

**CITY OF JANESVILLE**

Janesville, Wisconsin

**REPORT ON FEDERAL AND  
STATE AWARDS**

For the Year Ended December 31, 2010

# CITY OF JANESVILLE

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

To the City Council  
City of Janesville  
Janesville, Wisconsin

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 of Janesville, Wisconsin as of and for the year ended December 31, 2010 and have issued our report thereon dated June 16, 2011. 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 of Janesville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Janesville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Janesville's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This material weakness is item 10-1.

To the City Council  
City of Janesville

***Compliance and Other Matters***

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

We noted certain matters that we reported to management of the City of Janesville in a separate letter dated June 16, 2011.

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

This report is intended solely for the information and use of the City of Janesville's management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 16, 2011

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

To the City Council  
City of Janesville  
Janesville, Wisconsin

***Compliance***

We have audited the City of Janesville, Wisconsin's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of its major federal and major state programs for the year ended December 31, 2010. The City of Janesville's major federal and major state 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 and major state programs is the responsibility of the City of Janesville's management. Our responsibility is to express an opinion on the City of Janesville'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State Single Audit Guidelines*. Those standards, OMB Circular A-133, and the *State Single Audit Guidelines* 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 or major state program occurred. An audit includes examining, on a test basis, evidence about the City of Janesville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Janesville's compliance with those requirements.

In our opinion, the City of Janesville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal or major state programs for the year ended December 31, 2010.

To the City Council  
City of Janesville

### ***Internal Control Over Compliance***

Management of the City of Janesville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the City of Janesville's internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Janesville'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 or state 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 or state program will not be prevented, or detected and corrected, on a timely basis.

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

### ***Schedule of Expenditures of Federal and State Awards***

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 of Janesville, Wisconsin as of and for the year ended December 31, 2010, and have issued our report thereon dated June 16, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Janesville's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the *State Single Audit Guidelines* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City of Janesville's management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
August 1, 2011, except for the schedules of  
expenditures of federal and state awards as to  
which the date is June 16, 2011.

# CITY OF JANESVILLE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2010

Federal Agency/State Agency/ Pass-Through Agency/ Program Title	CFDA	Revenues					Expenditures Grantor Share
		(Accrued) Deferred Beginning Balance	Adjustments	Grantor Share		Total Revenue	
				Cash Received (Returned)	Accrued (Deferred) Ending Balance		
<b>FEDERAL AWARDS</b>							
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>							
Direct Programs							
Section 8 Housing Choice Vouchers	14.871	\$ 237,439	\$ -	\$ 3,025,336	\$ -	\$ 3,262,775	\$ 3,262,775
Home Investment Partnerships Program/ Rock Co. Consortium	14.239	(165,288)	-	485,662	61,077	381,451	381,451
Home Investment Partnerships Program - Program income	14.239	-	-	89,432	-	89,432	89,432
Total Home Investment Partnerships Program		(165,288)	-	575,094	61,077	470,883	470,883
CDBG - Entitlement Grants Cluster							
Community Development Block Grants / Ent. Grants	14.218	(287,706)	-	712,764	288,269	713,327	713,327
Community Development Block Grants / Ent. Grants - Program income	14.218	-	-	195,962	-	195,962	195,962
ARRA - Community Devel. Block Grants / Recovery & Reinvest.	14.253	(7,894)	-	108,352	1,993	102,451	102,451
Passed Through City of Beloit, Wisconsin							
Neighborhood Stabilization Program (HERA)	14.218	(83,282)	-	572,255	15,587	504,560	504,560
Total CDBG - Entitlement Grants Cluster		(378,882)	-	1,589,333	305,849	1,516,300	1,516,300
Passed Through Wisconsin Department of Commerce							
Community Development Block Grants / Emergency Assist. Program	14.219/228	(354,482)	-	571,932	330,776	548,226	548,226
Passed Through Wisconsin Department of Health Services							
Lead Hazard Reduction Demonstration Control Program	14.905	-	-	8,437	-	8,437	8,437
Passed Through Rock County, Wisconsin							
Healthy Homes-Healthy Kids Lead Hazard Control Program	14.900	-	-	30,372	33,982	64,354	64,354
Total U.S. Department of Housing and Urban Development		(661,213)	-	5,800,504	731,684	5,870,975	5,870,975
<b>U.S. DEPARTMENT OF JUSTICE</b>							
Direct Programs							
Bulletproof Vest Partnership	16.607	-	-	7,694	-	7,694	7,694
COPS - Secure our Schools (SOS) Grant	16.710	-	-	44,737	-	44,737	44,737
Passed Through Rock County, Wisconsin							
Project Safe Neighborhood	16.609	-	-	7,621	2,467	10,088	10,088
ARRA - JAG '09 Recovery Act Grant	16.808	95,775	-	-	(15,875)	79,900	79,900
Edward Byrne Memorial Justice Assistance Grant Program	16.738	22,120	-	21,700	(10,640)	33,180	33,180
Total U.S. Department of Justice		117,895	-	81,752	(24,048)	175,599	175,599
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>							
Passed Through Wisconsin Department of Transportation							
Highway Planning and Construction	20.205	(21,393)	-	89,391	21,855	89,853	89,853
Safe Routes to School Plan	20.205	(8,186)	-	11,234	-	3,048	3,048
Local Streets- GM Road	20.205	-	-	-	178,981	178,981	178,981
Total Highway Planning and Construction		(29,579)	-	100,625	200,836	271,882	271,882

