

**CITY OF MONTGOMERY, ALABAMA**

**SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**CITY OF MONTGOMERY, ALABAMA**  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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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 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, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 26, 2014. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. 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. The financial statements for the Pension Trust Fund and the Montgomery City-County Public 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 other deficiencies that we consider to be 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses FS-2013-1 through FS-2013-3.

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 accompany schedule of findings and questioned costs to be significant deficiencies FS-2013-4 through FS-2013-8.

**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*.

We also noted certain other matters that we have reported to management of the City in a separate letter dated March 26, 2014.

**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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Warren Averett, LLC*

Montgomery, Alabama  
March 26, 2014



**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 could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. 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 the requirements of laws, regulations, contracts 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 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 for the year ended September 30, 2013.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item SA-2013-1. 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 are 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 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items SA-2013-1 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are 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.

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 City as of and for the year ended September 30, 2013, and have issued our report thereon dated March 26, 2014, 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 OMB Circular A-133 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  
June 2, 2014

**CITY OF MONTGOMERY, ALABAMA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Grantor Agency Program Title</u>	<u>CFDA Number</u>	<u>Agreement Number</u>	<u>Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>			
Direct Program:			
Community Development Block Grant/Entitlement Grants	14.218	B-06-MC-01-0007	\$ 50,000
Community Development Block Grant/Entitlement Grants	14.218	B-08-MC-01-0007	37,816
Community Development Block Grant/Entitlement Grants	14.218	B-09-MC-01-0007	427,537
Community Development Block Grant/Entitlement Grants	14.218	B-10-MC-01-0007	346,430
Community Development Block Grant/Entitlement Grants	14.218	B-11-MC-01-0007	292,277
Community Development Block Grant/Entitlement Grants	14.218	B-12-MC-01-0007	1,167,536
Community Development Block Grant/Entitlement Grants	14.218	B-13-MC-01-0007	<u>191,459</u>
Subtotal			<u>2,513,055</u>
Direct Program:			
Emergency Solutions Grants Program	14.231	E-11-MC-01-0005	51,551
Emergency Solutions Grants Program	14.231	E-12-MC-01-0005	<u>38,712</u>
Subtotal			<u>90,263</u>
Passed through the Alabama Department of Economic Development and Community Affairs:			
Emergency Solutions Grants Program	14.231	HESG-12-011	<u>91,612</u>
Subtotal			<u>181,875</u>
Direct Program:			
Home Investment Partnership Program	14.239	M-09-MC-01-0204	14,999
Home Investment Partnership Program	14.239	M-11-MC-01-0204	18,639
Home Investment Partnership Program	14.239	M-12-MC-01-0204	33,059
Home Investment Partnership Program	14.239	M-13-MC-01-0204	<u>32,076</u>
Subtotal			<u>98,773</u>
Direct Program:			
Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-11-MC-01-0007	<u>952,211</u>
Total U.S. Department of Housing and Urban Development			<u>3,745,914</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 OMB Circular A-133.



**CITY OF MONTGOMERY, ALABAMA**  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Grantor Agency Program Title</u>	<u>CFDA Number</u>	<u>Agreement Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Passed through Alabama Department of Education: Summer Food Service Program for Children	10.559	AGJ 0000 FY13	\$ <u>138,865</u>
Total U.S. Department of Agriculture			<u>138,865</u>
<b>U.S. Department of Justice</b>			
Direct Program:			
Edward Byrne Memorial/JAG Program	16.738	2010-DJ-BX-1252	1,843
Edward Byrne Memorial/JAG Program	16.738	2011-DJ-BX-2816	27,894
Edward Byrne Memorial/JAG Program	16.738	2012-DJ-BX-0332	<u>20,874</u>
Subtotal			<u>50,611</u>
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710	2010-CK-WX-0209	149,283
Public Safety Partnership and Community Policing Grants	16.710	2010-UL-WX-0002	<u>1,036,660</u>
Subtotal			<u>1,185,943</u>
Total U.S. Department of Justice			<u>1,236,554</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 OMB Circular A-133.

