

Certified Public Accountants
& Consultants



City of Montgomery, Alabama
September 30, 2018
Single Audit Report

**City of Montgomery, Alabama
September 30, 2018**

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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*

The Honorable Mayor and Members of the City Council
City of Montgomery, Alabama

We have audited the financial statements of governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Alabama (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 26, 2019. We have conducted our audit 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 Pension Trust Fund were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Pension Trust Fund. Our report includes a reference to other auditors who audited the financial statements of the Montgomery City-County Public Library (the Library), the discretely presented component unit of the City, as described in our report on the City's financial statements. The financial statements of the Library were not audited in accordance with *Government Auditing Standards*.

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. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Jackson Thornton & Co. PC

Montgomery, Alabama
February 26, 2019

Independent Auditor's Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Honorable Mayor and Members of the City Council
City of Montgomery, Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Montgomery, Alabama's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2018. 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 on 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questions costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 the 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 a material weakness, as defined above. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-002, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the audit procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Alabama as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated February 26, 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 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.

Jackson Thornton & Co. PC

Montgomery, Alabama
April 1, 2019

City of Montgomery, Alabama
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CDFA Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>	<u>Subrecipient Expenditures</u>
U.S. Department of Agriculture				
Passed through the Alabama Department of Education				
Child Nutrition Cluster				
Summer Food Service Program for Children	10.559	AGJ 0000 FY18	\$ 125,512	
Total U. S. Department of Agriculture			<u>125,512</u>	
U.S. Department of Defense				
Direct Program				
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	EN150215	38,131	
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	EN1502-17-02	173,250	
Total U.S. Department of Defense			<u>211,381</u>	
U.S. Department of Housing and Urban Development				
Direct Program				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-01-0007	667	
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-01-0007	35,000	\$ 35,000
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-01-0007	120,075	120,075
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-01-0007	1,242,690	821,151
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-01-0007	121,618	
Subtotal CDBG - Entitlement Grants Cluster			<u>1,520,050</u>	<u>976,226</u>
Direct Program				
Emergency Solutions Grant Program	14.231	E-17-MC-01-0005	286,013	267,016
Direct Program				
HOME Investment Partnerships Program	14.239	M-16-MC-01-0204	141,636	100,429
HOME Investment Partnerships Program	14.239	M-17-MC-01-0204	17,897	17,897
HOME Investment Partnerships Program	14.239	E-17-MC-01-0005	21,580	
Subtotal HOME Investment Partnerships Program			<u>181,113</u>	<u>118,326</u>
Total U.S. Department of Housing and Urban Development			<u>1,987,176</u>	<u>1,361,568</u>
U.S. Department of Justice				
Direct Program				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0330	39,685	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0329	17,732	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-ST-010	115,870	
Total U.S. Department of Justice			<u>173,287</u>	

See accompanying notes to the schedule of expenditures of federal awards.

City of Montgomery, Alabama
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CDFA Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>	<u>Subrecipient Expenditures</u>
U.S. Department of Transportation				
Passed through the Alabama Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	ACAA61048-ATRP(003) ACAA58356-ATRP(007);	\$ 26,620	
Highway Planning and Construction	20.205	ATRIP 51-03-04	97,231	
Highway Planning and Construction	20.205	IAR-051-00-009	202,241	
Highway Planning and Construction	20.205	IAR-051-00-011	232,349	
Highway Planning and Construction	20.205	MPF/2018 UPWP	267,100	
Highway Planning and Construction	20.205	STPMN-5114(521)	87,130	
Highway Planning and Construction	20.205	STPMN-5115() PE	35,399	
Highway Planning and Construction	20.205	STPMN 5116	62,845	
Highway Planning and Construction	20.205	STPMN-5116(250)	33,529	
Highway Planning and Construction	20.205	STPMN-5116(251)	20,266	
Highway Planning and Construction	20.205	STPMN-7724(602)	1,460	
Highway Planning and Construction	20.205	STPMT-7730(600)	26,166	
Highway Planning and Construction	20.205	STPMT-7733(600)	18,342	
Highway Planning and Construction	20.205	STPOA-7701(602)	8,641	
Highway Planning and Construction	20.205	STPOA-7729(600)	69,097	
Highway Planning and Construction	20.205	STPOA-7733	6,200	
Subtotal Highway Planning and Construction Cluster			<u>1,194,616</u>	
Direct Program				
Federal Transit Cluster				
Federal Transit Formula Grants	20.507	AL-90-X240-00	2,779	
Federal Transit Formula Grants	20.507	AL-2017-008-00	35,333	
Federal Transit Formula Grants	20.507	AL-1019-2018-1	2,385,128	
Subtotal Federal Transit Formula Grants			<u>2,423,240</u>	
Bus and Bus Facilities Formula Program	20.526	AL-34-0005-00	10,120	
Subtotal Federal Transit Cluster			<u>2,433,360</u>	
Direct Program				
Transit Services Program Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AL-16-X008-00	28,312	

