, mention of Uniform Guidance Requirements and the indirect cost rate used. We view this as an instance of noncompliance in regards to required elements of subrecipient contract provisions.

Effect: The City is not in compliance with Federal requirements regarding the required elements to be included in the provisions of executed agreements with subrecipients.

Recommendation: The City should re-write the standard subrecipient agreement for the CDBG program, to ensure it includes all of the required elements in the provisions. The City should use this newly written document to execute agreements with all CDBG subrecipients.

Views of Responsible Officials: Management agrees with the single audit finding and a response is included in the corrective action plan.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section III - Federal Award Findings and Questioned Costs (Continued)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) (Continued)

2017-006: Submission of HUD 60002 Report

Program: Community Development Block Grants/Entitlement Grants Cluster (CDBG) - CFDA # 14.218

Criteria: OMB Compliance requirements state that recipients that administer covered housing and community development assistance in excess of \$200,000 in a program year, must submit HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)*, information using the automated Section 3 Performance Evaluation and Registry System (24 CFR section 135.3(a)(1) and 135.90).

Condition: The City did not submit the required HUD 60002 report.

Questioned Costs: Not determinable.

Context: During our testing, we noted that the City was required to prepare and submit the HUD 60002 Report for the first time in fiscal year 2017 due to the street improvement program, as it exceeded \$300,000 in expenditures during the year. However, the form has not been prepared or submitted, because program personnel are not trained in preparing the report. We view this as an instance of noncompliance in regards to submission of HUD 60002 report.

Effect: The City is not in compliance with Federal requirements for the preparation and submission of the HUD 60002 report.

Recommendation: The City should implement a process that will ensure that all required reports are submitted on a timely basis. The City should ensure that program personnel are properly trained in the preparation of all required reports.

Views of Responsible Officials: Management agrees with the single audit finding and a response is included in the corrective action plan.

CITY OF WAUKEGAN, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2017

Section IV - Summary Schedule of Prior Audit Findings

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

2016-001: External Financial Reporting

2017 Status Update

This finding is repeated and is included in Section II as Finding 2017-001.

2016-002: Internal Control Environment

2017 Status Update

This finding is repeated and is included in Section II as Finding 2017-001.

2016-003: Payroll Expenditure Allocation Between Programs

Program: Community Development Block Grants/Entitlement Grants Cluster (CDBG) - CFDA # 14.218

2017 Status Update

No similar findings were noted in the current year. This item has been satisfactorily addressed.



CITY OF WAUKEGAN

Corrective Action Plan

For the Year Ended April 30, 2017

2017-001 Internal Control over Financial Reporting

Condition Found

We noted a lack of review of certain documentation that contained clerical errors. Material journal entries were also identified during the course of the audit and we, as the auditors, assisted in the preparation of the annual financial statements and notes.

Corrective Action Plan

Due to a new Mayor sworn in May 2017, a change in external auditors was instituted following a request for proposal process. In the past, the preparation of the government wide adjusting journal entries and financial statements was outsourced to the external auditors. With the change in auditors, an effort to bring these functions in-house is being made but could not be fully accomplished within the first year. Therefore, several of the adjusting journal entries made by the auditors instead of by city staff were related to this transition. Furthermore, also related to the change in Mayoral administration, no annual budget / appropriation was prepared prior to the end of the fiscal year. Hence, when audit fieldwork would usually be the primary focus of the Finance Department in May and June, much of that time was spent crafting a proposed budget and appropriation which hindered staff's ability to sufficiently prepare in a timely manner for audit field work. This is not anticipated to reoccur for the 2018 fiscal year.

Currently monthly bank, pension fund, and library fund reconciliations are already in place with properly segregated reviews and adjustments. Additional reconciliations will be added including a the monthly water billing subsystem to the general ledger, payroll module reports to the general ledger, and third-party administrator claims payments to the general ledger. These reconciliation processes will be instituted with appropriate reviews by senior accounting staff well in advance of audit field work starting.

Due to budgetary limitations the city does not anticipate investing in software to allow for the in-house preparation of the full financial statements and notes; however, certain entries to convert the individual fund activity to government wide statements were started during the 2017 fiscal year and will be completely done in-house for the 2018 fiscal year.

Responsible Person for Corrective Action Plan

Director of Finance

Implementation Date of Corrective Action Plan

November 1, 2017-process improvement implementation



City of Waukegan, Illinois

Corrective Action Plan

For the Year Ended April 30, 2017

2017-002: Lack of Documentation Regarding Suspension and Debarment of Contractors

Condition Found

The City is not documenting the review of Sam.gov to ensure its vendors in the CDBG program are not suspended or debarred.