See accompanying notes to schedule of expenditures of federal and state awards.

**CITY OF JANESVILLE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended December 31, 2010

Federal Agency/State Agency/ Pass-Through Agency/ Program Title	CFDA	Revenues				Total Revenue	Expenditures Grantor Share
		(Accrued) Deferred Beginning Balance	Cash Received (Returned)	Accrued (Deferred) Ending Balance	Total Revenue		
<b>U.S. DEPARTMENT OF TRANSPORTATION (cont.)</b>							
Direct Programs							
Federal Transit Formula Grants (operating 2010) WI-90-4626	20.507	\$ -	\$ 710,000	\$ 208,981	\$ 918,981	\$ 918,981	
Passed Through Wisconsin Department of Transportation							
ARRA - Federal Transit Formula Grant WI-96-X009-00	20.507	(22,227)	170,714	10,429	158,916	158,916	
Federal Transit Formula Grants (capital) WI-90-0084	20.507	(4,514)	6,518	-	2,004	2,004	
Federal Transit Formula Grants (capital) WI-90-0091	20.507	(44,201)	44,201	-	-	-	
Transit Strip Grant (planning) WI	20.507	(16,256)	27,940	-	11,684	11,684	
Total Federal Transit Formula Grants		(87,198)	959,373	219,410	1,091,585	1,091,585	
State and Community Highway Safety	20.600	(2,878)	53,285	11,029	61,436	61,436	
Total U.S. Department of Transportation		(119,655)	1,113,283	431,275	1,424,903	1,424,903	
<b>INSTITUTION OF MUSEUM AND LIBRARY SERVICES</b>							
Passed Through Wisconsin Department of Public Instruction							
Listening for Literacy	45.310	(5,867)	6,640	-	773	773	
Total Institution of Museum and Library Services		(5,867)	6,640	-	773	773	
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>							
Passed Through Wisconsin Department of Military Affairs							
Hazard Mitigation Grant	97.039	(360,386)	484,517	21,210	145,341	145,341	
FEMA-1768-DR-WI Flood	97.036	(2,242)	33,325	(59,239) 1	-	-	
Direct Program							
Assistance to Firefighters Grants	97.044	-	-	43,837	43,837	43,837	
Passed Through Wisconsin Department of Administration							
Homeland Security Grant Training Grant	97.067	(19,294)	19,294	-	-	-	
Homeland Security Grant	97.067	-	-	7,900	7,900	7,900	
Total Homeland Security Grant		(19,294)	19,294	7,900	7,900	7,900	
Total U.S. Department of Homeland Security		(381,922)	537,136	101,103	197,078	197,078	
<b>U.S. DEPARTMENT OF ENERGY</b>							
Direct Program							
ARRA - Energy Efficiency and Conservation Block Grant	81.128	(10,801)	88,396	43,795	121,390	121,390	
Total U.S. Department of Energy		(10,801)	88,396	43,795	121,390	121,390	
<b>TOTAL FEDERAL AWARDS</b>		<b>\$ (1,061,563)</b>	<b>\$ 7,627,711</b>	<b>\$ 1,283,809</b>	<b>\$ 7,790,718</b>	<b>\$ 7,790,718</b>	