See accompanying notes to the schedule of expenditures of federal awards.

City of Montgomery, Alabama
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CDFA Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>	<u>Subrecipient Expenditures</u>
Passed through the Alabama Department of Economic and Community Affairs				
Highway Safety Cluster				
State and Community Highway Safety	20.600	18-SP-PT-002	\$ 25,254	
State and Community Highway Safety	20.600	18-FP-PT-002	1,059	
Subtotal State and Community Highway Safety			<u>26,313</u>	
National Priority Safety Programs	20.616	18-HD-M5-002	10,281	
National Priority Safety Programs	20.616	18-HD-M5-008	1,580	
Subtotal National Priority Safety Programs			<u>11,861</u>	
Subtotal Highway Safety Cluster			<u>38,174</u>	
Total U.S. Department of Transportation			<u>3,694,462</u>	
Institute of Museum and Library Services				
Passed through the Alabama Public Library Service				
Grants to States	45.310		<u>18,500</u>	
U.S. Department of Health and Human Services				
Passed through the Alabama Department of Public Health				
Public Health Emergency Preparedness Grant	93.069	CEP-14-PV7-17	5,922	
Public Health Emergency Preparedness Grant	93.069	CEP-14-PV8-18	69,819	
Total U.S. Department of Health and Human Services			<u>75,741</u>	
Executive Office of the President				
Passed through the Alabama Department of Public Safety				
High Intensity Drug Trafficking Areas Program	95.001	G12GC0002A-2HHI	<u>6,826</u>	
U.S. Department of Homeland Security				
Passed through the Alabama Department of Homeland Security				
Emergency Management Performance Grants	97.042	8EMF	<u>86,932</u>	
Direct Program				
Assistance to Firefighters Grant	97.044	EMW-2015-FO-05665	<u>516,339</u>	
Passed through the Alabama Department of Homeland Security				
Homeland Security Grant Program	97.067	5FIL	15,816	
Homeland Security Grant Program	97.067	6FIL	14,104	
Homeland Security Grant Program	97.067	7FIL	650	
Homeland Security Grant Program	97.067	7LOC MCSD	21,750	
Homeland Security Grant Program	97.067	7LET MCSD	22,557	
Subtotal Homeland Security Grant Program			<u>74,877</u>	
Total U.S. Department of Homeland Security			<u>678,148</u>	
Total expenditures of Federal awards			<u>\$ 6,971,033</u>	<u>\$ 1,361,568</u>

See accompanying notes to the schedule of expenditures of federal awards.

City of Montgomery, Alabama
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Montgomery, Alabama (the City) and is presented on the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Reporting Entity

The City's reporting entity is fully described in Note 1 to the financial statements.

Note 3 - Indirect Cost Rates

The City did not elect to charge a de minimus rate of 10% for all federal awards.

City of Montgomery, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unmodified

Internal control over financial reporting

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

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs

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

Type of auditor's report issued on compliance for major programs - unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)?

 X Yes _____ No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

City of Montgomery, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

No matters were reported.

City of Montgomery, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section III - Federal Awards Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to major federal programs that are required to be reported in accordance with the Uniform Guidance.

Finding 2018-001 - Reporting (Noncompliance)

Identification of the federal program - U.S. Department of Housing and Urban Development CFDA No. 14.218 Community Development Block Grants/Entitlement Grants

Criteria - 2 CFR 200.327 requires recipients to submit financial reports, the frequency determined by the terms and conditions of the Federal award and supported by the accounting records.

Condition - The City is required to file quarterly financial reports. Three quarterly reports filed by the City varied from the supporting accounting records by a total of approximately \$60,000 for receipts and \$60,000 for disbursements. Also, when reporting federal cash receipts, cash on hand from the prior reporting period should be included. The City only reported current funds received, and therefore, inaccurately reported federal cash on hand.

