

City of Evanston, Illinois

Single Audit Act

**Supplementary Financial
and Compliance Report**

Year Ended February 28, 2006

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MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

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

The Honorable Lorraine H. Morton, Mayor, and
Members of the City Council
City of Evanston, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Evanston, Illinois, as of and for the year ended February 28, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 4, 2006. 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 Evanston, Illinois', internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we have reported to management of the City of Evanston, Illinois, in a separate letter dated August 4, 2006.

(Continued)

The Honorable Lorraine H. Morton, Mayor, and
Members of the City Council
City of Evanston, Illinois

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Evanston, Illinois', 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*.

This report is intended solely for the information and use of the Mayor, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

MILLER, COOPER & CO., LTD.

Miller, Cooper & Co., Ltd.

Certified Public Accountants

Northbrook, Illinois
August 4, 2006

MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Lorraine H. Morton, Mayor, and
Members of the City Council
City of Evanston, Illinois

Compliance

We have audited the compliance of the City of Evanston, Illinois, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to each of its major federal programs for the year ended February 28, 2006. The City of Evanston, Illinois', major federal 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 programs is the responsibility of the City of Evanston, Illinois', management. Our responsibility is to express an opinion on the City of Evanston, Illinois', 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; 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 Evanston, Illinois', 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 Evanston, Illinois', compliance with those requirements.

(Continued)

Compliance (Continued)

As described in item 06-1 in the accompanying schedule of findings and questioned costs, the City of Evanston, Illinois, did not comply with requirements regarding all the compliance requirements that are applicable to the Community Development Block Grant Program. Compliance with such requirements is necessary, in our opinion, for the City of Evanston, Illinois, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Evanston, Illinois, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2006.

Internal Control Over Compliance

The management of the City of Evanston, Illinois, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Evanston, Illinois', internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

(Continued)

The Honorable Lorraine H. Morton, Mayor, and
Members of the City Council
City of Evanston, Illinois

(Continued)

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Evanston, Illinois, as of and for the year ended February 28, 2006, and have issued our report thereon dated August 4, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 Mayor, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

MILLER, COOPER & CO., LTD.

Miller, Cooper & Co., Ltd.

Certified Public Accountants

Northbrook, Illinois
August 4, 2006

City of Evanston, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended February 28, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Direct Programs - Grants			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
COMMUNITY PLANNING AND DEVELOPMENT			
Community Development Block Grant *			
Entitlement year 22	14.218	B98-MC-17-0012	\$ 12,859
Entitlement year 24	14.218	B00-MC-17-0012	2,729
Entitlement year 27	14.218	B01-MC-17-0013	30,849
Entitlement year 28	14.218	B02-MC-17-0012	65,921
Entitlement year 29	14.218	B02-MC-17-0012	287,578
Entitlement year 30	14.218	B02-MC-17-0012	140,487
Entitlement year 31	14.218	B03-MC-17-0012	2,282,929
Total Community Development Block Grant			<u>2,823,352</u>
Emergency Shelter Block Grant			
	14.231	S03-MC-17-0012	1,517
	14.231	S04-MC-17-0012	348
	14.231	S05-MC-17-0012	93,506
Total Emergency Shelter Block Grant			<u>95,371</u>
Home Investment Partnership *			
HOME Program	14.239	S95-MC-170218	842
HOME Program	14.239	S97-MC-170218	5,000
HOME Program	14.239	S98-MC-170218	28,146
HOME Program	14.239	M02-MC-170218	406,384
HOME Program	14.239	M03-MC-170218	321,462
HOME Program	14.239	M04-MC-170218	46,323
Total HOME Program			<u>808,157</u>
Total Department of Housing and Urban Development			<u>3,726,880</u>

* Denotes a Major Program

(Continued)

The accompanying notes are an integral part of this schedule.

