

City of St. Clair Shores, Michigan

**Federal Awards
Supplemental Information
June 30, 2015**

City of St. Clair Shores, Michigan

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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133
Independent Auditor's Report

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan (the "City") as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City of St. Clair Shores, Michigan's basic financial statements. We issued our report thereon dated November 24, 2015, which contained unmodified opinions on the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 24, 2015.

The accompanying schedule of expenditures of federal awards is presented for the purpose 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

Clinton Township, Michigan
November 24, 2015

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*

Independent Auditor's Report

To Management, the Honorable Mayor,
and City Council
City of St. Clair Shores, Michigan

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, Michigan (the "City") as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City of St. Clair Shores, Michigan's basic financial statements, and have issued our report thereon dated November 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of St. Clair Shores, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. 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.

To Management, the Honorable Mayor,
and the City Council
City of St. Clair Shores, Michigan

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

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

City of St. Clair Shores' Response to Findings

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

Purpose of this Report

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

Plante & Moran, PLLC

Clinton Township, Michigan
November 24, 2015

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance
Independent Auditor's Report

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of St. Clair Shores, Michigan's (the "City") compliance 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 June 30, 2015. The City of St. Clair Shores, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of St. Clair Shores, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 St. Clair Shores, Michigan'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 of St. Clair Shores, Michigan's compliance.

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

Opinion on Each Major Federal Program

In our opinion, the City of St. Clair Shores, Michigan 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 June 30, 2015.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-003 and 2015-005. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of the City of St. Clair Shores, Michigan 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 of St. Clair Shores, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, identified material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2015-003 and 2015-005 to be material weaknesses.

To the Honorable Mayor and City Council
City of St. Clair Shores, Michigan

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2015-004 to be a significant deficiency.

The City of St. Clair Shores, Michigan's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of St. Clair Shores, Michigan's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

Plante & Moran, PLLC

Clinton Township, Michigan
November 24, 2015

City of St. Clair Shores

Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Identifying Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - CDBG Grant				
Entitlement Cluster - Community Development Block Grant:				
Program year 2014-B090MC-26.0013	14.218	N/A	\$ 824,530	\$ 247,791
Program year 2015-B090MC-26.0013	14.218	N/A	821,617	<u>578,390</u>
Total CDBG Entitlement Grants Cluster				826,181
U.S. Department of Justice:				
JAG Program Cluster:				
2013 Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJ-BX-1005	10,573	10,573
2014 Formula Byrne JAG (COMET)	16.738	2014-H3675-MI-DJ	19,737	<u>19,737</u>
Total JAG Program Cluster				30,310
Equitable Sharing Program	16.922	MI5072200	N/A	<u>117,659</u>
Total U.S. Department of Justice:				147,969
U.S. Department of Transportation -				
Passed through the Federal Highway Administration				
CMAQ Improvement Program	20.205	MDOT 2014-0111	320,000	305,174
U.S. Environmental Protection Agency -				
Great Lakes Restoration Initiative				
	66.469	N/A	250,000	13,808
U.S. Department of Health and Human Services -				
Passed through the State of Michigan				
Help America Vote Act (HAVA)	93.617	N/A	525	525
U.S. Department of Homeland Security:				
2014 FEMA Disaster DR-4195 Public Assistance	97.036	FEMA DR-4195	N/A	93,685
Indirect programs - Passed through Macomb County:				
2012 Operation Stonegarden	97.067	N/A	10,000	9,989
2013 Operation Stonegarden	97.067	N/A	20,562	15,704
2013 Urban Area Security Initiative (UASI)	97.067	N/A	3,248	<u>3,596</u>
Total Indirect Programs - Passed through Macomb County				<u>29,289</u>
Total U.S. Department of Homeland Security				<u>122,974</u>
Total federal awards				<u>\$ 1,416,631</u>

City of St. Clair Shores, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of City of St. Clair Shores, Michigan under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of St. Clair Shores, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of St. Clair Shores.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the Schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
CDBG Entitlement Grant Cluster	14.218	<u>\$ 35,900</u>

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlement Cluster
20.205	CMAQ Improvement Program

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

Auditee qualified as low-risk auditee? Yes No

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section II - Financial Statement Audit Findings