**CITY OF MONTGOMERY, ALABAMA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Grantor Agency Program Title</u>	<u>CFDA Number</u>	<u>Agreement Number</u>	<u>Expenditures</u>
<b>U.S. Department of Transportation</b>			
Direct Program:			
Federal Transit Formula Grants	20.507	AL-90-X203-00	\$ 9,920
Federal Transit Formula Grants	20.507	AL-04-0024-00	156,916
Federal Transit Formula Grants - ARRA	20.507	AL-96-X003-00	218,521
Federal Transit Formula Grants	20.507	AL-90-X229-00	<u>2,531,518</u>
Subtotal Federal Transit Cluster			<u>2,916,875</u>
Passed through Alabama Department of Transportation:			
Highway Planning and Construction	20.205	STPTESTPOA-TE12 (900)	464,872
Highway Planning and Construction	20.205	MPF/2013 UPWP	323,918
Highway Planning and Construction	20.205	STPAA-5100 (203)	145,003
Highway Planning and Construction	20.205	STPOA-7716 (600)	26,775
Highway Planning and Construction	20.205	STPOA-7733	4,326
Highway Planning and Construction	20.205	STPOA-7780 (600)	23,094
Highway Planning and Construction	20.205	STPOA-7780 (601)	10,411
Highway Planning and Construction	20.205	ST-051-999-012	184,694
Highway Planning and Construction	20.205	STPOA-7702 (601)	2,039
Highway Planning and Construction	20.205	STPOA-7702 (602)	18,554
Highway Planning and Construction	20.205	STPTE-TE05 (947)	10,597
Highway Planning and Construction	20.205	STPOA-7729 (600)	17,610
Highway Planning and Construction	20.205	STPMT-7733 (600)	<u>63,104</u>
Subtotal Highway Planning and Construction Cluster			<u>1,294,997</u>
Passed through the Alabama Department of Economic and Community Affairs:			
State and Community Highway Safety	20.600	13-SP-PT-006	111,000
State and Community Highway Safety	20.600	13-SP-CP-005	77,531
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	13-HS-K8-002	21,516
Occupant Protection Incentive Grants	20.602	13-HS-K2-003	<u>17,935</u>
Subtotal State and Community Highway Safety Cluster			<u>227,982</u>
Total U.S. Department of Transportation			<u>4,439,854</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 OMB Circular A-133.

**CITY OF MONTGOMERY, ALABAMA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Grantor Agency Program Title</u>	<u>CFDA Number</u>	<u>Agreement Number</u>	<u>Expenditures</u>
<b>U.S. Department of Homeland Security</b>			
Direct Award:			
Staffing for Adequate Fire & Emergency Response	97.083	W-2012-FH-00626	\$ <u>458,657</u>
Passed through Alabama Department of Homeland Security:			
Homeland Security Grant Program	97.067	10MMR 9/13/10-7/31/2012	12,915
Homeland Security Grant Program	97.067	11MMR 9/1/11-2/28/2014	94,667
Homeland Security Grant Program	97.067	0MAL	11,564
Homeland Security Grant Program	97.067	2LEL	25,000
Homeland Security Grant Program	97.067	0LEL	<u>11,983</u>
Subtotal Homeland Security Cluster			<u>156,129</u>
Passed through Alabama Department of Homeland Security:			
Hazard Mitigation Grant	97.039	HMGP-ADMIN EMA PLAN	70
Hazard Mitigation Grant	97.039	HMGP DR 9/10/12-9/9/13	4,000
Hazard Mitigation Grant	97.039	HMGP DR 9/28/12-9/27/13	19,375
Hazard Mitigation Grant	97.039	HMGP DR 8/2/12-8/1/13	<u>36,000</u>
Subtotal Hazard Mitigation Grant			<u>59,445</u>
Total U.S. Department of Homeland Security			<u>667,433</u>
<b>U.S. Department of Health and Human Services</b>			
Passed through Alabama Department of Public Health:			
Public Health Emergency Preparedness	93.069	CEP-14-PV3-13	17,144
Public Health Emergency Preparedness	93.069	CEP-45-PV3-13	19,716
Public Health Emergency Preparedness	93.069	CEP-28-PV4-14	9,270
Public Health Emergency Preparedness	93.069	SNS Exercise Planner	<u>24,108</u>
Total U.S. Department of Health and Human Services			<u>70,238</u>
<b>Executive Office of the President</b>			
Direct Award:			
High Intensity Drug Trafficking Areas Program	95.001	G11GC0002A-2HMD	15,986
High Intensity Drug Trafficking Areas Program	95.001	G12GC0002A-2HHI	<u>15,815</u>
Total Executive Office of the President			<u>31,801</u>
Total expenditures of federal awards			<u>\$ 10,337,457</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 OMB Circular A-133.

# CITY OF MONTGOMERY, ALABAMA

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2013

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### Basis of Presentation

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 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.

