

CITY OF MONTGOMERY, ALABAMA

SEPTEMBER 30, 2015

SINGLE AUDIT REPORT

CITY OF MONTGOMERY, ALABAMA

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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 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, 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, 2015, 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 21, 2016. Our report includes a reference to other auditors who audited the financial statements of the Montgomery City-County Public Library (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 Pension Trust Fund and 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 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2015-001, 2015-002, and 2015-003.

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 of Montgomery, Alabama's Response to Findings

The City's response to the findings 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 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jackson Thornton & Co. PC

Montgomery, Alabama

March 21, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 Compliance Supplement* that have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. 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 the requirements of laws, regulations, contract, and grants 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 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'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 for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the City of Montgomery, Alabama 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, 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, 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 21, 2016, which contained an unmodified opinion 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. We did not audit the financial statements of the Montgomery City-County Public Library (Library), the discretely presented component unit of the City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Library, are based solely on the reports of the other auditors. 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 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 basic 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 the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures described above, and the report of the other auditors, 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 Shernton & Co. PC

Montgomery, Alabama
March 21, 2016

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U. S. DEPARTMENT OF AGRICULTURE:</u>			
Passed through Alabama Department of Education:			
Child Nutrition Cluster:			
Summer Food Service Program for Children	10.559	AGJ 0000 FY15	\$ 173,577
Passed through Alabama Forestry Commission:			
Cooperative Forestry Assistance	10.664	1301.14.043434	15,366
Total U.S. Department of Agriculture			\$ 188,943
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-01-0007	\$ 243,161
Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-01-0007	35,489
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-01-0007	126,692
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-01-0007	855,757
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-01-0007	145,403
Subtotal Community Development Block Grants/Entitlement Grants			1,406,502
Direct Program:			
Emergency Solutions Grant Program	14.231	E-13-MC-01-0005	591
Emergency Solutions Grant Program	14.231	E-14-MC-01-0005	94,092
Emergency Solutions Grant Program	14.231	E-15-MC-01-0005	26,932
Subtotal Emergency Solutions Grant Program			121,615
Direct Program:			
HOME Investment Partnerships Program	14.239	M-11-MC-01-0204	2
HOME Investment Partnerships Program	14.239	M-13-MC-01-0204	11,547
HOME Investment Partnerships Program	14.239	M-14-MC-01-0204	177,321
HOME Investment Partnerships Program	14.239	M-15-MC-01-0204	29,754
Subtotal HOME Investment Partnerships Program			218,624
Total U.S. Department of Housing and Urban Development			\$ 1,746,741
<u>U. S. DEPARTMENT OF JUSTICE:</u>			
Direct Program:			
Organized Crime Drug Enforcement Task Forces Agreement	16.111	SE-ALM0073	\$ 3,884
Organized Crime Drug Enforcement Task Forces Agreement	16.111	SE-ALM-0080(H)	27,396
Subtotal Organized Crime Drug Enforcement Task Forces Agreement			31,280
Passed through Montgomery County:			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2011-WE-AX-0028	51,319
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0601	12,877
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0373	31,902
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			44,779
Total U. S. Department of Justice			\$ 127,378

