

CITY OF MONTGOMERY, ALABAMA

SINGLE AUDIT REPORT

SEPTEMBER 30, 2016

**CITY OF MONTGOMERY, ALABAMA
TABLE OF CONTENTS
SEPTEMBER 30, 2016**

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 <i>Government Auditing Standards</i>	1
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 the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10
Corrective Action Plan	13

**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, the financial statements of the governmental activities, the business-type activities, 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, 2016, 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 3, 2017. We 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. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Montgomery City-County Public Library, the discretely presented component unit of the City, as described in our report on the City's financial statements. The financial statements for the Pension Trust Fund and the Montgomery City-County Public Library were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

Warren Averett, LLC

Montgomery, Alabama
March 3, 2017

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 THE UNIFORM GUIDANCE

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 could have a direct and material effect on the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditors' 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.

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 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* (the 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 of 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 auditors' results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-01 and 2016-02. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying 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 internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 3, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Warren Averett, LLC

Montgomery, Alabama
March 16, 2017

**CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	CONTRACT NUMBER	FEDERAL EXPENDITURES	SUBRECIPIENT EXPENDITURES
<u>U. S. DEPARTMENT OF AGRICULTURE:</u>				
Passed through Alabama Forestry Commission: Cooperative Forestry Assistance	10.664	1301.14.043434	\$ 14,170	\$ -
Passed through Alabama Department of Education: Child Nutrition Cluster - Summer Food Service Program	10.559	AGJ 0000 FY16	165,003	124,426
Total U. S. Department of Agriculture			<u>\$ 179,173</u>	<u>\$ 124,426</u>
<u>U. S. DEPARTMENT OF DEFENSE:</u>				
Direct Program: Community Economic Adjustment Planning Assistance	12.610		\$ 85,500	\$ -
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Direct Program:				
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-01-0007	\$ 268,790	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-01-0007	327,077	89,128
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-01-0007	1,336,731	924,192
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-01-0007	234,522	100,478
Subtotal Community Development Block Grants/Entitlement Grants			<u>2,167,120</u>	<u>1,113,798</u>
Direct Program:				
Emergency Solutions Grant Program	14.231	E-13-MC-01-0005	31,398	-
Emergency Solutions Grant Program	14.231	E-14-MC-01-0005	47,258	42,930
Emergency Solutions Grant Program	14.231	E-15-MC-01-0005	116,466	106,880
Emergency Solutions Grant Program	14.231	E-16-MC-01-0005	20,873	20,873
			<u>215,995</u>	<u>170,683</u>
Direct Program:				
HOME Investment Partnerships Program	14.239	M-14-MC-01-0204	593,438	-
HOME Investment Partnerships Program	14.239	M-15-MC-01-0204	605,877	-
HOME Investment Partnerships Program	14.239	M-16-MC-01-0204	49,822	-
Subtotal HOME Investment Partnerships Program			<u>1,249,137</u>	<u>-</u>
Passed through Alabama Department of Economic and Community Affairs: Community Development Block Grants/State's Program	14.228	NSP-GV-08-048	800,605	-
Total U.S. Department of Housing and Urban Development			<u>\$ 4,432,857</u>	<u>\$ 1,284,481</u>
<u>U. S. DEPARTMENT OF JUSTICE:</u>				
Direct Program:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0373	\$ 18,712	\$ 18,712
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0330	26,078	26,078
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			44,790	44,790
Passed through Montgomery County: Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2011-WE-AX-0028	50,984	-
Total U. S. Department of Justice			<u>\$ 95,774</u>	<u>\$ 44,790</u>

See 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 the Uniform Guidance.

**CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	CONTRACT NUMBER	FEDERAL EXPENDITURES	SUBRECIPIENT EXPENDITURES
<u>U. S. DEPARTMENT OF TRANSPORTATION:</u>				
Direct Program:				
Federal Transit Cluster:				
Federal Transit Capital Investment Grants	20.500	AL-04-0050-00	\$ 14,396	\$ -
Federal Transit Formula Grants	20.507	AL-04-0024-00	129,615	-
Federal Transit Formula Grants	20.507	AL-90-X229-00	998	-
Federal Transit Formula Grants	20.507	AL-16-X008-00	24,794	-
Federal Transit Formula Grants	20.507	AL-2016-019-00	2,418,138	-
Bus and Bus Facilities Formula Program	20.526	AL-34-0005-00	318,521	-
Subtotal Federal Transit Cluster			<u>2,906,462</u>	<u>-</u>
Passed through Alabama Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	AL FLAP MTGMRY	69,770	-
Highway Planning and Construction	20.205	IAR-051-000-010	72,534	-
Highway Planning and Construction	20.205	STPMN-UP14(602)	3,267	-
Highway Planning and Construction	20.205	STPMN-UR14(603)	3,745	-
Highway Planning and Construction	20.205	ACAA61048-ATRP (013)	66,846	-
Highway Planning and Construction	20.205	ACAA61051-ATRP (003)	22,220	-
Highway Planning and Construction	20.205	STPMN-5114(521)	4,356	-
Highway Planning and Construction	20.205	STPOA-7733	470	-
Highway Planning and Construction	20.205	STPTE-TE05(947)	363	-
Highway Planning and Construction	20.205	STPMT-7733(600)	24,511	-
Highway Planning and Construction	20.205	MPF/2016 UPWP	412,041	-
Subtotal Highway Planning and Construction			<u>680,123</u>	<u>-</u>
Passed through Alabama Department of Economic and Community Affairs:				
Recreational Trails Program	20.219	13-RT-54-05	18,974	-
Subtotal Highway Planning and Construction Cluster			<u>699,097</u>	<u>-</u>
Passed through Alabama Department of Economic and Community Affairs:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	16-SP-PT-005	30,688	-
National Priority Safety Programs	20.616	15-SP-CP-005	16,262	-
National Priority Safety Programs	20.616	15-HS-M5-005	4,584	-
National Priority Safety Programs	20.616	15-HS-M2-005	6,452	-
Subtotal Highway Safety Cluster			<u>57,986</u>	<u>-</u>
Total U. S. Department of Transportation			<u>\$ 3,663,545</u>	<u>\$ -</u>

See 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 the Uniform Guidance.

**CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<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>SUBRECIPIENT 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	\$ -
Passed through Alabama Department of Homeland Security: Emergency Management Performance Grant	97.042	5EMF	86,860	-
Passed through Alabama Department of Homeland Security: Homeland Security Grant Program	97.067	4FIL	10,119	-
Homeland Security Grant Program	97.067	4LEL	46,919	-
Passed through Montgomery County: Homeland Security Grant Program	97.067	1MAL	5,500	-
Passed through Governor's Office of Faith-Based and Volunteer Service: Homeland Security Grant Program	97.067		500	-
Subtotal Homeland Security Grant Program			63,038	-
Total U. S. Department of Homeland Security			<u>\$ 156,773</u>	<u>\$ -</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-PV5-15	\$ 9,409	\$ -
Public Health Emergency Preparedness Grant	93.069	CEP-14-PV6-16	70,233	-
Subtotal Public Health Emergency Preparedness Grant			79,642	-
Passed through Alabama Department of Public Health: National Bioterrorism Hospital Preparedness Program	93.889	CEP-44-QW6-16	26,061	-
Passed through The Wellness Coalition: Assistance Programs for Chronic Disease Prevention and Control	93.945		21,252	-
Total U. S. Department of Health and Human Services			<u>\$ 126,955</u>	<u>\$ -</u>
<u>EXECUTIVE OFFICE OF THE PRESIDENT:</u>				
Passed through Alabama Department of Public Safety: Office of National Drug Control Policy	95.001	G12GC0002A-2HHI	\$ 18,870	\$ -
Total Expenditures of Federal Awards			<u>\$ 8,759,447</u>	<u>\$ 1,453,697</u>

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 the Uniform Guidance.

**CITY OF MONTGOMERY, ALABAMA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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.