### Reporting Entity

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

### 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>
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grant/State's Program and Non-entitlement Grants	14.218	NSP-GV-08-048	\$ 219,948
Home Investment Partnership Program	14.239	M-12-MC-01-0204	<u>74,268</u>
			<u>\$ 294,216</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 OMB Circular A-133.

# CITY OF MONTGOMERY, ALABAMA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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## Subrecipients

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided To Subrecipients</u>
Summer Food Service Program for Children	10.559	\$ 107,449
Community Development Block Grant/ Entitlement Grants	14.218	2,046,053
Emergency Solutions Grants Program	14.231	171,624
Community Development Block Grants - Section 108 Loan Guarantees	14.248	952,211
State and Community Highway Safety	20.600	132,516
Occupant Protection Incentive Grants	20.602	17,935
Edward Byrne Memorial/JAG Program	16.738	13,341
Public Health Emergency Preparedness	93.069	19,500
Hazard Mitigation Grant	97.039	59,375
Homeland Security Grant Program	97.067	<u>37,777</u>
Total		<u>\$ 3,557,781</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 OMB Circular A-133.

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**CITY OF MONTGOMERY, ALABAMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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**Section I - Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiencies identified not considered to be material weaknesses?  X  yes   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 deficiencies identified not considered to be material weaknesses?  X  yes   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 Circular A-133, Section .510(a)?  X  yes   no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant/ Entitlement Grants
20.500/20.507	Federal Transit Cluster
14.239	Home Investment Partnership Program
14.248	Community Development Block Grants - Section 108 Loan Guarantees

Dollar threshold used to distinguish between Type A and Type B programs: \$310,124

Auditee qualified as low-risk auditee?   yes  X  no



**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section II - Financial Statement Findings**

*Material Weakness identified*

**FS-2013-1 Capital Assets**

**Criteria:** The amounts spent for the construction or acquisition of capital assets are capitalized and reported in the government-wide financial statement.

**Condition:** Capital asset listings and related depreciation schedules were not reconciled to the general ledger on a timely basis.

**Cause:** During our audit procedures related to capital assets the following items were noted:

- I. The City does not reconcile their capital asset listing and related depreciation schedules to the general ledger on a regular basis.
- II. While examining the accounts coded to equipment greater than \$5,000, we noted several items which were omitted from the capital asset listing.

**Effect:** Capital asset adjustments of approximately \$12,611,000 were posted to the trial balance presented to us at the beginning of our audit. The majority of this amount was related to a software issue and correcting the automatic posting of depreciation. There were, however, adjustments which were recorded as a result of our audit procedures.

**Recommendation:** Capital asset balances should be reconciled to the general ledger and to the depreciation schedule on a regular basis. A comprehensive analysis should be performed that identifies additions either purchased or contributed, disposals from sale and scrap, and construction in progress from ongoing capital projects. Once the reconciliation is completed it should be reviewed by the Accounting Manager in the Financial Management Division.

**Management's Response:** The City does reconcile its capital asset listing and related depreciation schedule to the general ledger on a regularly scheduled basis. However, due to a software programming "hot fix", the Fixed Asset Module was compromised and had to be restored. Many hours were spent between the City's Information Technology Department and technical support of the software to correct the problem. Depreciation had to be posted and unposted several times to correct the problems that occurred due to "hot fixes" in other modules of the software that consequently affect the Fixed Asset Module.

A procedure has been incorporated to analyze and review capital assets disposed from sale and scrap, and equipment purchased and placed in construction in progress for ongoing capital projects.

**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section II - Financial Statement Findings (Continued)**

**FS-2013-2 Municipal Court**

**Criteria:** As Municipal Court collects fines and fees they are deposited into the Municipal Court bank account. At the end of the month, accumulated cash receipts should be transferred from the Municipal Court bank account into the General Fund bank account.

**Condition:** Accumulated cash for certain months were not transferred into the General Fund bank account in a timely manner.

**Cause:** Personnel within the Municipal Court were responsible for collecting, posting and reconciling activity in this bank account and failed to timely transfer accumulated cash balances as necessary.

**Effect:** Audit procedures performed related to bank account reconciliations revealed that accumulated cash for the months January 2013 through May 2013, totaling \$1,636,565, were not transferred into the General Fund bank account until September 2013. The accumulated cash for the months June 2013 through September 2013, totaling \$1,238,232, were not transferred until October 2013.

