

# CITY OF SAN ANTONIO, TEXAS



## **Schedule of Expenditures of Passenger Facility Charges**

**FISCAL YEAR ENDED SEPTEMBER 30, 2014**

**Schedule of Expenditures of Passenger Facility Charges**

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**Year-Ended September 30, 2014**

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## Padgett Stratemann

### Independent Auditor's Report on Compliance, Internal Control Over Compliance, and Schedule of Expenditures of Passenger Facility Charges Required by the Passenger Facility Charge Audit Guide for Public Agencies

Honorable Mayor and Members of the City Council  
City of San Antonio, Texas

#### ***Report on Compliance for the Passenger Facility Charge Program***

We have audited the San Antonio International Airport Passenger Facility Charge Fund's (the "PFC Fund") compliance with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies (the "Guide"), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended September 30, 2014.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the PFC Fund's compliance 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 Guide. Those standards and the Guide 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the PFC Fund'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. However, our audit does not provide a legal determination of the PFC Fund's compliance.

#### **AUSTIN**

811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

#### **HOUSTON**

1980 POST OAK BOULEVARD, SUITE 1500  
HOUSTON, TEXAS 77056  
800 879 4966

#### **SAN ANTONIO**

100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

TOLL FREE: 800 879 4966

WEB: PADGETT-CPA.COM

### ***Opinion on Compliance for the Passenger Facility Charge Program***

In our opinion, the PFC Fund complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended September 30, 2014.

### ***Report on Internal Control Over Compliance***

Management of the PFC Fund 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 PFC Fund's internal control over compliance with the types of requirements that could have a direct and material effect on its passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 PFC Fund'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 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 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 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.

### ***Schedule of Expenditures of Passenger Facility Charges***

We have audited the financial statements of 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 San Antonio, Texas (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated March 24, 2015, which contained unmodified opinions on those financial statements. Our report was modified to include a reference to other auditors and to a restatement of beginning net position/fund balance. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Passenger Facility Charges is presented for purposes of additional analysis, as required by the Guide, and is not a required part of the

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 Schedule of Expenditures of Passenger Facility Charges is fairly stated in all material respects in relation to the financial statements as a whole.

*Padgett, Stratemann + Co., L.L.P.*

San Antonio, Texas

March 24, 2015



## Padgett Stratemann

### 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*

Honorable Mayor and Members of the City Council  
City of San Antonio, Texas

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 San Antonio, Texas (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2015. Our report was modified to include a reference to other auditors and also a reference to a restatement of beginning net position/fund balance and implementation of new accounting standards. We did not audit the financial statements of HemisFair Park Area Redevelopment Corporation; San Antonio Fire and Police Pension Fund; or the San Antonio Fire and Police Retiree Health Care Fund, blended component units, which represent 78%, 84%, and 32%, respectively, of the assets and deferred outflows, net position/fund balances, and revenues/additions of the aggregate remaining fund information. We also did not audit CPS Energy; SA Energy Acquisition Public Facility Corporation; San Antonio Housing Trust Finance Corporation; San Antonio Housing Trust Foundation, Inc.; or the San Antonio Housing Trust Public Facility Corporation, discretely presented component units, which represent 67%, 59%, and 79%, respectively, of the assets and deferred outflows, net position, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Brooks Development Authority, CPS Energy, SA Energy Acquisition Public Facility Corporation, San Antonio Housing Trust Finance Corporation, San Antonio Housing Trust Public Facility Corporation, and San Antonio Water System – District Special Project, audited separately by other auditors, were not audited in accordance with *Government Auditing Standards*.

#### AUSTIN

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AUSTIN, TEXAS 78704  
512 476 0717

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1980 POST OAK BOULEVARD, SUITE 1500  
HOUSTON, TEXAS 77056  
800 879 4966

#### SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

TOLL FREE: 800 879 4966  
WEB: PADGETT-CPA.COM

### ***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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency as item 2014-001.

### ***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*.

### ***City's Response to the Finding***

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.