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U. S. DEPARTMENT OF TRANSPORTATION:</u>			
Direct Program:			
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	AL-04-0002-00	\$ 3,824
Federal Transit Capital Investment Grants	20.500	AL-04-0050-00	566,604
Federal Transit Formula Grants	20.507	AL-04-0024-00	31,540
Federal Transit Formula Grants	20.507	AL-90-X229-00	15,470
Federal Transit Formula Grants	20.507	AL-90-X240-00	10,000
Federal Transit Formula Grants	20.507	AL-90-X247-00	2,423,356
Subtotal Federal Transit Cluster			<u>3,050,794</u>
Passed through Alabama Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	STPAA-5100(203)	59,998
Highway Planning and Construction	20.205	IAR-051-000-008	783,205
Highway Planning and Construction	20.205	STPMN-7717(602)	8,245
Highway Planning and Construction	20.205	STPMN-UP14(602)	10,550
Highway Planning and Construction	20.205	STPMN-UR14(603)	28,082
Highway Planning and Construction	20.205	STPMN-UR14(604)	9,571
Highway Planning and Construction	20.205	ACAA61049-ATRP (013)	99,206
Highway Planning and Construction	20.205	ACAA61051-ATRP (003)	62,973
Highway Planning and Construction	20.205	STPMN-5114(521)	13,380
Highway Planning and Construction	20.205	STPOA-7733	6,581
Highway Planning and Construction	20.205	STPOA-7780(600)	33,928
Highway Planning and Construction	20.205	STPOA-7701(602)	27,472
Highway Planning and Construction	20.205	STPTE-TE05(947)	989,778
Highway Planning and Construction	20.205	STPOA-7729(600)	14,247
Highway Planning and Construction	20.205	STPMT-7733(600)	35,368
Highway Planning and Construction	20.205	MPF/2015 UPWP	414,667
Subtotal Highway Planning and Construction Cluster			<u>2,597,251</u>
Passed through Alabama Department of Transportation:			
Railroad Safety	20.301	RHCH-CN13(916)	<u>4,698</u>
Direct Program:			
Transit Services Programs Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AL-16-X008-00	<u>46,162</u>
Passed through Alabama Department of Economic and Community Affairs:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	15-SP-PT-005	102,953
State and Community Highway Safety	20.600	15-SP-CP-005	82,522
National Priority Safety Programs	20.616	15-HS-M5-005	106,264
National Priority Safety Programs	20.616	15-HS-M2-005	22,691
Subtotal Highway Safety Cluster			<u>314,430</u>
Total U. S. Department of Transportation			<u>\$ 6,013,335</u>

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U. S. DEPARTMENT OF HOMELAND SECURITY:</u>			
Passed through Alabama Department of Homeland Security:			
Hazard Mitigation Grant	97.039	HMGP DR 11/18/13-11/15/15	\$ 6,875
Hazard Mitigation Grant	97.039	HMGP-ADMIN EMA PLAN	4,521
Subtotal Hazard Mitigation Grant			<u>11,396</u>
Passed through Alabama Department of Homeland Security:			
Emergency Management Performance Grant	97.042	4EMP	99,861
Passed through Alabama Department of Homeland Security:			
Homeland Security Grant Program	97.067	4FIL	3,560
Homeland Security Grant Program	97.067	3LEL	29,072
Homeland Security Grant Program	97.067	4LEL	8,072
Subtotal Homeland Security Grant Program			<u>40,704</u>
Direct Program:			
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2012-FH-00626	1,130,560
Total U. S. Department of Homeland Security			<u>\$ 1,282,521</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>			
Passed through Alabama Department of Public Health:			
Public Health Emergency Preparedness Grant	93.069	CEP-28-PV4-14	\$ 498
Public Health Emergency Preparedness Grant	93.069	CEP-14-PV5-15	68,480
Subtotal Public Health Emergency Preparedness Grant			<u>68,978</u>
Passed through Alabama Department of Public Health:			
National Bioterrorism Hospital Preparedness Program	93.889	CEP-44-QW5-15	9,095
Passed through The Wellness Coalition:			
Assistance Programs for Chronic Disease Prevention and Control	93.945		13,687
Total U. S. Department of Health and Human Services			<u>\$ 91,760</u>
<u>EXECUTIVE OFFICE OF THE PRESIDENT:</u>			
Passed through Alabama Department of Public Safety:			
Office of National Drug Control Policy	95.001	G11GC0002A-2HMD	\$ 19,027
Office of National Drug Control Policy	95.001	G12GC0002A-2HHI	31,209
Total Executive Office of the President			<u>\$ 50,236</u>
Total Expenditures of Federal Awards			<u>\$ 9,500,914</u>

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

CITY OF MONTGOMERY, ALABAMA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Montgomery, Alabama under programs of the federal government for the year ended September 30, 2015. Expenditures reported on the schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 of Montgomery, Alabama's reporting entity is fully described in Note 1 to the financial statements.