City of Evanston, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the year ended February 28, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF JUSTICE			
OFFICE OF COMMUNITY ORIENTED POLICING SERVICES			
Title V Delinquency Prevention	16.548	-	\$ 15,000
Law Enforcement Block Grant	16.592	2001-LB-BX-3274	3,478
Law Enforcement Block Grant	16.592	2002-LB-BX	20,152
Law Enforcement Block Grant	16.592	2003-LB-BX	12,000
Justice Assistant Grant	16.592	2205-DJ-BX-1256	55,906
Total Department of Justice			<u>106,536</u>
Pass-Through Programs - Grants and Loans			
ENVIRONMENTAL PROTECTION AGENCY			
OFFICE OF WATER *			
Passed through the Illinois Environmental Protection Agency			
Water Pollution Control Revolving Loan	66.458	L171452 10B	4,400,827
Water Pollution Control Revolving Loan	66.458	L170895 10A	1,047,170
Water Pollution Control Revolving Loan	66.458	L170894 9A	73,927
Total Environmental Protection Agency			<u>5,521,924</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
STATE AND LOCAL PROGRAMS AND SUPPORT			
Passed through the Illinois Emergency Services and Disaster Agency			
Community Emergency Response Team	97.054	-	19,677
Emergency Management Assistance Program	83.517	497-58830-440	24,726
Total Federal Emergency Management Agency			<u>44,403</u>
DEPARTMENT OF AGRICULTURE			
Summer Lunch Program	10.559	14-016-510P-00	70,329

* Denotes a Major Program

(Continued)

The accompanying notes are an integral part of this schedule.

City of Evanston, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the year ended February 28, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
PUBLIC HEALTH SERVICE - I			
OFFICE OF HUMAN DEVELOPMENT SERVICES			
Passed through Suburban Area Agency on Aging Ombudsman (Older Americans Act Title III B)			
Special Programs for the Aging	93.633	A13-119	\$ <u>43,109</u>
OFFICE OF MENTAL HEALTH SERVICES			
Evanston Project - SEED *	98.230	1 U79 SM53999-03	<u>337,255</u>
Passed Through State of Illinois Department of Human Services			
Family Planning	93.217	611G6095350	27,000
Family Planning	93.667	611G6095350	9,800
Family Planning	93.994	611G6095350	3,700
Family Planning	93.217	511G5095350	3,900
Family Planning	93.667	511G5095350	<u>10,900</u>
Total Family Planning			<u>55,300</u>
Total Public Health Service - I			<u>435,664</u>
HEALTH CARE FINANCING ADMINISTRATION			
PUBLIC HEALTH SERVICE - II			
Passed through State of Illinois Department of Human Services			
Teen Pregnancy Prevention	93.994	611G6095230	23,400
Teen Pregnancy Prevention	93.994	511G5095230	<u>19,000</u>
Total Teen Pregnancy Prevention			<u>42,400</u>

* Denotes a Major Program

(Continued)

The accompanying notes are an integral part of this schedule.

City of Evanston, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the year ended February 28, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
PUBLIC HEALTH SERVICE-II (Continued)			
Passed through State of Illinois Department of Public Health Oral Health Grant	93.994	33480526	\$ <u>2,367</u>
Family Case Management Administration Reimbursement	93.778	-	<u>68,231</u>
Total Public Health Service - II			<u>112,998</u>
Total Department of Health and Human Services			<u>548,662</u>
DEPARTMENT OF HOMELAND SECURITY			
Assistance to Firefighters Grant Program *	97.044	EMW-2003-FG-04561	<u>210,000</u>
Total Federal Financial Assistance			<u>\$ 10,228,734</u>

* Denotes a Major Program

(Concluded)

The accompanying notes are an integral part of this schedule.

City of Evanston, Illinois
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended February 28, 2006

NOTE A - SCOPE OF REVIEW

The City of Evanston, Illinois, (City) is a governmental entity established under Illinois State Statutes. The City has had a single audit performed for its fiscal year ended February 28, 2006, pursuant to the Single Audit Act of 1984, as amended. The Environmental Protection Agency has been designated as the City's oversight agency for this single audit.

Programs Subject To Single Audit

All federal financial awards have been included in the Schedule of Expenditures of Federal Awards.

The City also receives grant awards solely funded by the state of Illinois or private sources. These funds are not included in the Schedule of Expenditures of Federal Awards.

Pursuant to the Single Audit Act, a major federal program is one whereby the total expenditures are equal to the larger of (a) \$300,000 or (b) 3% of the City's total federal program expenditures (less loans received). All programs for the City with expenditures greater than \$300,000 were considered Type A programs.

