



# CITY OF PALM SPRINGS, CALIFORNIA

JUNE 30, 2019

SINGLE AUDIT REPORT

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CITY OF PALM SPRINGS, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2019

CITY OF PALM SPRINGS

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

To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

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, each major fund, and the aggregate remaining fund information of the City of Palm Springs, California, (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2019.

### **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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 the one instance of noncompliance which is described as finding 2019-001 in





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the schedule of findings and questioned costs, and which is required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

A handwritten signature in black ink that reads "Lance, Soll &amp; Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California  
December 16, 2019



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Palm Springs (the City), California's 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 June 30, 2019. 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, 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, 2019.





To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

### **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 a 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.

### **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, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 16, 2019, 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 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.



To the Honorable Mayor and Members of the City Council  
City of Palm Springs, California

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.

*Lance, Solt & Lughard, LLP*

Brea, California

April 30, 2020 (except for the Schedule of Expenditures of Federal Awards which is as of December 16, 2019).

CITY OF PALM SPRINGS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program Expenditures
<b><u>CDBG - Entitlement Grants Cluster</u></b>				
U.S. Department of Housing and Urban Development Direct Program: Community Development Block Grants/Entitlement Grants *	14.218	N/A	\$ -	\$ 466,517
<b>Total CDBG - Entitlement Grants Cluster</b>			<b>-</b>	<b>466,517</b>
<b><u>Highway Planning and Construction Cluster</u></b>				
U.S. Department of Transportation Passed through the State of California Department of Transportation Highway Planning and Construction *	20.205	94-900-7744	-	2,043,995
<b>Total Highway Planning and Construction Cluster</b>			<b>-</b>	<b>2,043,995</b>
<b><u>Highway Safety Cluster</u></b>				
U.S. Department of Transportation Passed through the State of California Department of Transportation Office of Traffic Safety Drunk Driving Prevention	20.600	94-900-7744	-	98,141
<b>Total Highway Safety Cluster</b>			<b>-</b>	<b>98,141</b>
<b><u>U.S. Department of Justice</u></b>				
Passed through the County of Riverside Law Enforcement Assistance Narcotics and Dangerous Drugs Laboratory Analysis	16.001	07-945-0075	-	10,621
Equitable Sharing Program	16.922	07-945-0075	-	37,568
<b>Total U.S. Department of Justice</b>			<b>-</b>	<b>48,189</b>
<b><u>U.S. Department of Transportation</u></b>				
Direct Program: Airport Improvement Program *	20.106	N/A	-	805,448
<b>Total U.S. Department of Transportation</b>			<b>-</b>	<b>805,448</b>
<b><u>U.S. Institute of Museum and Library Services</u></b>				
Passed through the California State Library Federal Library Services & Technology Act	45.310	95-020-5898	-	7,500
<b>Total U.S. Institute of Museum and Library Services</b>			<b>-</b>	<b>7,500</b>
<b><u>U.S. Department of Homeland Security</u></b>				
Passed through the State of California Office of Emergency Services Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	94-743-6176	-	44,168
<b>Total U.S. Department of Homeland Security</b>			<b>-</b>	<b>44,168</b>
<b>Total Expenditures of Federal Awards, Excluding Federal Loan Balances Carried Forward from Prior Year</b>			<b>\$ -</b>	<b>3,513,958</b>
<b><u>Federal Loan Balances with a Continuing Compliance Requirement</u></b>				
<b><u>Clean Water State Revolving Fund Cluster</u></b>				
Capitalization Grants for Clean Water State Revolving Funds (beginning balance) *	66.458	80-832-1913		14,354,637
<b>Total Expenditures of Federal Awards Including Federal Loan Balances Carried Forward from Prior Year</b>				<b>\$ 17,868,595</b>

\* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Palm Springs ("the City"), California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

**c. Indirect Cost Rate**

The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 2: Loan Programs with Continuing Compliance Requirements**

