

CITY OF MONTGOMERY, ALABAMA

SEPTEMBER 30, 2014

SINGLE AUDIT REPORT

CITY OF MONTGOMERY, ALABAMA

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

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, 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 10, 2015. Our report includes a reference to other auditors who audited the financial statements of the City of Montgomery Employees' Retirement System (Pension Trust Fund), the fiduciary fund of the City, and 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2014-001.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. 2014-002, 2014-003, 2014-004 and 2014-005.

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 Sherenton & Co. PC

Montgomery, Alabama
March 25, 2015



INDEPENDENT AUDITORS' 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

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, 2014. 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.

Auditors' 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, 2014.

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, 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 10, 2015, 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 City of Montgomery Employees' Retirement System (Pension Trust Fund), the fiduciary fund of the City, and 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 Pension and 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 Thornton & Co. PC

Montgomery, Alabama
March 25, 2015

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	CONTRACT NUMBER	FEDERAL EXPENDITURES
<u>U. S. DEPARTMENT OF AGRICULTURE:</u>			
Passed through Alabama Department of Education: Summer Food Service Program for Children	10.559	AGJ 0000 FY14	\$ 163,714
Total U.S. Department of Agriculture			<u>\$ 163,714</u>
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
Direct Program:			
Community Development Block Grant/Entitlement Grant Cluster			
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-01-0007	\$ 8,140
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-01-0007	383,423
Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-01-0007	237,446
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-01-0007	743,320
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-01-0007	315,984
Subtotal Community Development Block Grant/Entitlement Grant Cluster			<u>1,688,313</u>
Direct Program:			
Emergency Solutions Grant Program	14.231	E-12-MC-01-0005	124,592
Emergency Solutions Grant Program	14.231	E-13-MC-01-0005	81,214
Emergency Solutions Grant Program	14.231	E-14-MC-01-0005	25,397
Passed through Alabama Department of Economic and Community Affairs:			
Emergency Solutions Grant Program	14.231	HESG-12-011	97,905
Subtotal Emergency Solutions Grant Program			<u>329,108</u>
Direct Program:			
HOME Investment Partnerships Program	14.239	M-11-MC-01-0204	216
HOME Investment Partnerships Program	14.239	M-13-MC-01-0204	36,801
HOME Investment Partnerships Program	14.239	M-14-MC-01-0204	26,547
Subtotal HOME Investment Partnership Program			<u>63,564</u>
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-11-MC-01-0007	776,496
Passed through Alabama Department of Emergency Management:			
ADECA NSP/CDBG	14.228	NSP-GV-08-048	98,870
Total U.S. Department of Housing and Urban Development			<u>\$ 2,956,351</u>
<u>U. S. DEPARTMENT OF JUSTICE:</u>			
Passed through Montgomery County:			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Progi	16.590	2011-WE-AX-0028	\$ 24,443
Direct Program:			
Bulletproof Vest Partnership Program	16.607	FY12 Bulletproof Vest Program	2,663
Public Safety Partnership and Community Policing Grants	16.710	2010-UL-WX-0002	332,619
Direct Program:			
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0332	19,678
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0601	62,064
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2816	6,661
Subtotal JAG Program Cluster			<u>88,403</u>
Total U. S. Department of Justice			<u>\$ 448,128</u>

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	CONTRACT NUMBER	FEDERAL EXPENDITURES
U. S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	AL-04-0002-00	\$ 8,048
Federal Transit Formula Grants	20.507	AL-90-X184-00	48,726
Federal Transit Formula Grants	20.507	AL-90-X229-00	60,823
Federal Transit Formula Grants	20.507	AL-90-X240-00	<u>2,478,834</u>
Subtotal Federal Transit Cluster			<u>2,596,431</u>
Passed through Alabama Department of Transportation:			
Highway Planning and Construction	20.205	STPTE-STPOA-TE12(900)S2	27,872
Highway Planning and Construction	20.205	STPAA-5100(203)	20,000
Highway Planning and Construction	20.205	STPMN-7717(602)	137,642
Highway Planning and Construction	20.205	STPMN-UP14(602)	8,633
Highway Planning and Construction	20.205	STPMN-UR14(603)	5,617
Highway Planning and Construction	20.205	STPMN-UR14(604)	7,830
Highway Planning and Construction	20.205	IAR-051-000-005	75,533
Highway Planning and Construction	20.205	STPOA-7733	4,872
Highway Planning and Construction	20.205	STPOA-7780(600)	239,026
Highway Planning and Construction	20.205	STPOA-7701(602)	15,440
Highway Planning and Construction	20.205	STPTE-TE05(947)	5,557,636
Highway Planning and Construction	20.205	STPOA-7729(600)	23,637
Highway Planning and Construction	20.205	STPMT-7733(600)	139,497
Highway Planning and Construction	20.205	MPF/2014 UPWP	<u>363,046</u>
Subtotal Highway Planning and Construction			<u>6,626,281</u>
Passed through Alabama Department of Economic and Community Affairs:			
State and Community Highway Safety	20.600	14-SP-PT-005	104,828
State and Community Highway Safety	20.600	14-SP-CP-005	76,225
State and Community Highway Safety	20.600	14-SP-PT-016	14,448
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	14-HS-K8-005	<u>14,087</u>
Subtotal State and Community Highway Safety Cluster			<u>209,588</u>
Passed through Alabama Department of Economic and Community Affairs:			
National Priority Safety Programs	20.616	14-HS-M5-005	81,618
Passed through Alabama Department of Emergency Management:			
Interagency Hazardous Material Training and Planning Grants	20.703	14 DOT Planning	<u>26,637</u>
Total U. S. Department of Transportation			<u>\$ 9,540,555</u>