Total federal program expenditures (less loan received of \$5,521,924)	\$ 4,706,810
3% of total federal program expenditures	141,204
Greater of above or \$300,000	300,000

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards has been prepared using the modified accrual basis of accounting. Revenue is recognized either when received or once reimbursable expenditures have been incurred. Expenditures are recognized when incurred.

City of Evanston, Illinois
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended February 28, 2006

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) ENTITLEMENT YEAR 30

The CDBG Entitlement Year 31 receipts include \$366,149 of program income generated through collection of prior years' loans. The balance of receipts are from letter of credit drawdowns. The CDBG expenditures for the year include expenditure of this program income. Program income is not included in the award amount.

NOTE D - FEDERALLY PURCHASED COMMODITIES

The City receives federally purchased vaccine passed through the Illinois Department of Public Health. The approximate cost of the vaccine provided to eligible patients is included in the Schedule of Expenditures of Federal Awards. For the state of Illinois fiscal year ended June 30, 2006, the Department advises that the cost of vaccine shipped to the City was \$16,592. The vaccine was provided to eligible patients in the City's public health clinic.

NOTE E - LOANS RECEIVABLE OUTSTANDING

The City had the following loan receivable balances outstanding at February 28, 2006.

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Home Program	14.239	\$ 3,201,381
Community Development Block Grant	14.218	\$ 1,473,105

CITY OF EVANSTON, ILLINOIS

Schedule of Insurance in Force

March 1, 2006

<u>Name of Company</u>	<u>Policy Number</u>	<u>Policy Dates</u>	<u>Type of Coverage</u>	<u>Details</u>
FM Global	FC359	3/01/06 - 3/01/07	All-Risk Property (includes business interruption, loss of rents, and fine arts)	Actual cash value per Statement of Values each loss/each location in excess of \$75,000 deductible
Hartford Insurance Co.	83MSRZ3857	3/01/06 - 3/01/07	Fine Arts - Noyes, Levy Center, and Fleetwood/Jourdain Theaters	Per Statement of Values in excess of \$250 deductible limits of different levels at each property
Safety National Casualty Corp.	SP8724-IL	3/01/06 - 3/01/07	Excess Worker's Compensation	Specific excess coverage in excess of \$50,000 per occurrence
Western World Insurance	NPP970824	3/01/06 - 3/01/07	Ambulance/Paramedic Liability	\$1,000,000 per occurrence; \$1,000,000 aggregate
Illinois National Insurance Co.	76062798	3/01/06 - 3/01/07	Excess Liability	\$10,000,000 coverage in excess of \$2,000,000 per occurrence (first \$2,000,000 is City's portion)
Lexington Insurance Co.	006260954	3/01/06 - 3/01/07	Crime Policy	Theft of cash in excess of \$25,000 deductible, to limit of \$2,000,000

City of Evanston, Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended February 28, 2006

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified opinion on the basic financial statements of the City of Evanston, Illinois.

	Yes	None Reported
Internal control over financial reporting:		
Material weaknesses identified?		X
Reportable conditions identified that are not considered to be material weaknesses?		X
Noncompliance material to financial statements noted?		X

Federal Awards

Internal control over major programs:

Material weaknesses identified?		X
Reportable conditions identified that are not considered to be material weaknesses?	X	

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	X	
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(Continued)

City of Evanston, Illinois
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
 For the year ended February 28, 2006

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS (Continued)

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants (CDBG)
14.239	Home Investment Partnership (HOME)
66.458	Water Pollution Control Revolving Loan (EPA)
98.230	Evanston project - SEED
97.044	Assistance to Firefighters Grant

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

Auditee qualified as low-risk auditee? No

II. FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control	None Reported
B. Compliance Findings	None Reported

(Continued)

City of Evanston, Illinois
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the year ended February 28, 2006

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

<u>Finding</u>	<u>CFDA #</u>	<u>Program</u>	<u>Questioned Costs</u>
06-1	14.218	Community Development Block Grant	None

Finding/Noncompliance

Wages should be monitored to insure that the provisions of the Davis-Bacon Act are met. The City could not locate support for two of the thirteen disbursements tested to show that Davis-Bacon Act monitoring took place and that the wage requirements were met. Subsequent testing determined that prevailing wage rates were met or exceeded in all instances tested. Support for the monitoring should be maintained for at least three years. The City should develop standard procedures for record retention that include the amount of time to keep the files (a minimum of three years) and what information should be maintained in those files.