Corrective Action Plan

To ensure that all vendors including contractors that contract with the CDBG program includes evidence that the City checked the vendor's suspension and debarment status on Sam.gov website, the City currently has a system in place that states the following:

All contractors, vendors, or agencies shall be licensed with the City of Waukegan prior to applying or bidding for any projects sponsored by the CDBG Program. In addition, all prime subrecipients, contractors, or vendors shall be verified for eligibility through the Sam.gov website – System for Award Management for contractor debarment, prior to awarding contractual agreements to any contractors or subrecipients.

We will reinforce the existing policies and procedures that are currently in place.

Responsible Person for Corrective Action Plan

CDBG Director

Implementation Date of Corrective Action Plan

November 1, 2017



City of Waukegan, Illinois

Corrective Action Plan

For the Year Ended April 30, 2017

2017-003: Documentation of Environmental Review/Evaluation

Condition Found

The City did not maintain documentation that an environmental review/evaluation was performed.

Corrective Action Plan

To ensure that an environmental review is conducted for all CDBG, HOME, and NSP projects, the City currently has a system in place that states the following:

The City shall maintain the responsibility for making sure that all HUD-funded contracts and subrecipients of CDBG & HOME-assisted activities conduct the environmental review process before engaging in any activity. The City must make a determination of whether the activity is in compliance with the applicable statutes. When an activity requires consultation or has an adverse effect on the protected resources outlined in the "Statutory Checklist", additional steps or an investigation/procedure must be completed. Evidence of completion or an investigation must be retained in the activity project file.

We will reinforce the existing policies and procedures that are currently in place.

Responsible Person for Corrective Action Plan

CDBG Director

Implementation Date of Corrective Action Plan

November 1, 2017



City of Waukegan, Illinois

Corrective Action Plan

For the Year Ended April 30, 2017

2017-004: Timely Submission of Quarterly Financial Reports

Condition Found

The City is not submitting the required SF-425 report within 30 days of the period end.

Corrective Action Plan

The City currently has a system in place to ensure that FFR SF-425 Report is submitted on time and it states the following:

In order to assure accuracy, the completed form will be reviewed by two separate persons. After completing this form, it will be reviewed and approved by the Director of CDBG. Once approved by the Director of CDBG, it shall be submitted to the HUD Senior Financial Analyst for review and then final approval.

The City of Waukegan CDBG Program reports quarterly. In order to ensure on time submission, the yearly schedule is created, posted, and added into the Outlook Calendar System with a reminder indicating the timeframes and due dates of the FFR SF-425 Reports.

We will reinforce the existing policies and procedures that are currently in place.

Responsible Person for Corrective Action Plan

CDBG Director

Implementation Date of Corrective Action Plan

November 1, 2017



City of Waukegan, Illinois

Corrective Action Plan

For the Year Ended April 30, 2017

2017-005: Required Elements of Subrecipient Contract Provisions

Condition Found

The contract the City uses to execute agreements with subrecipients is missing several of the required elements in the provisions of the agreement.

Corrective Action Plan

The City will incorporate required elements of CFDA# and mention of the Uniform Guidance as noted by the auditors to the provisions of the agreement.

Responsible Person for Corrective Action Plan

CDBG Director

Implementation Date of Corrective Action Plan

November 1, 2017



City of Waukegan, Illinois

Corrective Action Plan

For the Year Ended April 30, 2017

2017-006: Submission of HUD 60002 Report

Condition Found

The City did not submit the required HUD 60002 report.

Corrective Action Plan

Because the City does not typically engage in one project that is over \$200,000, the form was not completed as required. In order to address the issue, the City will contact HUD requesting technical assistance to be properly trained in the preparation of this report. In addition, the City currently has a system in place to ensure that all reports are submitted on time and it states the following:

In order to assure accuracy, the completed form will be reviewed by two separate persons. After completing this form, it will be reviewed and approved by the Director of CDBG. Once approved by the Director of CDBG, it shall be submitted to the HUD for review and then final approval.

In order to ensure on time submission, the yearly schedule is created, posted, and added into the Outlook Calendar System with a reminder indicating the timeframes and due dates of the reports.

We will reinforce the existing policies and procedures that are currently in place.

Responsible Person for Corrective Action Plan

CDBG Director

Implementation Date of Corrective Action Plan

November 1, 2017