*Padgett, Statemann + Co., L.L.P.*

San Antonio, Texas

March 24, 2015

**SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES**

Year Ended September 30, 2014 and Each Quarter During the year ended September 30, 2014  
With Cumulative Totals as of September 30, 2013 and 2014

	SEPTEMBER 30, 2013 PROGRAM TOTAL	QUARTER 1 OCTOBER THROUGH DECEMBER	QUARTER 2 JANUARY THROUGH MARCH	QUARTER 3 APRIL THROUGH JUNE	QUARTER 4 JULY THROUGH SEPTEMBER	YEAR ENDED SEPTEMBER 30, 2014 TOTAL	SEPTEMBER 30, 2014 PROGRAM TOTAL
<b>Revenue:</b>							
Collections	\$ 149,171,734	\$ 3,913,970	\$ 3,312,135	\$ 4,484,915	\$ 5,749,333	\$ 17,460,353	\$ 166,632,087
Interest	6,397,869	28,829	179,647	31,328	22,339	262,143	6,660,012
<b>Total Revenue</b>	<b>155,569,603</b>	<b>3,942,799</b>	<b>3,491,782</b>	<b>4,516,243</b>	<b>5,771,672</b>	<b>17,722,496</b>	<b>173,292,099</b>
<b>Disbursements:</b>							
<b>Application 01-01-C-00-SAT</b>							
Project ID 1.8 Replace RON Apron	\$ 1,722,176	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,722,176
Project ID 1.9 Rehabilitate T-1 & T-2	12,328,975		276,342		875,477	1,151,819	13,480,794
Project ID 1.11 Reconstruct Perimeter Road	464,840						464,840
<b>Application 03-02-U-00-SAT</b>							
Project ID 1.10 Concourse B	60,324,932		2,655,148		5,999,749	8,654,897	68,979,829
<b>Application 04-03-U-00-SAT</b>							
Project ID 1.1 Residential Noise Attenuation	7,576,665		412,990		860,338	1,273,328	8,849,993
<b>Application 05-04-C-00-SAT</b>							
Project ID 4.1 Terminal Elevated Roadway	15,228,461		601,426		1,560,608	2,162,034	17,390,495
Project ID 4.2 Central Plant Upgrade	3,011,438		193,447		451,255	644,702	3,656,140
Project ID 4.3 Apron Replacement	1,917,292		32,598		85,298	117,896	2,035,188
Project ID 4.4 New Utilities - Terminal Expansion	4,752,269		185,317		451,830	637,147	5,389,416
Project ID 4.5 Replace Two ARFF Vehicles	303,970						303,970
Project ID 4.6 Conduct Environmental Impact Statement	549,241						549,241
Project ID 4.7 Reconstruct Terminal Area Roadway	225,000						225,000
Project ID 4.8 Noise Monitoring Equipment	245,153						245,153
Project ID 4.9 Terminal and Airfield Security	973,534						973,534
Project ID 4.10 Airfield Electrical Improvements	633,333						633,333
Project ID 4.11 PFC Development	115,850	7,069	627	422	1,898	10,016	125,866
<b>Application 07-05-C-00-SAT</b>							
Project ID 5.1 Terminal 1 Modifications	15,417,620		660,853		1,350,767	2,011,620	17,429,240
Project ID 5.2 Runway Safety Action Team (RSAT)	824,376						824,376
Project ID 5.3 Runway 21 Extension	5,309,873						5,309,873
Project ID 5.4 Taxiway R Extension	591,878						591,878
<b>Total Disbursements</b>	<b>132,516,876</b>	<b>7,069</b>	<b>5,018,748</b>	<b>422</b>	<b>11,637,220</b>	<b>16,663,459</b>	<b>149,180,335</b>
Net PFC Revenue	\$ 23,052,727	\$ 3,935,730	\$ (1,526,966)	\$ 4,515,821	\$ (5,865,548)	\$ 1,059,037	\$ 24,111,764
PFC Account Balance	\$ 23,052,727	\$ 26,988,457	\$ 25,461,491	\$ 29,977,312	\$ 24,111,764	\$ 24,111,764	\$ 24,111,764

**Notes to Schedule of Expenditures of Passenger Facility Charges  
Year-Ended September 30, 2014**

**General**

The Aviation and Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the local imposition of Passenger Facility Charges (PFC) and use of PFC revenue on Federal Aviation Administration (FAA) approved projects.

