

City of Monterey

Monterey, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2017



City of Monterey

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

Independent Auditors' Report

To the Honorable Mayor and the Members of City Council
of the City of Monterey
Monterey, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Monterey, California (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and the Members of City Council
of the City of Monterey
Monterey, California
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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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 20, 2017



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Monterey
Monterey, California

Report on Compliance for Each Major Federal Program

We have audited the City of Monterey, California'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 each of the City's major federal programs for the year ended June 30, 2017. 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 for the year ended June 30, 2017.

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Other Matters

The results of our auditing procedures disclosed 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 2017-001, 2017-003, 2017-004, and 2017-005. 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 Schedule of Findings and Questioned Costs. 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 responses.

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, 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 weakness. However, we identified certain deficiencies in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 to 2017-005 that we consider to be significant deficiencies.

The City's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and the Members of City Council
of the City of Monterey
Monterey, California
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Report on the 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, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated December 20, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

Santa Ana, California
March 26, 2018, except for the Schedule of Expenditures of Federal Awards, which is as of December 20, 2017.

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City of Monterey
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Housing and Urban Development:				
<i>Direct Programs:</i>				
<i>CDBG - Entitlement Grants Cluster:</i>				
Community Development Block Grants / Entitlement Grants	14.218	B-11-MC-06-004	\$ 17,058	\$ -
Community Development Block Grants / Entitlement Grants	14.218	B-12-MC-06-004	191,341	-
Community Development Block Grants / Entitlement Grants	14.218	B-13-MC-06-004	195,976	-
Community Development Block Grants / Entitlement Grants	14.218	B-14-MC-06-004	183,890	-
Community Development Block Grants / Entitlement Grants	14.218	B-15-MC-06-004	192,712	22,066
Community Development Block Grants / Entitlement Grants	14.218	B-16-MC-06-004	215,548	102,428
Community Development Block Grants / Entitlement Grants	14.218	Program Income	1,384,149	-
Total U.S. Department of Housing and Urban Development			<u>2,380,674</u>	<u>124,494</u>
U.S. Department of Justice:				
<i>Direct Program:</i>				
Bulletproof Vest Partnership Program	16.607	OMB-1121-0235 BVP	3,827	-
<i>Direct Program:</i>				
<i>JAG Program Cluster:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0057	10,351	-
Total U.S. Department of Justice			<u>14,178</u>	<u>-</u>
U.S. Department of Transportation				
<i>Pass-through the State of California Department of Transportation:</i>				
<i>Highway Planning and Construction Cluster:</i>				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	ATPL-5086(034)	613,834	-
Total Highway Planning and Construction Cluster			<u>613,834</u>	<u>-</u>
<i>Pass-through the State of California Office of Traffic Safety:</i>				
State and Community Highway Safety	20.600	PS1707	25,837	-
Total U.S. Department of Transportation			<u>639,671</u>	<u>-</u>
U.S. Department of Homeland Security				
<i>Direct Program:</i>				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2015-FH-00786	142,803	-
Total U.S. Department of Homeland Security			<u>142,803</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,177,326</u>	<u>\$ 124,494</u>

City of Monterey
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Monterey (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Monterey Public Financing Authority

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The activity of the City’s federal award programs are reported within the special revenue funds and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds and capital projects funds as described in Note 1 to the City’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal awards programs of the City and, therefore, does not present the financial position or results of operations of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California Department of Transportation and the State of California Office of Traffic Safety are included in the Schedule.

Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in the accompanying Schedule were determined based on the program name, review of grant contract information, and the Office of Management and Budget’s Catalog of Federal Domestic Assistance.

Indirect Cost Rate

The City elected to use the 10% de minimis cost rate.

City of Monterey
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

Note 3 –Loans Receivable

The City’s loan programs funded by CDBG were in the amount of \$3,429,555 at June 30, 2017. There were new loans issued during the year ended June 30, 2017 in the amount of \$74,500. Loans made during the year were included in the Schedule of Expenditures of Federal Awards.