Reference Number	Finding
2015-001	<p>Finding Type - Material weakness</p> <p>Criteria - The City is required to present its comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP) as applicable to governmental entities.</p> <p>Condition - Instances of non-GAAP accounting methods were identified during the course of the financial statement audit, including appropriate valuation of other postemployment benefit (OPEB) liabilities, and inappropriate account receivable and deferred inflow treatment on the modified accrual basis.</p> <p>Context - The required adjustment to the net OPEB obligation was material to the governmental activities of the City and related to appropriately calculating the City's actuarially required contribution for the fiscal year under audit. Other adjustments identified related to appropriate recognition of accounts receivable and deferred inflows in one of the City's grant funds.</p> <p>Cause - The internal control procedures over the review of these calculations was not operating effectively.</p> <p>Effect - These matters gave rise to the misstatement of certain balances at the onset of the financial statement audit. The potential effect is that a significant misstatement could go undetected in the financial statements.</p> <p>Recommendation - We recommend that the City review the calculation of significant estimated liabilities and other year-end accruals to ensure that they are in accordance with GAAP.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will assign review responsibilities to an appropriate individual to ensure that balances are properly calculated and recorded at the end of the fiscal year.</p>

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2015-002	<p>Finding Type - Material weakness</p> <p>Criteria - The City is required to identify all interfund activity within its financial records to ensure treatment in the comprehensive annual financial report (CAFR) is in accordance with generally accepted accounting principles (GAAP) as applicable to governmental entities.</p> <p>Condition - The City's analysis of interfund activity did not accurately identify all transfers, charges, and reimbursements for proper treatment in the City's CAFR.</p> <p>Context - The analysis of interfund transfers, charges, and reimbursements provided by the client did not agree to the general ledger and did not include all activity that transpired between the funds during the fiscal year under audit. After further investigation, the City was able to provide a complete and accurate listing of interfund activity. The activity has been treated in accordance with GAAP in the City's CAFR.</p> <p>Cause - Lack of effective mechanism for tracking interfund activity throughout the year in a manner that results in GAAP financial reporting.</p> <p>Effect - Given that the City budgets for interfund transfers, charges, and reimbursements on a non-GAAP basis, the lack of an effective mechanism to track this activity throughout the year could give rise to an undetected significant misstatement in the City's CAFR.</p> <p>Recommendation - We recommend that the City implement an effective process for tracking interfund activity and that this activity be reviewed to ensure balances agree to the general ledger and are in accordance with GAAP.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will assign review responsibilities to an appropriate individual to ensure that interfund activities are properly tracked throughout the year.</p>

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section III - Federal Program Audit Findings

Reference Number	Finding
2015-003	<p>Program Name - CMAQ Improvement Program (CFDA 20.205)</p> <p>Finding Type - Material Weakness and Material Noncompliance with Laws and Regulations</p> <p>Criteria - OMB Circular A-102 requires organizations to verify that vendors who are awarded contracts in excess of \$25,000 are not debarred, suspended, or otherwise excluded via the website SAM.gov.</p> <p>Condition - The City did not review the federal database of suspended and debarred vendors related to contracts in excess of \$25,000 to ensure selected vendors were not suspended or debarred.</p> <p>Questioned Costs - None</p> <p>Context - While the City did not independently perform the required search prior to selection of the vendors, the City maintained frequent contact with the City's MDOT representative, who was promptly made aware of vendor selections. Additionally, the City did perform the check on the federal website subsequently and noted that the vendors selected were not suspended and debarred and hence there were no questioned costs.</p> <p>Cause and Effect - Lack of procedures in place to ensure that grant administrators are checking for suspended or debarred vendors could result in prohibited vendors receiving federal contracts.</p> <p>Recommendation - We recommend that the City institute a procedure to identify circumstances when suspended and debarred searches are required and retain documentation that such searches are performed prior to executing the related contracts.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City maintained frequent contact with the City's MDOT representative, who was promptly made aware of vendor selections. Going forward, the City will independently perform a search of the designated federal database to ensure no suspended or debarred parties were being used and will retain documentation of searches performed</p>