CITY OF MONTGOMERY, ALABAMA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	CONTRACT NUMBER	FEDERAL EXPENDITURES
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES:</u>			
Passed through Alabama Public Library Service:			
Grants to State (NOTE 6)	45.310		\$ 137,000
Total Institute of Museum and Library Services			<u>\$ 137,000</u>
<u>U. S. DEPARTMENT OF HOMELAND SECURITY:</u>			
Passed through Alabama Department of Homeland Security:			
Hazard Mitigation Grant	97.039	HMGP DR 9/28/12-9/27/15	\$ 4,000
Hazard Mitigation Grant	97.039	HMGP DR 11/18/13-11/15/15	6,875
Hazard Mitigation Grant	97.039	HMGP-ADMIN EMA PLAN	11,133
Subtotal Hazard Mitigation Grant			<u>22,008</u>
Emergency Management Performance Grant	97.042	EMPG 07-03	102,722
Homeland Security Grant Program	97.067	11CL	4,449
Homeland Security Grant Program	97.067	2AMS	32,261
Homeland Security Grant Program	97.067	3LEL	27,333
Homeland Security Grant Program	97.067	1MAL	1,045
Homeland Security Grant Program	97.067	11MMR 9/1/11-2/28/2014	63,330
Subtotal Homeland Security Grant Program			<u>128,418</u>
Direct Program:			
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2012-FH-00626	1,420,783
Total U. S. Department of Homeland Security			<u>\$ 1,673,931</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-14-PV3-13	\$ (1,916)
Public Health Emergency Preparedness Grant	93.069	CEP-28-PV4-14	81,661
Total U. S. Department of Health and Human Services			<u>\$ 79,745</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	\$ 23,128
Office of National Drug Control Policy	95.001	G12GC0002A-2HHI	16,724
Total Executive Office of the President			<u>\$ 39,852</u>
Total Expenditures of Federal Awards			<u>\$ 15,039,276</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, 2014

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Montgomery, Alabama and its component units under programs of the federal government for the year ended September 30, 2014. 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	\$ 123,789
Community Development Block/ Entitlement Grants	14.218	498,434
Emergency Shelter Grants Program	14.231	307,499
Edward Byrne Justice Assistance Grant Program	16.738	49,974
State and Community Highway Safety	20.600	96,730
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	13,970
National Highway Safety Programs	20.616	61,902
Hazard Mitigation Grant	97.039	4,000
Homeland Security Grant	97.067	6,363

CITY OF MONTGOMERY, ALABAMA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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-122-MC-01-0204	\$ 19,213
ADECA NSP/CDBG	14.228	NSP-GV-08-048	17,907

NOTE 5 - LOAN GUARANTEE:

The City participated in the Community Development Block Grants Section 108 Loan Guarantee (CFDA No. 14.248) funded by the Department of Housing and Urban Development. At September 30, 2014, the loan payable balance for the program was \$1,730,370. Total program disbursements for the year ended September 30, 2014 were \$776,496 for construction loans.

NOTE 6 - COMPONENT UNIT:

The accompanying schedule of expenditures of federal awards includes federal awards to the City's component unit because the component unit did not have separate audits under OMB Circular A-133. The federal awards of the component unit included in the schedule for the year ended September 30, 2014 are as follows:

<i>CFDA Number(s)</i>	<i>Component Unit</i>	<i>Expenditures</i>
45.310	Montgomery City-County Public Library	\$ 137,000

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No

- Significant deficiency(ies) identified
that are not considered to be material
weakness(es)? X Yes 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)? Yes X 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 Section 510(a) of OMB Circular A-133?

 Yes X No

CITY OF MONTGOMERY, ALABAMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Identification of major programs:

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	United States Department of Housing and Urban Development, Community Development Block Grants/Entitlement Grants
14.248	United States Department of Housing and Urban Development, Community Development Block Grants - Section 108 Loan Guarantees
20.205	United States Department of Transportation, Highway Planning and Construction
20.500/20.507	United States Department of Transportation, Federal Transit Cluster
97.083	United States Department of Homeland Security, Staffing for Adequate Fire and Emergency Response

Dollar threshold used to distinguish between Type A and Type B programs: \$451,178

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, 2014

Section II - Financial Statement Findings:

2014-001 MATERIAL WEAKNESS (Revenue Recognition):

Criteria or specific requirement: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenue recognition depends on the timing of cash collections (availability). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, considered to be sixty days for property taxes and ninety days for all other revenue.