Note 4 – Subrecipients

During the year ended June 30, 2017, the City provided federal funds to the following subrecipients:

<u>CFDA Number</u>	<u>Program Name / Subrecipient Names</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grants Entitlement Grants:	
	Alliance on Aging, Inc.	\$ 13,670
	Community Human Services	13,170
	Food Bank for Monterey County	17,713
	Interim, Inc.	19,991
	Josephine Kernes Memorial Pool	8,963
	Legal Services for Seniors	10,838
	Meals on Wheels of the Monterey Peninsula, Inc.	9,588
	The Salvation Army Monterey Peninsula Corps	16,221
	Project Sentinel, Inc.	14,340
	Total Amount Provided to Subrecipients	<u>\$ 124,494</u>

Note 5 – Long-Term Debt

At June 30, 2017, the outstanding balances for the federal/state loan programs were as follows:

<u>Pass Through Entity</u>	<u>Loan Number</u>	<u>Amount</u>	<u>Federal</u>	<u>State</u>
California Energy Commission 1% loan	001-08-ECCA.1	\$ 593,674	\$ 593,674	\$ -
California Energy Commission 3.95% Loan	015-09-ECE-ARRA	224,548	224,548	-
State Water Resources Control Board Loan 2.1%	13-831-550-110	3,352,782	1,862,073	1,490,709
State Water Resources Control Board Loan 2.1%	13-831-550-120	7,593,074	-	7,593,074
Total		<u>\$11,764,078</u>	<u>\$ 2,680,295</u>	<u>\$ 9,083,783</u>

City of Monterey
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Types of report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? None Reported
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2017-001 to 2017-005

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
	<i>CDBG - Entitlement Grants Cluster:</i>	
14.218	Community Development Block Grants / Entitlement Grants	\$ 2,380,674
	Total Expenditures of All Major Federal Programs	<u>\$ 2,380,674</u>
	Total Expenditures of Federal Awards	<u>\$ 3,177,326</u>
	Percentage of Total Expenditures of Federal Awards	<u>74.93%</u>

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

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings- Financial Statement

No current year findings were noted.

B. Prior Year Findings – Financial Statement

Finding 2016-001 Prior Period Adjustments

Condition:

During our audit, certain restatements of beginning balances were made in order to confirm with accounting standards generally accepted in the United States of America. Adjustments were as follows:

Government Wide Financial Statements

Governmental Activities and Business-Type Activities net position was restated from \$128,991,331 to \$112,542,270 and from \$11,901,347 to \$9,314,683, respectively due to various factors:

- 1) Reclassification of Presidio of Monterey Public Works Fund and Navy Service Fund from Business-Type Activities to Governmental-Activities to meet GASB Statement No. 34 requirements.
- 2) Restatements related to Net Pension Liabilities were made to be in compliance with GASB Statement No. 68 and No.71.
- 3) Restatements related to net OPEB obligation were made to correct the fund type described in 1).
- 4) Restatements related to unavailable revenue were made to recognize revenue based on full accrual basis accounting in accordance with GASB Statement No. 54 and No. 65.

Governmental Funds:

Governmental Funds fund balances were restated from \$127,835,200 to \$127,950,818 due to 1) fund type reclassification of Presidio of Monterey Public Works Fund, Navy Service Fund, Conference Center Facility District Capital Project Fund, and Conference Center Facility District Debt Service Fund, and 2) unavailable revenue corrections.

Proprietary Funds:

Proprietary Funds net positions were restated from \$19,158,240 to \$13,779,131 due to 1) fund type reclassification of Presidio of Monterey Public Works Fund, and Navy Service Fund, and 2) Net Pension Liabilities corrections.

Refer to City’s Fiscal Year Ended June 30, 2016 Comprehensive Annual Financial Report Note 15 Prior Period Adjustments for details.