1 - Amount was reallocated from federal to state awards



**CITY OF JANESVILLE**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
For the Year Ended December 31, 2010

Federal Agency/State Agency/ Pass-Through Agency/ Program Title	State ID No.	Revenues					Expenditures Grantor Share
		(Accrued) Deferred Beginning Balance	Adjustments	Cash Received (Returned)	Accrued (Deferred) Ending Balance	Total Revenue	
<b>STATE AWARDS</b>							
<b>WISCONSIN DEPARTMENT OF NATURAL RESOURCES</b>							
Brownfield SAG Grant	370.687	\$ (7,681)	\$ -	\$ 7,290	\$ 3,104	\$ 2,713	\$ 2,713
Stormwater Master Plan	370.658	(54,536)	-	54,536	-	-	-
Total Wisconsin Department of Natural Resources		(62,217)	-	61,826	3,104	2,713	2,713
<b>WISCONSIN DEPARTMENT OF TRANSPORTATION</b>							
Transit Operating Aids	395.104						
2007 Operating Aids	395.104	(62,706)	-	62,706	-	-	-
2008 Operating Aids	395.104	(72,460)	-	72,460	-	-	-
2009 Operating Aids	395.104	(55,693)	-	55,693	-	-	-
2010 Operating Aids	395.104	-	-	531,773	174,351	706,124	706,124
Transit Strap Grant (planning)	395.104	(16,256)	16,256	-	-	-	-
Total Wisconsin Department of Transportation		(207,115)	16,256	722,632	174,351	706,124	706,124
<b>WISCONSIN DEPARTMENT OF HEALTH SERVICES</b>							
Emergency Medical Service Cost Reimbursement	435.162	-	-	13,751	-	13,751	13,751
		-	-	13,751	-	13,751	13,751
<b>WISCONSIN DEPARTMENT OF MILITARY AFFAIRS</b>							
Hazard Mitigation Grant	465.342	(60,135)	-	79,690	3,030	22,585	22,585
FEMA-1768-DR-WI Flood State Assistance	465.305	(70,088)	59,239 <sup>1</sup>	5,554	5,295	-	-
Total Wisconsin Department of Military Affairs		(130,223)	59,239	85,244	8,325	22,585	22,585
<b>WISCONSIN DEPARTMENT OF ADMINISTRATION</b>							
Law Enforcement Assistance Program	505.646	5,875	-	(5,875)	-	-	-
Total Wisconsin Department of Administration		5,875	-	(5,875)	-	-	-
<b>TOTAL STATE AWARDS</b>		<b>\$ (393,680)</b>	<b>\$ 75,495</b>	<b>\$ 877,578</b>	<b>\$ 185,780</b>	<b>\$ 745,173</b>	<b>\$ 745,173</b>

1 - Amount was reallocated from federal to state awards

## CITY OF JANESVILLE

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS For the Year Ended December 31, 2010

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#### **NOTE 1 – REPORTING ENTITY**

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This Report on Federal and State Awards includes all of the funds of the City of Janesville. The reporting entity for the city is based upon criteria established by the Governmental Accounting Standards Board.

The City of Janesville is the primary government according to GASB criteria, while the City of Janesville's Community Development Authority (CDA) is a component unit.

Federal and state awards received directly by the CDA are included in this report.

The schedule includes only those state programs required to be included by the *State Single Audit Guidelines*.

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#### **NOTE 2 – BASIS OF PRESENTATION**

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

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines*.

# CITY OF JANESVILLE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2010

### SECTION I – SUMMARY OF AUDITORS' RESULTS

#### *FINANCIAL STATEMENTS*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to basic financial statements noted?             yes        X   no

#### *FEDERAL OR STATE AWARDS*

Internal control over major 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 programs: Unqualified

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

	<u>Federal Programs</u>	<u>State Programs</u>
Auditee qualified as low-risk auditee?	<u>      </u> yes <u>  X  </u> no	<u>      </u> yes <u>  X  </u> no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.871	Section 8 Housing Choice Vouchers
14.239	Home Investment Partnerships Program
20.507	Federal Transit – Formula Grants/ARRA-Federal Transit – Formula Grants