**Recommendation:** In order to improve cash management, it is recommended that the transfers from Municipal Court be monitored on a monthly basis. It is also recommended that the Municipal Court bank account be reconciled by someone within the Finance Department. This would not only ensure that the transfers have been made but would also eliminate the possibility of an issue related to segregation of duties.

**Management's Response:** As of October 1, 2013, management at Municipal Court has turned over the bank statements to the Financial Management Division. The Financial Management Division is now responsible for wire transfers out of the Municipal Court bank account and for monthly bank reconciliations.

**FS-2013-3 Unrecorded Cash Accounts**

**Criteria:** Accounting principles generally accepted in the United States of America require that all cash accounts be properly recorded.

**Condition:** Several cash accounts were noted that were either in the City's name and/or used the City's identification number, which were not recorded on the general ledger.

**Cause:** As part of our audit procedures related to cash we sent independent confirmations to various financial institutions. While reviewing the returned confirmations it was noted there were several accounts which were not recorded on the City's general ledger. One account in particular was a claims account that was used to pay miscellaneous liability claims. The balance of this account totaled \$192,485 at September 30, 2013. The City researched this and determined this was in fact City funds and an adjustment was made to properly reflect the balance of this account at September 30, 2013. We inquired about the remaining accounts that were not listed on the general ledger and it appears as though there is ambiguity as to whether or not these accounts are City funds.

**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section II - Financial Statement Findings (Continued)**

**FS-2013-3 Unrecorded Cash Accounts (Continued)**

**Effect:** There may be City funds that are not properly recorded on the general ledger. There may also be accounts which are not City funds that are in the City's name and/or use the City's identification number.

**Recommendation:** It is recommended that the Financial Management Division perform an analysis to determine all accounts which are either in the City's name or use the City's identification number. From this list the accounts need to be evaluated to determine whether or not they are City funds. Accounts which are City funds need to be properly recorded on the general ledger and reconciled on a monthly basis. Accounts which are not City funds should be closed and at a minimum the City's name and identification number should be removed from the accounts.

It is also recommended that the City establish policies and procedures related to the maintenance of bank accounts. This would govern who is authorized to open and close accounts and would also ensure that signature cards are updated as needed.

**Management's Response:** The City has identified all bank accounts that use the City's name or identification number. The Claims account is now on the general ledger and is being reconciled monthly. City bank accounts not on the general ledger fall into two types of accounts; Community Center accounts and benevolent funds.

Community Center bank accounts maintain funds which are internally raised by various centers which are used to fund field trips and other miscellaneous events. These are not City funds and should not be included on the general ledger. It is important, however, that these accounts remain open so the centers can continue to fund the various events. Therefore, Finance will continue to work with Leisure Services on the proper handling of these accounts and will provide internal audit services on an as-needed basis.

Departmental benevolent funds are accounts opened by departments to provide for non-operating expenses. They are funded primarily through vending commissions, which are not City revenues. The Finance Department is currently discussing the elimination of these benevolent accounts. These accounts would be reopened in a responsible party's name or kept as a cash box, as opposed to being an account in the City's name.

All new bank accounts must be authorized by the Finance Director or Deputy Finance Director. Upon authorization, new accounts would be added to the listing of accounts that are reconciled monthly by the Financial Management Division.

**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section II - Financial Statement Findings (Continued)**

*Significant Deficiencies identified*

**FS-2013-4 Honors Golf**

**Criteria:** Honors Golf is the management company which administers the Lagoon Park and Gateway Park golf courses. They account for all activity on a separate accounting system and provide the City with a monthly activity report. The City uses this report to record the activity and the ending cash balance.

**Condition:** It was noted there was a variance between the cash balance reported on the Honors Golf account and the amount recorded on the City's general ledger.

**Cause:** Audit procedures for bank accounts included examining all year end bank reconciliations. The balance in this account per the general ledger was \$489,319 at September 30, 2013 and was not reconciled at the time fieldwork began.

**Effect:** As a result of an untimely reconciliation, a variance of \$21,523 existed at September 30, 2013. The City researched this and an adjustment was made to correct the balance.

**Recommendation:** In order to ensure that the monthly activity reports are properly recorded and that all cash is properly accounted for it is recommended that the City have someone within the Finance Department reconcile the Honors Golf bank account.

**Management's Response:** The Financial Management Division will receive financial reports from Honors Golf and will record activity and the cash balance as part of their monthly reconciliation.

**FS-2013-5 Project Trial Balance**

**Criteria:** The City uses the Capital Project Fund (CPF) to account for the acquisition and construction of major capital projects.