Recommendation:

We recommend the City review GASB Statements more thoroughly to prevent future material prior period adjustments. We also recommend the City benchmark with similar size cities in order to ensure the City’s financial records are comparable to the industry.

Status:

Findings was resolved.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

2017-001 Allowable Cost/Cost Principles - Internal Control and Compliance Over Payroll Expenditures

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-11-MC-06-004, B-12-MC-06-004, B-13-MC-06-004, B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004)

Criteria:

Pursuant to §200.430 Compensation - Personal Services under Uniform Guidance Title 2 Grants and Agreement, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E – Cost Principles:

In general, costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph in accordance with the Standards for Documentation of Personnel Expenses.

When budget estimates are used, the Standards for Documentation of Personnel Expenses require the following:

Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

- (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;
- (B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-001 Allowable Cost/Cost Principles - Internal Control and Compliance Over Payroll Expenditures (Continued)

Condition:

During our audit, we noted that 32 samples out of 40 samples selected for testing the City charged the payroll related expenditures to the program based on the City Council approved budget and payroll allocation percentage; however, there was no further reconciliation of actual activities performed by the City staff during the year to the budgeted allocation.

We also noted that 4 samples out of 40 samples distributions were not correctly charged to the program.

Questioned Costs:

No questioned costs over \$25,000 noted.

Context:

We statistically selected 40 payroll charges for our testing and noted 32 payroll charges were based on the City Council approved payroll allocations.

4 out of 40 samples selected for testing were charged to the program incorrectly and this resulted in under charge to the program in the amount of \$544. Total charges tested during our audit was \$68,020 and total charges per General Ledger was \$391,540. It was estimated the City undercharged the program by \$3,133 during the year ended June 30, 2017.

Effect:

Without reconciling actual activities performed to the budgeted payroll allocation by the City staff, the City is not in compliance with the Uniform Guidance. Inadequate monitoring control over payroll allocation resulted in undercharging the program.

Cause:

The City's policies and procedures were not being updated to address the Uniform Guidance requirements. In addition, the City did not have sufficient internal controls to monitor the payroll allocations.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City incorporate the Uniform Guidance requirements into its existing policies and procedures to ensure the City's compliance with the Uniform Guidance. We also recommend that the City enhance its internal control over payroll transaction cycle to ensure the payroll charges to different programs are correct.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-001 Allowable Cost/Cost Principles - Internal Control and Compliance Over Payroll Expenditures (Continued)

View of Responsible Officials and Planned Corrective Actions:

The Housing Office staff will work with the Finance Department to develop procedures to ensure that charges to CDBG for salaries and wages will be based on records that accurately reflect the work performed. Support documentation will include time card reports showing the breakdown of hours by charge codes with comments on specific tasks performed. The responsible person is Elizabeth Caraker, Housing and Community Development Manager and the expected implementation date is June 30, 2018.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-002 Procurement and Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”)

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-11-MC-06-004, B-12-MC-06-004, B-13-MC-06-004, B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004)

Criteria:

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our audit, we selected one out of two formal bids and noted that the City did not have documentation on verifying the vendors against the SAM to ensure that they were not suspended or debarred from federally-funded purchase.

Questioned Costs:

None noted.

Context:

See condition above for the context of the finding.

Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

Cause:

The City does not have a formal policy to require departments to maintain documentation on performance of suspension or debarment check over vendors that the City contracts with federally-funded projects.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-002 Procurement and Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Continued)

Identification as a Repeat Finding, If Applicable:

It is a repeat finding from prior year finding 2016-005.

Recommendation:

We recommend that the City establish proper internal control procedures to verify vendors against the SAM in order to ensure vendors are not suspended or debarred from federally-funded purchases.