- On August 29, 2001, the FAA approved a \$3.00 Passenger Facility Charge collection at San Antonio International Airport (SAT) effective November 1, 2001 per PFC Application 01-01-C-00-SAT. The total approved amount of PFC revenue plus interest SAT is allowed to collect under this application is \$238,029,391 by January 1, 2013, as amended on February 15, 2005 and June 26, 2007. The second amendment additionally increased the approved collection rate for the application to \$4.50, effective October 1, 2007.
- PFC Application 03-02-U-00-SAT, approved on July 23, 2003, and 04-03-U-00-SAT approved on December 1, 2004, authorized SAT to utilize funds collected at SAT in PFC Application 01-01-C-00-SAT. Approved PFC project funding was increased, as amended on February 15, 2005 and June 26, 2007.
- On February 22, 2005, per PFC Application 05-04-C-00-SAT, the FAA additionally approved a \$3.00 PFC to be collected at SAT effective November 1, 2012 (upon the expiration date of the previous application, as amended). The total approved amount of PFC revenue plus interest SAT is allowed to collect under this application is \$118,303,705 by March 1, 2018, as amended on June 26, 2007. Additionally, the second amendment increased the approved collection rate for this application to \$4.50 and changed the charge effective date to January 1, 2013.
- On October 4, 2007, per PFC Application 07-05-C-00-SAT, the FAA approved a \$4.50 PFC to be collected at SAT effective March 1, 2018 (upon the expiration date of the previous application, as amended). The total approved amount of PFC revenue plus interest SAT is allowed to collect under this application is \$24,625,453.
- On May 28, 2010, the FAA approved an amendment to PFC Application 01-01-C-00-SAT. As a result, the impose authority is increased by \$126,197,658 from \$238,029,391 to \$364,227,049. As a result of this amendment, the approved authority in Application 03-02-U-00-SAT, as amended, increased by \$108,498,037 from \$176,470,875 to \$284,968,912. This amendment is referenced as 03-02-U-03-SAT. Also as a result of this amendment, the approved authority in Application 04-03-U-00-SAT is increased by \$17,699,621 from \$24,840,225 to \$42,539,846. This amendment is referenced as 04-03-U-03-SAT.
- On May 28, 2010, the FAA approved an amendment to PFC Applications 07-05-C-00-SAT and 05-04-C-00-SAT. As a result, the approved applications impose and use authority is increased by \$55,756,620 from \$24,625,453 to \$80,382,073 and \$10,856,201 from \$118,303,705 to \$129,159,906 respectively. These applications are now referenced as 07-05-C-01-SAT and 05-04-C-02-SAT, respectively.

**Schedule of Expenditures of Passenger Facility Charges**

The accompanying schedule of expenditures of passenger facility charges presents the revenues received from Passenger Facility Charges and expenditures incurred on approved projects on the cash basis of accounting.

Revenues received and expenditures spent on approved projects in the accompanying schedule agree to the Passenger Facility Charge Quarterly Status Reports submitted by SAT to the FAA.

**Schedule of Findings and Questioned Costs  
 Passenger Facility Charge Program  
 Year-Ended September 30, 2014**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements***

Type of auditors’ report issued:		Unmodified	
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ No	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

***Passenger Facility Charge Program***

Internal control over passenger facility charge program:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u>	None Reported
Type of auditors’ report issued on compliance for passenger facility charge program:		Unmodified	
Any audit findings disclosed that are required to be reported?	_____ Yes	_____ <u>X</u> No	

**SECTION II – FINDINGS AND QUESTIONED COSTS RELATED TO FINANCIAL STATEMENTS**

**Finding: 2014-001**

**Accounting and Reporting of a Transaction Related to the Convention Center Hotel Finance Corporation**

**Type of Finding – Significant deficiency**

In 2005, the Convention Center Hotel Finance Corporation (“CCHC”), a blended component unit of the City, issued revenue bonds in the amount of \$208,145,000 (\$195,590,000 outstanding as of 2014) which is recorded as a liability in the City’s government-wide financial statements. The proceeds of these bonds were loaned to a partnership for the purpose of constructing a hotel project in downtown San Antonio. The loan is to be paid back to the CCHC, in accordance with the loan agreement, after certain other payments have been made. To date, all required loan payments have been made to the CCHC; however, the loan to the partnership was not recorded in the financial statements of the CCHC or the City.