**Condition:** Within the CPF are various individual projects. Before a project can be approved it must have a budget detailing the anticipated costs and the source of funds to be used. The City's accounting system has the capability of reporting the individual projects budget to actual activity over the life of the project. While the fund balance of the CPF as a whole might be positive, individual projects within the CPF may have deficit fund balances.

**Cause:** Project trial balance reports are not being monitored to ensure they are in line with their respective budget.

**Effect:** While examining the project trial balance reports for the period ending September 30, 2013, it was noted that several projects had deficit balances.

**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section II - Financial Statement Findings (Continued)**

**FS-2013-5 Project Trial Balance (Continued)**

**Recommendation:** In order to ensure that projects are completed on time and within budget it is recommended that the City monitor the project trial balance reports on a regular basis. It is also recommended that the City devise a plan to fund the projects which have deficit balances.

**Management's Response:** Projects with deficit balances have been identified. Some will be funded in the current fiscal year 2014. Others will be funded through rolling averages over four years via the General Fund department responsible for the project or through a non-departmental account, starting with fiscal year 2015. Projects continue to be closely monitored for deficit balances.

**FS-2013-6 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 report did not correctly reflect all required elements, including federal expenditures and grant numbers assigned by agencies.

**Context:** The report was revised several times to correct the following errors: 1) federal expenditures netting to approximately \$481,000, 2) the original report reported two grants under the wrong federal agency and 3) several grants were reported with an incorrect grant number.

**Effect and Cause:** As a result of the manner in which funds are established in the City's accounting system, the report was pulled directly from the system based on postings to the general ledger. The errors and omissions were not caught by the internal controls in place at the City and the report submitted for audit required significant corrections.

**Recommendation:** Policies and procedures should be reviewed and improved to include a reconciliation and review of the report to prevent these errors in the SEFA report.

**Management's Response:** SEFA preparation procedures will be improved to include a secondary review and reconciliation of the SEFA prior to submission to the Single Audit team.

**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section II - Financial Statement Findings (Continued)**

**FS-2013-7 Disaster Recovery Plan**

**Criteria:** Disaster recovery plans should be reviewed and tested annually.

**Condition:** The disaster recovery plan that is currently in place at the City has not been updated and tested recently.

**Cause:** As part of our audit procedures we reviewed the City's Information Technology controls and reviewed the disaster recovery plan that is currently in place at the City.

**Effect:** In the case of a catastrophic event, the absence of an updated and tested disaster recovery plan could result in the City being unable to continue normal operations.

**Recommendation:** We recommend that the IT disaster recovery plan be reviewed annually and tested in some form. This is to ensure that all IT employees and other department heads understand their responsibility regarding key systems and applications that must be back on line in the event of a disaster.

**Management's Response:** The Disaster Recovery Plan for the IT Department is an evolving process of evaluation, updating, and testing. This past year, we have made a specific assignment to an individual for coordinating the new plan for the IT Disaster Recovery Plan. We have reviewed the plan to update it for minor changes in personnel and systems. We have not run a full test at this point, as we are updating our site and the equipment at the Emergency Operations Center (EOC). We plan to have the equipment in place and ready for testing by the end of this calendar year. This will include servers, Storage Area Network (SAN) equipment, and high speed switches to allow for better backups and a more efficient approach for recovery and testing.

**FS-2013-8 Accounting System Backup**

**Criteria:** Accounting systems should be backed up daily and a copy should be maintained off-site.

**Condition:** The daily backup of the accounting system is a local copy and is not taken off-site.

**Cause:** As part of our audit procedures we reviewed the City's Information Technology controls and reviewed the accounting system backup that is currently in place at the City.

**Effect:** In the case of a catastrophic event, the absence of an accounting system backup could result in the City being unable to continue normal operations.

**Recommendation:** We recommend that an off-site backup of the accounting system be implemented. This will ensure continued operations of the accounting system in the event of a natural disaster.

**Management's Response:** The backup process for the accounting systems and other critical systems is part of our Disaster Recovery Plan. In the past few months, we have installed new backup software that will enable us to create tape backups that can be taken off site. This process will be enhanced when the high speed connectivity is completed to our disaster recovery site at the EOC. At this point, we will make a decision whether to continue to have backup tapes taken off site to a different secure facility or just use the disaster recovery site as the backup.