View of Responsible Officials and Planned Corrective Actions:

For all projects funded by Community Development Block Grant funds, the Housing Programs Office will require a print out from the System for Award Management website with the search results to prove that contractors are not suspended or debarred from federally-funded purchases. This print out will be saved in the project file. The responsible person is Elizabeth Caraker, Housing and Community Development Manager and the corrective action plan is already implemented on November 1, 2017.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-003 Reporting – Internal Controls and Compliance over Reporting

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-11-MC-06-004, B-12-MC-06-004, B-13-MC-06-004, B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004)

Criteria:

Pursuant to the OMB April 2017 Compliance Requirements for CFDA 14.218 Community Development Block Grants / Entitlement Grants - Performance Reporting, HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low – Income Persons, (OMB No. 2529-004)3 – Each recipient that administers covered public and Indian housing assistance , regardless of the amount expended , and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry (“SPEARS”) System (24 CFR sections 135.3(a)(1) and 135.90).

Pursuant to the U.S. Department of Housing and Urban Development Schedule for Submission of 2015 Section 3 Reports, Form HUD 60002, Public Housing Authorities must submit Section 3 Reports by January 10th of each year following the completion of their agency’s fiscal cycle or calendar year. All other HUD grantees must submit Section 3 Reports at the same time they submit annual performance reports. For example, entitlement communities that receive CDBG, HOME, ESG, etc., Section 3 reports should be submitted in SPEARS at the same time they submit CAPERS, (i.e., 90-days after the end of their program year). All Section 3 reports must be submitted electronically via SPEARS. Paper copies, pdf attachments or other methods of transmitting Form HUD 60002 will not be accepted.

Pursuant to the Federal Financial Report (“FFR”) and Final Payment Request or ASAP Draw instructions, the quarterly FFR are due no later than 30 days after the end of the quarter.

Condition:

During our audit, we noted that that 3 out of 4 FFRs and annual HUD 60002 *Section 3 Summary Report* were filed after due date and.

Questioned Costs:

None noted.

Context:

See condition above for the context of the finding.

Effect:

The delay in filing the reports resulted in the City was not in compliance with the compliance requirement.

Cause:

The City did not have sufficient monitoring control over the reporting requirements and also the City encountered employee turnover at the program side.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-003 Reporting – Internal Controls and Compliance over Reporting (Continued)

Identification as a Repeat Finding, If Applicable:

It is a repeat finding from prior year finding 2016-006.

Recommendation:

We recommend that the City establish a comprehensive policies and procedures and specify the deadlines for all required reporting for the City staff to follow.

View of Responsible Officials and Planned Corrective Actions:

The Housing Programs Office has established a policy and procedure to ensure compliance with submitting the quarterly Federal Financial Reports (FFR) and Section 3 reporting in a timely manner. All FFRs have been submitted on time so far this program year (PY 2017). Staff experienced technical difficulty registering for the Section 3 Performance Evaluation and Registry System (SPEARS) causing the delay with the submission of the Program Year 2016 report, which was submitted on October 17, 2017 instead of by September 30, 2017. Staff has since resolved the technical difficulties with SPEARS registration, and moving forward the Section 3 report will be submitted at the same time as the submission of the annual CAPER report. The responsible person is Elizabeth Caraker, Housing and Community Development Manager and the corrective action plan is already implemented on July 1, 2017.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-004 Subrecipient Monitoring – Internal Controls and Compliance over Subrecipient Monitoring

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-11-MC-06-004, B-12-MC-06-004, B-13-MC-06-004, B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004)

Criteria:

Pursuant to Code of Federal Regulation §200.331 Requirements for pass-through entities:

All pass-through entities must:

(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

Pursuant to the City's Community Development Block Grant Program (CDBG) Procedure for Monitoring, Step 1, Risk Management, the Risk Management will serve as a guide to determine the areas that will require a higher degree of review. The higher the risk rating the more appropriate an in-depth review. The Risk Management checklist shall be maintained in all CDBG recipient files by October/November timeframe.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-004 Subrecipient Monitoring – Internal Controls and Compliance over Subrecipient Monitoring (Continued)

Condition:

During our audit, we noted that the City did not complete its “Risk Assessment Checklist” and evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions by October/November timeframe.