	<u>Federal</u>	<u>State</u>
Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>	<u>\$ 100,000</u>

Identification of major state program:

<u>State ID Number</u>	<u>Name of State Program</u>
395.104	Transit Operating Aids

# CITY OF JANESVILLE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2010

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### SECTION II – FINANCIAL STATEMENT FINDINGS

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#### *FINDING 10-1: INTERNAL ACCOUNTING CONTROLS*

**Criteria:** Statement on Auditing Standards (SAS) 115 requires auditors to communicate circumstances that were evaluated to be significant deficiencies or material weaknesses in the city's structure of internal control.

**Condition:** During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, we noted there was no independent second party review of year-end financial statements and year-end conversion journal entries.

**Effect:** Year-end financial statements prepared by the city may contain material misstatements and improper year-end conversion journal entries could be recorded.

**Recommendation:** We recommend that year-end financial statements and year-end conversion journal entries be reviewed by a second individual to ensure appropriateness and accuracy.

#### **Management Response:**

The city prepares high quality financial statements, conversion entries, and footnote disclosures for the auditors to review. However, because of the city's size, management does not believe it is cost effective to hire the additional staff needed with the expertise to review all aspects of financial reporting, and relies on the auditor for some year-end financial statement and conversion entry review. Therefore, we anticipate that the material weakness in financial reporting review will likely continue to be reported in future years.

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### SECTION III – FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS

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None noted.

CITY OF JANESVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2010


SECTION IV – OTHER ISSUES

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?  yes  no

2. Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

Department of Natural Resources	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Department of Transportation	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Department of Health Services	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Department of Military Affairs	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Department of Administration	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Department of Public Instruction	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit?  yes  no

4. Name and signature of partner  
  
\_\_\_\_\_  
Heather S. Acker

5. Date of report  
August 1, 2011

**CITY OF JANESVILLE**  
**CORRECTIVE ACTION PLAN**  
For the Year Ended December 31, 2010

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***FINDING 10-1: INTERNAL ACCOUNTING CONTROLS***

***Criteria:*** Statement on Auditing Standards (SAS) 115 requires auditors to communicate circumstances that were evaluated to be significant deficiencies or material weaknesses in the city's structure of internal control.

***Condition:*** During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, we noted there was no independent second party review of year-end financial statements and year-end conversion journal entries.

***Effect:*** Year-end financial statements prepared by the city may contain material misstatements and improper year-end conversion journal entries could be recorded.

***Recommendation:*** We recommend that year-end financial statements and year-end conversion journal entries be reviewed by a second individual to ensure appropriateness and accuracy.

***Corrective Action Planned:*** See Management's Response to Finding in Section II of the audit report.

## CITY OF JANESVILLE

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2010

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#### ***FINDING 09-1: INTERNAL ACCOUNTING CONTROLS***

***Criteria:*** Statement on Auditing Standards (SAS) 115 requires auditors to communicate circumstances that were evaluated to be significant deficiencies or material weaknesses in the city's structure of internal control.

***Condition:*** During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, we noted there was no independent second party review of annual financial statements and adjusting journal entries.

***Effect:*** Annual financial statements prepared by the city may contain material misstatements and improper adjusting journal entries could be recorded.

***Recommendation:*** We recommend that financial statements and adjusting journal entries be reviewed by a second individual to ensure appropriateness and accuracy.

***Management Response:*** The auditors point out that year-end audited financial statement preparation and year-end conversion journal entries were not always reviewed by someone in the city other than the preparer. The city prepares high quality financial statements, conversion entries, and footnote disclosures for the auditors to review. However, because of the city's size, management does not believe it is cost effective to hire the additional staff needed with the expertise to review all aspects of financial reporting, and relies on the auditor for this review. Therefore, we anticipate that the material weakness in financial reporting review will likely continue to be reported in future years.

***Updated Response:*** The city prepares high quality financial statements, conversion entries, and footnote disclosures for the auditors to review. However, because of the city's size, management does not believe it is cost effective to hire the additional staff needed with the expertise to review all aspects of financial reporting, and relies on the auditor for some year-end financial statement and conversion entry review. Therefore, we anticipate that the material weakness in financial reporting review will likely continue to be reported in future years.