**Schedule of Findings and Questioned Costs**  
**Passenger Facility Charge Program**  
**Year-Ended September 30, 2014**

The CCHC receives trustee statements showing certain receipts and disbursements of the partnership (e.g., payment of property taxes, insurance, return of preferred equity, debt service payments). Currently, CCHC has differing amounts of the balances due to the investor return of preferred equity and basic rentals due to the CCHC. CCHC has currently fully allowed for the basic rental, since no payments have been made.

Additionally, CCHC has recorded all activity from the trustee statements as revenues and expenditures in the City's financial statements, although the majority of these receipts and disbursements do not relate to the CCHC or to the City and, therefore, had initially overstated revenues and expenditures by more than \$100,000,000.

We recommend that the City strengthen its procedures over the above transaction and similar transactions to ensure these transactions are appropriately recorded and disclosed in the financial statements.

**Views of responsible officials and planned corrective actions:**

CCHC is a blended component unit of the City and as such the financial operations and account balances are presented in the City's comprehensive annual financial statements. With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the external auditors discovered that the loan receivable between the Grand Hyatt and CCHC's was not previously reported in CCHC's financial statements. It was further noted that operational activity (revenue and expenses) of the hotel was inaccurately running through CCHC operations. The external auditors recommended the City review the agreements in place that formed CCHC and the associated activity generated for its benefit to ensure that CCHC is accurately reporting all of its applicable transactions. The City agreed with the finding, recording of the loan receivable and adjusting the operations to remove transactions that were not applicable to CCHC's operations. It should be noted the adjustments made have no financial or budgetary impact and are merely reporting entries for financial statement purposes. The City will enhance procedures to identify and document significant terms of all future agreements and their accounting triggers to ensure the terms' proper recording and disclosure in the City or its component units' financial statements.

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO PASSENGER FACILITY CHARGE PROGRAM**

None.

**Corrective Action Plan**  
**Passenger Facility Charge Program**  
**Year-Ended September 30, 2014**

**Finding: 2014-001**

**Accounting and Monitoring a Transaction Related to the Convention Center Hotel Finance Corporation**

**Responsible Person**

Troy Elliott, CPA, Director  
Finance Department

**Implementation Dates**

March 5, 2015

**Views of responsible officials and planned corrective actions**

CCHC is a blended component unit of the City and as such the financial operations and account balances are presented in the City's comprehensive annual financial statements. With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the external auditors discovered that the loan receivable between the Grand Hyatt and CCHC's was not previously reported in CCHC's financial statements. It was further noted that operational activity (revenue and expenses) of the hotel was inaccurately running through CCHC operations. The external auditors recommended the City review the agreements in place that formed CCHC and the associated activity generated for its benefit to ensure that CCHC is accurately reporting all of its applicable transactions. The City agreed with the finding, recording of the loan receivable and adjusting the operations to remove transactions that were not applicable to CCHC's operations. It should be noted the adjustments made have no financial or budgetary impact and are merely reporting entries for financial statement purposes. The City will enhance procedures to identify and document significant terms of all future agreements and their accounting triggers to ensure the terms' proper recording and disclosure in the City or its component units' financial statements.

**Summary Status of Prior Year Findings**

**Passenger Facility Charge Program**

**Year-Ended September 30, 2014**

**Finding: 2013-01**

**Non-Cash and Multi-Funded Awards Reporting in the Schedule of Expenditures of State Awards**

**Type of Finding – Significant Deficiency**

**Recommendation:**

We recommend the City continue to work with all federal, state and pass-through awarding agencies to strengthen the communication and sharing of information to ensure information on all state awards is obtained timely in order for the City to accurately record federal expenditures in the proper period on the SESA. In addition, we recommend the City work with all Department Fiscal Administrators to increase awareness of reporting requirements for non-cash federal awards and specific identification of grant expenditures when multiple funding sources are awarded to cover the same program.

**Status:**

Corrected

The City of San Antonio's Finance Department developed controls to require communication with the granting entity, at a minimum, upon award and at fiscal year-end specifically requesting the funding allocation for multi-funded grants and expenditure amounts incurred by the granting organization for assets to be titled over to the City. The City will utilize responses in these communications to properly account for and report grant activity in the City's financial reporting system. Communication to departments on the developed controls was sent out on March 5, 2014 and was covered in the grant training sessions scheduled for citywide fiscal staff on April 11 and 22, 2014.

**Responsible Person**

Troy Elliott, CPA, Director

Finance Department