Questioned Costs:

None noted.

Context:

See condition above for the context of the finding.

Effect:

The lack of subrecipient monitoring led to noncompliance with the compliance requirements.

Cause:

The City does not have sufficient monitoring procedures in place to ensure the subrecipient monitoring is properly performed.

Identification as a Repeat Finding, If Applicable:

It is a repeat finding from prior year finding 2016-007.

Recommendation:

We recommend that the City establish a formal policy over performing risk assessment on each subrecipient in order to properly evaluates the risk of noncompliance with Federal statutes, regulations, and the terms and conditions in a timely manner.

View of Responsible Officials and Planned Corrective Actions:

The Housing Programs Office has updated its Subrecipient Monitoring Plan to ensure the Risk Assessment is completed for all sub-recipients in a timely manner. Risk assessments have been completed for all sub-recipients for the current program year (PY 2017). The responsible person is Elizabeth Caraker, Housing and Community Development Manager and the corrective action plan is already implemented on July 1, 2017.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-005 Special Tests and Provision – Internal Controls and Compliance over Wage Rate Requirements

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-11-MC-06-004, B-12-MC-06-004, B-13-MC-06-004, B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004)

Criteria:

Pursuant to the April 2017 Compliance Supplement, Wage Rate Requirements Cross-Cutting Section

Non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6; the A-102 Common Rule (§ __.36(i)(5)); OMB Circular A-110 (2 CFR part 215, Appendix A, Contract Provisions); 2 CFR part 176, subpart C; and 2 CFR section 200.326).

Condition:

During our audit, we noted that 6 out of 174 payroll certifications were missing from the City’s file. The missing payroll certifications were filed subsequently by the vendors and provided to the City.

Questioned Costs:

None noted.

Context:

Statistically sampling was used to draw sample selections. See condition above for context for the findings.

Effect:

The lack of wage rate requirements monitoring led to noncompliance with the compliance requirements.

Cause:

The City does not have sufficient monitoring procedures in place to ensure the wage rate requirements monitoring is properly performed.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City establish a formal policy over monitoring wage rate requirements for the federally-funded projects and to ensure the City is in compliance with the compliance requirements.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2017-005 Special Tests and Provision – Internal Controls and Compliance over Wage Rate Requirements (Continued)

View of Responsible Officials and Planned Corrective Actions:

The Housing Programs Office will work with the Engineering Division and Construction Management staff to ensure that certified payroll is submitted in a timely manner for all Community Development Block Grant funded projects. Certified payroll will be saved in the project file. The responsible person is Elizabeth Caraker, Housing and Community Development Manager and the expected implementation date is June 30, 2018.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

B. Prior Year Findings and Questions Costs – Major Federal Award Program Audit

2016-002 Internal Controls over Preparation of Schedule of Expenditures of Federal Awards

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-11-MC-06-004)

Bulletproof Vest Partnership Program, (CFDA 16.607, U.S. Department of Justice)

Highway Planning and Construction (Federal-Aid Highway Program), (CFDA 20.205, U.S. Department of Transportation, Passed through State of California, Department of Transportation (“CalTrans”), Award Number ATPL-5086(034))

Condition:

During our reviewing of the Schedule of Expenditures of Federal Awards (the “Schedule”) provided by the City, we noted the following:

The City provided incorrect funding agreement number and did not break into entitlement and program income for the Community Development Block Grants program in the Schedule provided.

The expenditure for Edward Byrne Memorial Justice Assistance Grant program was restated from \$2,516 to \$4,959 during the audit.

The City used the incorrect matching percentage to calculate the Highway Planning and Construction (Federal-Aid Highway Program) and it resulted in the expenditure was restated from \$128,166 to \$128,253.

The City reported Presidio of Monterey Base Operations and Maintenance Contract in the amount of \$9,956,039 which should not be considered as a grant in the Schedule provided.