**CITY OF MONTGOMERY, ALABAMA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Section III - Federal Award Findings and Questioned Costs**

The following findings, recommendations and questioned costs are the results of the single audit of the City of Montgomery, Alabama for the fiscal year ended September 30, 2013. See corrective action plan for management's response.

**Finding SA-2013-1 Significant Deficiency Related to Procurement Requirements**

**Information on the Federal Program:** U.S. Department of Housing and Urban Development CFDA No. 14.218.

**Criteria or Specific Requirement:** 2 CFR 215.46 requires recipients to document procurement procedures including at a minimum the basis for contractor selection, justification for lack of competition when competitive bids were not obtained, and the basis for award cost or price.

**Condition:** Proper documentation related to procurement was unavailable for a selected contractor.

**Context:** The City awarded a property management contract for Avignon Terrace in which the required procurement files could not be located.

**Effect and Cause:** The contract was not properly documented as being competitively bid or documented in accordance with sole source award requirements.

**Recommendation:** The City should review and revise its current policies to ensure that it complies with applicable procurement requirements and provide training to employees.

**CITY OF MONTGOMERY, ALABAMA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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**Finding SA-2012-1 Instance of Noncompliance with Equipment Management Requirements**

**Information on the Federal Program:** U.S. Department of Transportation CFDA No. 20.507.

**Criteria or Specific Requirement:** 2 CFR 215.34 requires entities to conduct a physical inventory of equipment acquired with federal funds at least once every two years and reconcile the results with equipment records.

**Condition:** The City failed to perform the inventory within the last two years as required.

**Context:** Audit procedures performed included a request for a copy of the inventory.

**Effect:** The Finance Department inventory performed on the Federal Transit Administration assets was delayed.

**Cause:** Grant administrators are not ensuring that inventories of equipment purchases are being performed.

**Recommendation:** A physical inventory should be taken city-wide on all federal purchases of equipment.

**Status:** Corrective action implemented

**Finding SA-2012-2 Significant Deficiency Related to Procurement Requirements**

**Information on the Federal Program:** U.S. Department of Transportation CFDA No. 20.507.

**Criteria or Specific Requirement:** 2 CFR 215.46 requires recipients to document procurement procedures related to proposals or invitations for bids, or awards without competition, for all purchases exceeding the small purchase threshold.

**Condition:** Proper documentation related to procurement was unavailable for selected contracts.

**Context:** The City awarded a contract over the small purchase threshold of \$25,000 in which the sole source documentation was not sufficient to meet the justification requirement for lack of competition and 2 contracts over the small purchase threshold of \$25,000 in which the sole source documentation was not prepared in a timely manner and was actually dated after fiscal year end.

**Effect:** In certain cases, contracts and significant purchases over \$25,000 made with federal funds were not properly documented as being competitively bid or documented in accordance with sole source award requirements.

**CITY OF MONTGOMERY, ALABAMA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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**Finding SA-2012-2 Significant Deficiency Related to Procurement Requirements (Continued)**

**Cause:** The City follows the State Bid law which, in some cases is not as restrictive as federal regulations.

**Recommendation:** The City should review and revise its current policies to ensure that it complies with applicable procurement requirements and provide training to employees.

**Status:** The City improved its procurement and sole source documentation but the policies were again not properly implemented in the current year.

**Finding SA-2012-3 Significant Deficiency Related to Reporting Requirements**

**Information on the Federal Program:** U.S. Department of Transportation CFDA No. 20.507.

**Criteria or Specific Requirement:** 2 CFR 215.52 requires periodic financial reports for activity related to federal grants.

**Condition:** Procedures performed during the audit revealed that financial reports were not prepared from the general ledger detail of grant expenses and the amounts reported to the Federal Transit Administration were not reconciled to the general ledger.

**Context:** The audit sample consisted of 8 financial reports and 4 program reports submitted in connection with the various FTA grants. Three financial reports contained incorrect financial information.

**Effect:** Amounts reported on selected financial reports do not agree to accounting records for the reported time period.

**Cause:** Reports were prepared from information on the FTA TEAM website instead of the City's general ledger accounting system.

**Recommendation:** The City should review and revise its policies and procedures for preparing and submitting federal financial reports to ensure that the amounts are accurate and complete.

**Status:** Corrective action implemented

**CITY OF MONTGOMERY, ALABAMA**  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**Finding SA-2013-1 Significant Deficiency Related to Procurement Requirements**

Management has revised its current policy to comply with the HUD procurement requirement. The policy has been submitted to HUD and is currently awaiting approval.