The City entered into a loan agreement with the State Water Resources Control Board under Title VI of the Federal Water Pollution Control Act, where the State of California has established a Clean Water State Revolving Fund pursuant to Chapter 6.5 of Division 7 of the California Water Code to be used for purposes of the Clean Water Act. The State Water Board is authorized to administer the Clean Water State Revolving Fund and provide financial assistance to recipients for the construction of eligible projects. In accordance with 2 CFR 200.502(b), the outstanding federal balance of the loan at June 30, 2019, is as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2019</u>
66.458	Clean Water State Revolving Fund	<u>\$ 21,747,934</u>
	Total Loan Outstanding	<u>\$ 21,747,934</u>

**Note 3: Delay in Filing due to COVID-19**

On March 19, 2020, the OMB issued M-20-17 extending the Single Audit filing date by six months beyond the normal due date. The reason for the delay in filing the Single Audit Report for the City of Palm Springs is due to COVID-19, where the City took several precautions and the employees worked limited hours.



CITY OF PALM SPRINGS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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SECTION II - FINANCIAL STATEMENT FINDINGS

**Finding 2019-001: Land Held for Resale Not Developed or Sold Within the Required Five-Year Time Period**

**Noncompliance**

Criteria

The laws and regulations governing housing successors can be found in the Health and Safety Code section 33000 et. seq., and Title 25, Division 1, Chapter 6 of the *California Code of Regulations*. Section 33334.16 of the Government Code states that the Housing Successor must initiate activities to develop properties purchased with Low and Moderate Income Housing Asset Fund money within five years from the date the Department of Finance approved the property as a housing asset.

Condition

The City of Palm Springs has two properties, one located at 233 West Tramview Road (APN 501-401-010) and the other located on El Dorado Boulevard (no street number available, APN 501-401-039), that should have been developed or sold during the current fiscal year.

Cause

No sale offers or proposals have been received.

Effect

The City did not comply with section 33334.16 of the Government Code.

Recommendation

We recommend that the City continues to market these properties for sale.

Management's Response and Corrective Action

The City attempted to sell the two properties, one located at 233 West Tramview Road (APN 501-401-010) and the other located on El Dorado Boulevard (no street number available, APN 501-401-039) in September 2017. The solicitation was sent to the City's list of approximately 50 affordable housing developers and to residences within a 500-foot radius of each property. No offers or proposals were received. The City continues to market the properties for sale.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



# City of Palm Springs

Department of Finance and Treasury

3200 E. Tahquitz Canyon Way • Palm Springs, CA 92262

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## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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### SECTION IV - FINANCIAL STATEMENT FINDINGS

#### Finding 2018-001: Accounts Payable Accruals

Material Weakness

##### Condition

During our search for unrecorded liabilities, we noted four invoices relating to expenditures incurred prior to June 30, 2018 and paid subsequently that were not accrued for the fiscal year ending June 30, 2018. This was determined to be the cause of a missed review. The result was that payables and expenditures were understated in Fund 260 by \$123,581. When brought to the management's attention, an adjustment was made to accrue the invoices.

##### Recommendation

We recommend that management perform cutoff procedures and carefully review subsequent invoices for potential accruals to ensure that items related to the prior fiscal year are properly recorded.

##### Management Response

The City will implement fiscal year-end procedures to ensure expenditures are recorded in the proper period. This will include the continued efforts to timely collect expenditure data from departments and review through the end of audit field work.

##### Status of Prior Year Findings

This finding is considered resolved.

### SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### Finding 2018-002:

Category of Finding:	Allowable Costs Principles
Type of Finding:	Significant Deficiency and Instance of Noncompliance
CFDA Number:	14.218
Federal Award Number:	B-17-MC-06-0561
Name of Federal Agency:	U.S. Department of Housing and Urban Development
Program Title:	Community Development Block Grants/Entitlement Grants
Federal Award Year:	2017

##### Criteria

*Title 2 CFR, Subpart E, Cost Principles, Section 200.430, Requirements for Compensation-personnel services.*



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## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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### SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### Condition

During our test work for allowable costs, we noted that the City was allocating to the grant approximately 18.5% to 20% of an administrative employee's time through the payroll system. This is not in compliance with the City's requirement of coded time sheets for CDBG project-funded employees and not in compliance with 2 CFR Part 200.430, which requires salaries and wages charged to a program to be based on records that accurately reflect the work performed.

#### Cause of the Condition

The Housing and Neighborhood Programs Department, which administers the Community Development Block Grant, has not updated its policies for charging payroll costs to HUD funded projects, as required by the Uniform Guidance.

#### Effect of the Condition

The allocation of an employee's time to the grant using a percentage does not meet the requirement that charges to Federal awards for salaries and wages be based on records that accurately reflect the work performed.

#### Question Cost

None.

#### Context

Although not in compliance with the Uniform Guidance standards because a percentage of employee time method was utilized, the City included other required Federal program information in the payroll system in order to easily identify payroll costs charged to the program.

#### Recommendation

We recommend that management review its procedures regarding cost allocation of grant funded employees' methods and begin charging such time directly.

#### Management Response

The City acknowledges the findings and has implemented immediate and corrective procedures to adhere to compliance reporting requirements.

#### Status of Prior Year Findings

The finding is considered resolved.

### **Finding 2018-003:**

Category of Finding:

Subrecipient Monitoring



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## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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### SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Type of Finding:	Significant Deficiency and Instance of Noncompliance
CFDA Number:	14.218
Federal Award Number:	B-17-MC-06-0561
Name of Federal Agency:	U.S. Department of Housing and Urban Development
Program Title:	Community Development Block Grants/Entitlement Grants
Federal Award Year:	2017

#### Criteria

*Title 2 CFR, Subpart D, Subrecipient Monitoring and Management, Section 200.331, Requirements for pass-through entities.*

All pass-through entities must:

- Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:
  - Subrecipient name
  - Subrecipient's unique entity identifier
  - Federal Award Identification Number (FAIN)
  - Federal award date of award to the recipient by the Federal agency
  - Subaward Period of Performance start and end date
  - Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient
  - Total amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation
  - Total amount of the Federal award committed to the subrecipient by the pass-through entity
  - Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
  - Name of Federal awarding agency, pass-through entity, and contact information for awarding official at the pass-through entity
  - CFDA number and name; the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
  - Identification of whether the award is R&D; and
  - Indirect cost rate for the Federal award (including if the de minimis rate is charged per Section 200.414).



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## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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### SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### Condition

As part of our audit testing, we examined the Subrecipient files and agreements for three (3) subawards made to not-for-profit entities that receive Community Development Block Grant program funds from the City. We noted that the Subrecipient Agreements did not include CFDA Numbers, as required by the Uniform Guidance; thus, the information was not provided to the Subrecipients by the City.

#### Cause of the Condition

The Housing and Neighborhood Programs Department, which administers the Community Development Block Grant, has not updated its Subrecipient Agreement Template to include the CFDA Numbers, as required by the Uniform Guidance.

#### Effect of the Condition

The Subrecipient Agreements made by the City did not meet the required information standards as described in the Uniform Guidance.

#### Questioned Costs

None.

#### Context

Although not in compliance with the Uniform Guidance standards because CFDA Numbers were not included/identified in the Subrecipient Agreements, the City did communicate and included other required Federal program information in each of the Subrecipient Agreements, such as the Federal Agency and the grant program name.

#### Recommendation

We recommend that the City update its Subrecipient Agreements to include the CFDA Number and review its agreements to ensure continued compliance with the Uniform Guidance.

#### Management Response

The City acknowledges the findings and has implemented immediate and corrective procedures to adhere to compliance reporting requirements.

#### Status of Prior Year Findings

This finding is considered resolved.