Recommendation:

We recommend that the City establish and follow appropriate internal control procedures in order to ensure that all expenditures of federal awards, grant agreements, grantors for the fiscal year are accurately reported in the Schedule.

Status:

Finding was resolved during the year ended June 30, 2017.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

B. Prior Year Findings and Questions Costs – Major Federal Award Program Audit (Continued)

2016-003 Cash Management – Internal Controls over Cash Management

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-14-MC-06-004 and B-15-MC-06-004)

Condition:

During our testing, we noted that three out of five samples selected for testing were missing supporting documents attached to the drawdown requests. The supporting documents were provided and re-printed after our requests. In addition, the indication of review prior to submission was missing. We also noted that one out of the five sample selected for testing was not prepared timely (the drawdown request was submitted in February 2016 for June 2015 expenditures).

Recommendation:

We recommend the City establish a formal policy to adopt a second review procedures, checklist, and timeline over federal grants drawdown requests in order to ensure the drawdown requests are submitted timely with proper approval and supporting documents.

Status:

Finding was resolved during the year ended June 30, 2017.

2016-004 Eligibility – Internal Controls and Compliance over Eligibility – CDBG Rental Unit

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-14-MC-06-004 and B-15-MC-06-004)

Condition:

During our testing, we noted that one of one rental unit selected for testing did not have the tenant income evaluation supporting documents (out of the one rental unit). In addition, we noted that the rental unit selected for testing was not charged correctly. The tenant income was \$48,100 with the monthly rent of \$1,100.

Recommendation:

We recommend that the City adopt review procedures over eligibility requirement in order to ensure the City is in compliance the program requirements.

Status:

Finding was resolved during the year ended June 30, 2017.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

B. Prior Year Findings and Questions Costs – Major Federal Award Program Audit (Continued)

2016-005 Procurement and Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”)

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-14-MC-06-004 and B-15-MC-06-004)

Condition:

During our testing, we noted that one out of two vendors selected for testing did not have documentation on verifying the vendor against the SAM to ensure that the vendors were not suspended or debarred from federally-funded purchases. We also noted that one out of two vendors selected for testing was checked one day after the grant awarded.

Recommendation:

We recommended the City establish proper internal control procedures to monitor compliance requirements to ensure vendors are not suspended or debarred from federally-funded purchases.

Status:

See current year finding 2017-002.

2016-006 Reporting – Internal Controls and Compliance over Reporting

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-14-MC-06-004 and B-15-MC-06-004)

Condition:

During our audit, we noted that the City did not file quarterly FFR and HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low- Income Persons* for the year ended June 30, 2016.

Recommendation:

We recommend that the City establish a comprehensive policies and procedures and specify the deadlines for all required reporting for the City staff to follow.

Status:

See current year finding 2017-003.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs (Continued)

B. Prior Year Findings and Questions Costs – Major Federal Award Program Audit (Continued)

2016-007 Subrecipient Monitoring – Internal Control over Subrecipient Monitoring

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-14-MC-06-004 and B-15-MC-06-004)

Condition:

During our testing, we noted that eight of twelve Quarterly Reporting submitted by the subrecipients did not have any indication of City’s review.

Recommendation:

We recommend the City establish a formal policy over review procedures on subrecipient monitoring to ensure the City is in compliance the grant requirement.

Status:

See current year finding 2017-004.

2016-008 Special Tests and Provision – Internal Control and Compliance over Citizen Participation Plan

Information of the Federal Programs:

Community Development Block Grants / Entitlement Grants, (CFDA 14.218, U.S. Department of Housing and Urban Development, Award Number B-14-MC-06-004 and B-15-MC-06-004)

Condition:

During our audit, we noted that the City cannot provide the proof of publication for its Citizen Participation Plan (the “Plan”). In addition, the Plan was adopted back in 1988 without any revision or update since then.

Recommendation:

We recommend that the City establish a comprehensive grant management policy in order to ensure all compliance requirements are met.

Status:

Finding was resolved during the year ended June 30, 2017.

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