City of Evanston, Illinois
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended February 28, 2006

Identifying Number: 05-1

Audit Finding: Wages should be monitored to insure that the provisions of the Davis-Bacon Act are met. The City could not locate support for two of the seven disbursements tested to show that Davis-Bacon Act monitoring took place and that the wage requirements were met. Subsequent testing determined that prevailing wage rates were met or exceeded in all instances tested. Support for the monitoring should be maintained for at least three years. The City should develop standard procedures for record retention that include the amount of time to keep the files (a minimum of three years) and what information should be maintained in those files.

Corrective Action Taken: The City had the same finding occur in the previous year and the plan was to apply the Davis-Bacon Act to all types of contracts. However, due to a change in key personnel, there was a deficiency in the records retention and/or monitoring process (see finding 06-1). The City recognizes the lack of testing and is planning to monitor all of the contracts more closely to assure that the Davis-Bacon Act is applied to all contracts.

Identifying Number: 05-2

Audit Finding: Records should be maintained that support the determination of eligibility for the Medical Assistance Program based upon eligibility criteria specified in the individual state plan. The City did not maintain a record of the eligible participants provided by the state of Illinois. This lack of records prohibited us from testing the eligibility of the participants in the program. The lack of support makes it possible the ineligible participants were served by the program. The City should develop formal procedures for record retention (a minimum of three years) and what information should be included in the files to support eligibility for the participants.

Corrective Action Taken: The City now maintains records.

City of Evanston, Illinois
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended February 28, 2006

Identifying Number: 05-3

Audit Finding: Records should be maintained that support the determination of which participants in the Medical Assistance Program received services. The City did not maintain records supporting who participated in the program. This lack of records prohibited us from testing the case files to determine that they were in compliance with the requirements of the Medical Assistance Program. The lack of support for participation makes it impossible to verify that services were provided to the proper individuals. The City should develop formal procedures for record retention (a minimum of three years) and for what information should be included in the files.

Corrective Action Taken: The City now maintains records.

Identifying Number: 05-4

Audit Finding: Records should be developed and maintained that support the expenditures of Medical Assistance Program funds. The City did not develop or maintain records that support expenditures charged to the Medical Assistance Program. The lack of support prohibited us from testing that the expenditures were allowable and in accordance with the permitted activities. The lack of support makes it possible that nonallowed and/or nonpermitted expenditures were charged to the program. The City should develop minimum standards for support of expenditures charged to a specific program.

Corrective Action Taken: The City now maintains records.

City of Evanston, Illinois
CORRECTIVE ACTION PLAN
Year ended February 28, 2006

Identifying Number: 06-1

Audit Finding: The City did not apply the Davis-Bacon Act to the two items selected for testing which required the Davis-Bacon Act.

Corrective Action Taken: After last year's finding, the City put procedures in place to ensure that the City is in compliance with the Davis-Bacon Act. The contractors for the two items selected for review in this year's audit stated that copies of certified timesheets and worker compensation were provided to the City as required; however, those documents could not be located in the City's files when requested by the auditor. The City believes that the documents were received and reviewed for compliance, but is unable to verify this as the staff person who created and implemented the procedure is no longer employed by the City of Evanston. Duplicate copies of the timesheets were obtained from the contractors for both items in question and were found to be in compliance with the appropriate wage decisions. The City Finance staff has discussed the importance of reviewing timesheets and retaining the required documentation as well as any documents of findings and corrective action required with the new CDBG Grants Administrator. The CDBG Grants Administrator has established written procedures that identify the individual responsible for ensuring tracking that the requirements of the Davis-Bacon Act are satisfied by project and has established a new tracking system to document the process. These procedures will be incorporated in the CDBG Grants Administration Procedure Manual to ensure continuity of Davis-Bacon compliance processes and provide transparency in the event of future staffing changes.