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-004	<p>Program Name - CMAQ Improvement Program (CFDA 20.205)</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant Deficiency</p> <p>Criteria - Section 4 of the grant award letter requires the City to establish separate accounts to track all costs incurred related to this grant and OMB Circular A-133 requires that all assets purchased with federal funds are required to be separately identified and safeguarded.</p> <p>Condition - The City charged all grant expenditures to a general capital outlay and did not separately track the grant related expenditures either in their general ledger or in their fixed asset listings as federally funded.</p> <p>Questioned Costs - None</p> <p>Context - The City records all assets purchased in one g/l account and did the same for the two dump trucks purchased with the award. The City does have certain procedures in place to be able to identify the source of the funds used to acquire the assets.</p> <p>Cause and Effect - Lack of procedures in place to track federally funded fixed assets separately as required by the grant agreement.</p> <p>Recommendation - We recommend that the City track its federally funded fixed assets separately within its fixed asset software and implement the same procedure for all future federally funded fixed asset purchases.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City has updated its fixed asset records to identify the relevant assets as having been federally funded.</p>

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-005	<p>Program Name - Community Development Block Grant (CFDA 14.218)</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Material Weakness and Material Noncompliance with Laws and Regulations</p> <p>Criteria - On December 19, 2014, within 79 FR 76078 (the "Joint Interim Final Rule"), HUD amended Title 24, Subtitle A, Part 84, §84.1 that deals with the applicability of 2 CFR Part 200. Subparagraph (b) of this section says "federal awards made prior to December 26, 2014 will continue to be governed by the regulations in effect and codified in 24 CFR part 84 (2013 edition) or as provided under the terms of the federal award. Where the terms of a federal award made prior to December 26, 2014 state that the award will be subject to regulations as may be amended, the federal award shall be subject to 2 CFR Part 200."</p> <p>In accordance with Notice SD-2015-01 issued on February 26, 2015 by HUD, which provides transition guidance to 2 CFR Part 200, the grant agreements for some HUD programs (e.g., Community Development Block Grant, HOME Investment Partnerships, Emergency Solutions Grants, Indian Housing Block Grants, Native Hawaiian Block Grants, Indian Community Development Block Grants) incorporate the regulations "as now in effect and as may be amended from time to time" and, therefore, 2 CFR part 200 will be applicable to these grants on 12/26/14.</p> <p>Condition - The City received Community Development Grant Award #2014-B090MC-26.0013 and 2015-B090MC-26.0013 on July 1, 2013 and July 1, 2014 and included in the award document was reference to regulations "as now in effect and as may be amended from time to time".</p> <p>The City administered the award under Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments and Circular A-102, Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments rather than applying the provisions of 2 CFR Part 200 subsequent to 12/26/2014.</p> <p>The City was unaware of HUD's intent per both 79 FR 76078 and HUD's Notice SD-2015-01 related to applicability of 2 CFR Part 200 to this grant as of 12/26/2014.</p> <p>Questioned Costs - N/A</p>

City of St. Clair Shores, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2015

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2015-005 (Cont.)	<p>Context - The City expended funds after 12/26/2014 for fiscal year 2015. This amount should have been subject to 2 CFR Part 200.</p> <p>Subsequent to 12/26/2014, although these dollars were to be administered under 2 CFR Part 200, the City continued to administer these award dollars under A-87 and A-102; as a result the City did not materially comply with the requirements specified under 2 CFR Part 200 for the following compliance requirements as described below:</p> <p>Activities Allowed or Unallowed and Allowable Cost Principles- Required policies were not in place as of 12/26/14.</p> <p>Cash Management - Required policy and certifications were not in place as of 12/26/14.</p> <p>This non-compliance is not pervasive to the entire entity but limited to this particular HUD award given the unique nature of the transition guidance provided by HUD.</p> <p>Cause and Effect - HUD's intent regarding the applicability of 2 CFR Part 200 was not clear. As a result, related to this grant, the City did not comply with 2 CFR 200 subsequent to 12/26/2014 as required by the Joint Interim Final Rule and by HUD's Notice SD-2015-01.</p> <p>Recommendation - We recommend that the City seek HUD's advice on how to handle this noncompliance condition given that the implementation of 2 CFR Part 200 did not occur as required.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will implement the necessary procedures and controls to comply with 2 CFR 200 for all federal expenditures moving forward.</p>