Cause and effect - The City did not report accurate amounts on the Federal Financial Report SF-425 due to errors in compiling amounts from accounting records.

Recommendation - The City should strengthen its policies and procedures related to federal award reporting to comply with accurate reporting requirements.

Finding 2018-002 - Reporting (Significant Deficiency)

Information on the federal program - U.S. Department of Housing and Urban Development CFDA No. 14.218 Community Development Block Grants/Entitlement Grants

Criteria - 2 CFR 200.327 requires recipients to submit financial reports, the frequency determined by the terms and conditions of the Federal award and supported by the accounting records.

Condition - The City did not follow the U.S. Department of Housing and Urban Development's instructions for completing quarterly financial reports. Several financial and nonfinancial items were misreported, the most significant being the reporting of federal cash. When reporting federal cash receipts, cash on hand from the prior reporting period should be included. The City only reported current funds received, and therefore, inaccurately reported federal cash on hand.

Cause and effect - The City did not report accurate financial and nonfinancial information on the Federal Financial Report SF-425 due to a lack of appropriate review of supporting accounting records and form instructions.

Recommendation - The City should strengthen its policies and procedures related to federal award reporting to comply with accurate reporting requirements.

City of Montgomery, Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section IV - Prior Year Audit Findings

Finding 2017-001 - Reporting (Noncompliance)

Information on the federal program - U.S. Department of Housing and Urban Development CFDA No. 14.218 Community Development Block Grants/Entitlement Grants

Criteria - 2 CFR 200.327 requires recipients to submit financial reports, the frequency determined by the terms and conditions of the Federal award and supported by the accounting records.

Condition - The City is required to file quarterly financial reports. A quarterly report filed by the City varied from the supporting accounting records by approximately \$123,000.

Cause and effect - The City did not comply with accurate financial reporting compliance requirements.

Status - Repeating finding. See Finding 2018-001.

Finding 2017-002 - Subrecipient Monitoring (Noncompliance)

Information on the federal program - U.S. Department of Housing and Urban Development CFDA No. 14.218 Community Development Block Grants/Entitlement Grants

Criteria - 2 CFR 200.331 establishes the requirements for pass-through entities for award documentation and monitoring of subrecipients. These requirements include a risk evaluation of the subrecipient for purposes of determining appropriate monitoring related to the subaward.

Condition - During compliance testing, two subrecipients were selected that received a subaward through the Community Development-Planning Department. We could not determine the City contemporaneously performed an evaluation of the risk associated with a subaward to one of the subrecipients prior to disbursing funds to that subrecipient.

Cause and effect - The City has developed a process to evaluate potential subrecipients in accordance with Uniform Guidance requirements, however, the risk assessment provided was dated April 2017. Amounts were disbursed to the subrecipient prior to the performance of the assessment. The City did not comply with all subrecipient monitoring requirements.

Status - Corrective action taken.

Finding 2017-003 - Procurement (Noncompliance)

Information on the federal program: U.S. Department of Transportation CFDA No. 20.507 Federal Transit Formula Grants

Criteria: 2 CFR Part 200.318 and A-102 Common Rule establish general procurement standards for nonfederal entities to ensure full and open competition.

Condition - The City is still operating under a contract dated in 2013 in which they order uniforms and other supplies for MATS employees. The cumulative purchases to this vendor exceed the \$100,000 threshold under OMB Circular A-133 requiring a bid.

Cause and effect - The City did not bid this contract and therefore did not comply with procurement standards.

Status - Corrective action taken.

City of Montgomery, Alabama
Corrective Action Plan
For the Year Ended September 30, 2018

Contact person

Barry Crabb, Finance Director
Phone number - (334) 625-2025
Email - bcrabb@montgomeryal.gov

Finding 2018-001 - Reporting (Noncompliance)

Management concurs. There were mathematical errors in the spreadsheets totaling the numbers used for reporting. In the future, the City will use better care in checking the calculations used for quarterly reporting on the financial reports.

Finding 2018-002 - Reporting (Significant Deficiency)

Management concurs. The City will use the filing instructions provided by HUD when filing the quarterly financial reports and will prospectively adjust federal cash receipts to include cash on hand from the prior reporting period.