NOTE 3 - SUBRECIPIENTS:

Of the federal expenditures presented in the schedule, the City of Montgomery provided federal awards to subrecipients as follows:

<u>PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AMOUNTS PROVIDED TO SUBRECIPIENTS</u>
Summer Food Service Program for Children	10.559	\$ 130,934
Community Development Block/ Entitlement Grants	14.218	358,879
Emergency Solutions Grants Program	14.231	115,250
HOME Investment Partnerships Program	14.239	10,225
Edward Byrne Justice Assistance Grant Program	16.738	12,118
State and Community Highway Safety	20.600	71,365
National Highway Safety Programs	20.616	79,635

CITY OF MONTGOMERY, ALABAMA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE 4 - PROGRAM INCOME:

In addition to the expenditures presented in the schedule, the City used program income for the following programs:

<u>PROGRAM</u>	<u>CFDA</u>	<u>CONTRACT NUMBER</u>	<u>AMOUNT</u>
Home Investment Partnership Program	14.239	M-13-MC-01-0204	\$ 40,359
Community Development Block Grants	14.228	NSP-GV-088-048	6,663

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	United States Department of Transportation, Highway Planning, and Construction
20.500/20.507	United States Department of Transportation, Federal Transit Cluster
20.600/20.616	United States Department of Transportation, Highway Safety Cluster

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

Auditee qualified as low-risk auditee? Yes X No

CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Section II - Financial Statement Findings:

2015-001 SIGNIFICANT DEFICIENCY:

Criteria or specific requirement:

Multi-party and multi-year remediation obligations should be recorded in accordance with accounting principles generally accepted in the United States of America.

The liability for pollution remediation obligations should be recognized when an obligating event occurs and the liability is measurable. Amounts received or to be received from other governments in an agency capacity do not generate revenue or expenditures for the City.

Condition:

The City's procedures for evaluating a non-routine agreement did not lead to the proper recording of the transaction in accordance with accounting principles generally accepted in the United States of America.

Context:

During 2015, the City, along with other parties, entered into a multi-year past costs funding agreement to resolve the United States EPA's proceedings and claims related to the Capitol City Plume Proposed Superfund Site. This agreement generated an obligating event, and the City's resulting liability was measurable at that point.

The City collects the other parties' obligation for remittance to the EPA. However, the agreement is specific that the City is not indebted for the other party's obligation.

Effect:

The City did not properly record a long-term liability for government-wide reporting. The City accrued revenue and receivable in the Miscellaneous Special Revenue Fund for the other governments' portion of a past costs funding agreement in which the City is acting solely as an agent on their behalf.

Cause:

The City's policies and procedures related to the recording of government-wide transactions did not adequately capture the recognition of the City's liability.

The City's policies and procedures related to the recording of transactions with other governments did not adequately capture the nature of the agency relationship.

Recommendation:

Additional scrutiny should be applied to contracts and agreements, specifically those that occur at or near year end, for recording in accordance with accounting principles generally accepted in the United States of America.

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Views of responsible officials and planned corrective actions:

The City agrees with the finding and will implement the recommendation.

2015-002 SIGNIFICANT DEFICIENCY:

Criteria or specific requirement:

Accumulated capital outlay for assets constructed in a capital project fund on behalf of a business-type activity are reported as construction in progress in the governmental activities until the asset is placed in service and transferred to the business-type activity. For proprietary fund reporting, a capital contribution should be recorded when the asset is placed in service.

Condition:

The City's procedures did not include an effective reconciliation of assets transferred from construction in progress to the capital assets module.

Context:

An audit adjustment was proposed to record assets placed in service during 2015 that were not properly transferred from governmental activities to business-type activities.

Effect:

The City did not record the transfer of a completed capital asset to the Zoo.

Cause:

The City accounts for construction in progress and assets placed in service via a manual spreadsheet; however, the City's process of placing completed projects into service does not include an effective reconciliation to the capital assets module.