2. REPORTING ENTITY

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

3. INDIRECT COST RATES

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

4. PROGRAM INCOME

In addition to the expenditures presented in the schedule, the City used program income as follows:

<u>Grantor Agency Program Title</u>	<u>CFDA Number</u>	<u>Agreement Number</u>	<u>Program Income</u>
U.S. Department of Housing and Urban Development			
Home Investment Partnership Program	14.239	M-14-MC-01-0204	\$ 497,300
Home Investment Partnership Program	14.239	M-15-MC-01-0204	<u>249,263</u>
			<u>\$ 746,563</u>

**CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes X none noted

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 not considered to be material weaknesses? _____ yes X none noted

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.228	Community Development Block Grants/State's Program
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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, 2016**

Section II – Financial Statement Findings Section

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*.

None reported.

**CITY OF MONTGOMERY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Section III – Federal Award Findings and Questioned Costs Section

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

Finding 2016-01 – 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 and U.S. Department of Housing and Urban Development CFDA No. 14.239 HOME Investment Partnerships Program.

Criteria: 2 CFR 200.328 requires recipients to submit performance reports required by the federal awarding agency. HUD requires recipients administering housing and community development assistance in excess of \$200,000 a year to submit form HUD 60002, Section 3 on a 12-month reporting cycle.

Condition: The City has not submitted the form HUD 60002 for its most recently completed program year.

Cause and effect: The City did not comply with agency specific reporting compliance requirements.

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

Finding 2016-02 – 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, we selected two subrecipients that received a subaward through the Department Planning & Community Development. We determined the City did not contemporaneously document their evaluation of the risk associated with a subaward to one of the subrecipients prior to disbursing funds to that subrecipient.

Cause and effect: Currently, the City of Montgomery does not have a comprehensive policy for all subrecipients consistent with the requirements contained in the Uniform Guidance and, therefore, did not comply with all subrecipient monitoring requirements.

Recommendation: The City should develop a city-wide policy for subrecipients that includes each of the evaluation factors referenced in the Uniform Guidance.

**CITY OF MONTGOMERY, ALABAMA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

Finding 2016-01: As of today, all HUD 60002 reporting is current. Reporting was delayed due to difficulties in using a new HUD electronic database called SPEARS. HUD 60002 reporting was manually submitted to HUD, but not electronically submitted until the issues with the SPEARS database were resolved.

The Community Development Division will develop a policy for submitting the HUD 60002 in a timely manner. HUD policy requires that direct recipients submit Section 3 reports annually for each type of covered funds received during their reporting period. HUD requires that the City submit a Consolidated Annual Performance Evaluation Report (CAPER) by July 31st of each program year. The HUD 60002 reporting requirement is due at the same time as the CAPER. As part of the new policy and procedures, data gathering for the HUD 60002 will begin May 1st for HUD funding projects ending on April 30th of the previous program year. This policy will be immediately implemented for the upcoming reporting period.

Finding 2016-02: The Community Development Division was trained in 2016 to implement compliance requirements with 2 CFR 200 regulations. These compliance requirements included evaluation of subrecipient applications for the 2017 program year HUD funding. One entity received a subaward without an evaluation of an application. The Community Development Division staff determined the application was unnecessary because the entity was a HUD approved and HUD funded housing entity that was not on any distressed list. However, this consideration was not documented in the subrecipient file. In the future, all prospective subrecipients will be formally evaluated.

The City has developed a four-step process for the evaluation of subrecipients that is consistent with 2 CFR 200:

- The **first step** of the evaluation process consists of an organization capacity evaluation. This evaluation entails the review of twenty-five organizational documents, which include articles of incorporation, personnel policies, non-discrimination policies, conflict of interest policies, and accounting procedures.
- The **second step** of the evaluation process consists of evaluating general organization information such as DUNS, federal identifier numbers, valid office site and address, and other information.
- The **third step** of the evaluation process consists of evaluating the financial health and structure of the organization by reviewing the organization's audit report against audit checklist.
- The **fourth step** of the review process consists of evaluating the organization's proposal for funding. This process entails evaluating whether the proposed project meets HUD standard of eligible activities for funding and whether proposed project is consistent with the City's Five-Year Consolidated Plan.

We will ensure that all organizations seeking funding from HUD funds will compete under this four-step process. Although there is no updated written policy at this time, this process was implemented for the 2017 program year. A written policy will be developed within the next 30 days to meet the written programmatic requirements of 2 CFR 200.