Condition: The availability criterion was not applied properly to certain material transactions.

Context: Our audit procedures identified unavailable revenue related to long term receivables that were reclassified to deferred inflows of resources for governmental fund financial reporting.

Effect: The financial statements were materially misstated.

Cause: The City's policies and procedures related to the recording of long term receivables did not include a consideration of the availability criterion.

Recommendation: Additional scrutiny should be applied to contracts and agreements, including the issuance of notes and mortgages receivable, to apply the provisions of receivable and revenue recognition under GASB 33 and GASB 65. Specific attention should be paid to receivables not expected to be collected within 90 days.

Views of responsible officials and planned corrective actions: Additional scrutiny will be applied to receivables that are not expected to be collected within 90 days.

2014-002 SIGNIFICANT DEFICIENCY (Preparation of the Schedule of Expenditures of Federal Awards):

Criteria or specific requirement: Management and those charged with governance of an organization are responsible for the design, implementation, and maintenance of internal control over financial reporting. This responsibility not only includes controls over the recording of transactions, but also includes the responsibility for the accuracy and completeness of the financial statements, related disclosures and Schedule of Expenditures of Federal Awards (SEFA). The SEFA is an essential document for planning and conducting the audit of the City. The SEFA provides assurance to those agencies that award financial assistance that their programs or grants were included in the audit.

Condition: Audit procedures applied to the SEFA prepared by the City, revealed the schedule did not correctly reflect certain federal expenditures.

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Context: The City's SEFA was revised during the audit process to add a component unit's nonmajor program and to correct the federal expenditure amount for one program.

Effect and cause: The City relies solely on its specialized accounting software for reporting federal expenditures. The software, however, is not designed to accurately report current year amounts for contracts requiring matching funds over multiple phases or multiple fiscal years. The report also did not include component unit expenditures that should be included on the schedule. The errors and omissions in the reports were not detected by the internal controls in place at the City and, therefore, the schedule submitted for audit required corrections.

Recommendation: Policies and procedures should be revised to include a manual computation for contracts with complex matching requirements. Procedures should also include a review for reportable federal expenditures that are not reflected in the reports, such as component unit programs, and loan and loan guarantee programs.

Views of responsible officials and planned corrective actions: Policies and procedures will be revised to include a manual computation for grant programs that require complex matching in the SEFA document. Furthermore, a procedure to review for federal expenditures in component units and loan and loan guarantee programs will be implemented.

2014-003 SIGNIFICANT DEFICIENCY (Capital Assets):

Criteria or specific requirement: Capital assets are reported on the statement of net position for government wide financial statements.

Condition: The City's policies and procedures properly identified the sale and disposal of capital assets in the capital assets module; however, the City did not properly record the loss on capital assets sold during 2014 resulting in an understatement of the loss.

Context: Our audit procedures identified an adjustment as a result of an understatement of the loss on disposal of capital assets.

Effect: The loss on disposal of capital assets was not correct.

Cause: The City's process of recording proceeds from the sale of capital assets does not include an effective reconciliation of the disposals per the capital assets module to the proceeds from sale and to the gain or loss on disposal of capital assets.

Recommendation: The City should implement a process to periodically reconcile the gain or loss on disposal of capital assets to the capital assets module. Included in this reconciliation should be a reconciliation of the proceeds from sale of capital assets to the capital assets disposal listing

CITY OF MONTGOMERY, ALABAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Views of responsible officials and planned corrective actions: Procedures will be implemented to reconcile the asset disposal listing to the gain or loss on disposal of capital assets on the general ledger.

2014-004 SIGNIFICANT DEFICIENCY (Payables):

Criteria or specific requirement: Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

Context: Our audit procedures identified current year payables that were not accrued by the City.

Effect: The City's balances of accounts payable and expenditures were understated.

Cause: The City reviews all transactions subsequent to year-end through a specific cutoff date to determine which transactions should be accrued. The application of these procedures, however, was inconsistent, and the procedures did not adequately consider all significant expenditures.

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.

Views of responsible officials and planned corrective actions: Management concurs. A secondary review procedure was implemented in January 2015.

2014-005 SIGNIFICANT DEFICIENCY (Escrow Liability):

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 were understated.

CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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: Bank reconciliations will include a review of any associated escrow accounts for proper recording.

CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014

Findings and Questioned Costs for Federal Awards:

SA-2012-2 Management has implemented corrective action. This finding is considered closed.

SA-2013-1 Management has implemented corrective action. This finding is considered closed.

CITY OF MONTGOMERY, ALABAMA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

No matters were reported.