Recommendation:

The City should implement a process to periodically reconcile assets transferred from the schedule of construction in progress to the capital assets module. This reconciliation should include a review of journal entries related to the recording of the assets placed in service.

Views of responsible officials and planned corrective actions:

The City agrees with the finding and will implement the recommendation.

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

2015-003 SIGNIFICANT DEFICIENCY:

Criteria or specific requirement:

The recording of funds held in escrow subject to the occurrence of future events should be recorded as a liability in the financial statements.

Condition:

The City's policies and procedures were not adequate to identify and properly record the police department's seizure account with the corresponding cash holdings at year-end.

Context:

Our audit procedures identified an adjustment as a result of the understated escrow liability account.

Effect:

The liability for funds held in escrow was understated.

Cause:

The City's process for reconciling the bank statements related to the seizures account do not include a review of the related escrow accounts for proper recording.

Recommendation:

The City should enhance its supervisory review procedures to give special attention to escrow balances to ensure that all transactions have been properly recorded. The bank reconciliation procedures should include a reconciliation of the cash balance to the escrow balance.

Views of responsible officials and planned corrective actions:

The City agrees with the finding and will implement the recommendation.

Section III - Federal Awards Findings and Questioned Costs:

No matters were reported.

CITY OF MONTGOMERY, ALABAMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Financial Statement Findings:

FINDING 2014-001: Corrective action was taken.

FINDING 2014-002: Corrective action was taken.

FINDING 2014-003: Corrective action was taken.

FINDING 2014-004: Payables

Condition: Policies and procedures over the recording of transactions occurring at or near year-end are not adequate.

Recommendation: The City should enhance its supervisory review procedures to give special attention to transactions occurring at or near year-end to ensure that all transactions have been properly recorded. Procedures should include a comprehensive assessment of new and existing expenditures that are susceptible to accrual. Once these potential accruals are identified, a process should be formalized to capture the accruals and allow for supervisory review.

Current status: The secondary review procedure to recognize liabilities at or near fiscal year end that was implemented in January 2015 only applied to transactions processed through the accounts payable system. However, transactions that were processed outside of the accounts payable system were not subjected to the secondary review. An additional procedure will be implemented to recognize liabilities at or near fiscal year end that are processed outside of the accounts payable system. See finding 2015-001.

2014-005: Escrow liability

Condition: The City's policies and procedures were not adequate to identify and properly record the police department's seizure account with the corresponding cash holdings at year-end.

Recommendation: The City should enhance its supervisory review procedures to give special attention to escrow balances to ensure that all transactions have been properly recorded. The bank reconciliation procedures should include a reconciliation of the cash balance to the escrow balance.

Current status: Bank reconciliations were to include a review of any associated escrow accounts for proper recording. However, this procedure was not fully implemented. A new employee tasked with bank reconciliations review has been made aware of the new procedure and is taking the appropriate steps to ensure this procedure is fully implemented. See finding 2015-003.

Findings and questioned costs for federal awards:

No matters were reported.

CITY OF MONTGOMERY, ALABAMA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

FINDING 2015-001: The secondary review procedure to recognize liabilities at or near fiscal year end that was implemented in January 2015 only applied to transactions processed through the accounts payable system. However, transactions that were processed outside of the accounts payable system were not subjected to the secondary review. An additional procedure will be implemented to recognize liabilities at or near fiscal year-end that are processed outside of the accounts payable system.

FINDING 2015-002: The City will implement a process to reconcile assets transferred from construction in progress to the capital assets module at the June 30th "soft close" and at fiscal year-end. The reconciliation will include a review of journal entries to determine if a capital contribution should be recorded when assets are placed in service for business-type activities.

FINDING 2015-003: Bank reconciliations were to include a review of any associated escrow accounts for proper recording. However, this procedure was not fully implemented in fiscal year 2015. A new employee tasked with bank reconciliations review has been made aware of the new procedure and is taking the appropriate steps to ensure this procedure is fully implemented.