

City of Monterey

Monterey, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2018



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 *GOVERNMENT 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, 2018, 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 19, 2018.

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 19, 2018



**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, 2018. 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.

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; 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, 2018.

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 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying 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.

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 did identify certain deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 19, 2018, 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 18, 2019, except for the Schedule of Expenditures of Federal Awards, which is as of December 19, 2018.

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City of Monterey
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

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-17-MC-06-004	\$ 100,126	\$ -
Community Development Block Grants / Entitlement Grants	14.218	Program Income	1,376,768	119,294
Total CDBG - Entitlement Grants Cluster			<u>1,476,894</u>	<u>119,294</u>
Total U.S. Department of Housing and Urban Development			<u>1,476,894</u>	<u>119,294</u>
U.S. Department of Justice:				
<i>Direct Program:</i>				
Bulletproof Vest Partnership Program	16.607	OMB-1121-0235 BVP	5,695	-
Total U.S. Department of Justice			<u>5,695</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)	140,273	-
Total Highway Planning and Construction Cluster			<u>140,273</u>	<u>-</u>
<i>Pass-through the State of California Office of Traffic Safety:</i>				
<i>Highway Safety Cluster:</i>				
State and Community Highway Safety	20.600	PS1707	46,748	-
Total Highway Safety Cluster			<u>46,748</u>	<u>-</u>
Total U.S. Department of Transportation			<u>187,021</u>	<u>-</u>
U.S. Department of Homeland Security				
<i>Direct Program:</i>				
<i>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>	97.036	FEMA-4301-DR-CA	92,980	-
<i>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>	97.036	FEMA-4308-DR-CA	383,257	-
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)			<u>476,237</u>	<u>-</u>
<i>Assistance to Firefighters Grant Program (AFG)</i>	97.044	EMW-2016-FR-00475	689,746	-
<i>Staffing for Adequate Fire and Emergency Response (SAFER)</i>	97.083	EMW-2015-FH-00786	262,998	-
Total U.S. Department of Homeland Security			<u>1,428,981</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,098,591</u>	<u>\$ 119,294</u>

City of Monterey
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Monterey, California (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:

- City of Monterey Joint Powers Financing Authority

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The activity of the City’s federal award programs is 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, 2018

Note 3 – Loans Receivable

The City's loan programs funded by CDBG were in the amount of \$3,091,719 at June 30, 2018. There were no new loans issued during the year ended June 30, 2018.

Note 4 – Subrecipients

During the year ended June 30, 2018, the City provided federal funds to the following subrecipients:

CFDA Number	Program Name / Subrecipient Names	Amount Provided to Subrecipients
14.218	Community Development Block Grants Entitlement Grants:	
	Alliance on Aging, Inc.	\$ 14,400
	Community Human Services	16,600
	Food Bank for Monterey County	18,000
	Interim, Inc.	22,000
	Josephine Kernes Memorial Pool	9,000
	Legal Services for Seniors	12,000
	Meals on Wheels of the Monterey Peninsula, Inc.	9,400
	The Salvation Army Monterey Peninsula Corps	9,134
	Eden Council for Hope and Opportunity	8,760
	Total Amount Provided to Subrecipients	<u>\$ 119,294</u>

Note 5 – Long-Term Debt

At June 30, 2018, the outstanding balances for the federally funded loan programs were as follows:

Pass Through Entity	Loan Number	Amount
California Energy Commission 1% loan	001-08-ECCA.1	\$ 488,140
California Energy Commission 3.95% Loan	015-09-ECE-ARRA	200,166
State Water Resources Control Board Loan 2.1%	13-831-550-110*	<u>3,206,953</u>
Total		<u>\$ 3,895,259</u>

* \$1,862,073 of the \$3,321,323 original loan amount was funded by State of California.

City of Monterey
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I – Summary of Auditors’ 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? **No**
- 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? **2018-001 and 2018-002**

Type of auditors’ 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>
14.218	Community Development Block Grants / Entitlement Grants	\$ 1,476,894
	Total Expenditures of All Major Federal Programs	\$ 1,476,894
	Total Expenditures of Federal Awards	\$ 3,098,591
	Percentage of Total Expenditures of Federal Awards	47.66%

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, 2018

Section II – Financial Statement Findings

A. Current Year Findings - Financial Statement

No current year findings were noted.

B. Prior Year Findings – Financial Statement

No prior year findings were noted.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

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

2018-001 Allowable Cost/Cost Principles – Internal Control and Compliance Over Payroll Expenditures

Identification of the Federal Program:

Catalog of Federal Domestic Assistance

(“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-17-MC-06-004

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

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, 2018

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

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

2018-001 Allowable Cost/Cost Principles – Internal Control and Compliance Over Payroll Expenditures (Continued)

Condition:

During our audit, we noted that 32 samples out of 37 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.

Cause:

The City's policies and procedures were not being updated to address the Uniform Guidance requirements.

Effect or Potential Effect:

Without reconciling actual activities performed to the budgeted payroll allocation by the City staff, the City cannot determine the effort spent on the CDBG program and request reimbursement for payroll based on effort.

Questioned Costs:

Cannot be reasonably determined.

Context:

See condition above for context of the finding.

Identification as a Repeat Finding, If Applicable:

It is a repeat finding from prior year finding 2017-001.

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.

View of Responsible Officials:

A more accurate and detailed accounting of time and description of tasks will be recorded in the staff timesheets for each pay period and the manager will more closely track that this accounting is performed as directed at the end of each pay period. The responsible person is Elizabeth Caraker, Housing and Community Development Manager and the expected implementation date is April 1, 2019.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

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

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

2018-002 Special Tests and Provision – Internal Controls and Compliance over Wage Rate Requirements

Identification of the Federal Program:

Catalog of Federal Domestic Assistance

(“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-17-MC-06-004

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

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 2 out of 37 payroll certifications were not filed by the vendors and provided to the City.

Cause:

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

Effect or Potential Effect:

Insufficient wage rate requirements monitoring led to noncompliance with the compliance requirements.

Questioned Costs:

None noted.

Context:

The projected numbers of payroll certifications that were not properly submitted would be 6.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

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

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

2018-002 Special Tests and Provision – Internal Controls and Compliance over Wage Rate Requirements (Continued)

Identification as a Repeat Finding, If Applicable:

It is a repeat finding from prior year finding 2017-005.

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.

View of Responsible Officials:

The Housing Programs Office will continue to work with the Public Works Department Construction Management staff on following adopted City procedures for ensuring 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 April 1, 2019.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

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

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

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

Identification of the Federal Program:

Catalog of Federal Domestic Assistance

(“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-11-MC-06-004, B-12MC-06-004, B-13-MC-06-004,

B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004

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.

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.

Current Status:

See current year finding 2018-001.

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

Identification of the Federal Program:

Catalog of Federal Domestic Assistance

(“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-11-MC-06-004, B-12MC-06-004, B-13-MC-06-004,

B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

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

B. Prior Year Findings and Questions 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)

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.

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.

Current Status:

Finding was resolved during the year ended June 30, 2018.

2017-003 Reporting – Internal Controls and Compliance over Reporting

Identification of the Federal Program:

Catalog of Federal Domestic Assistance
 (“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-11-MC-06-004, B-12MC-06-004, B-13-MC-06-004,
B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004

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.

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.

Current Status:

Finding was resolved during the year ended June 30, 2018.

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

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

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

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

Identification of the Federal Program:

Catalog of Federal Domestic Assistance

(“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-11-MC-06-004, B-12MC-06-004, B-13-MC-06-004,
B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004

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.

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.

Current Status:

Finding was resolved during the year ended June 30, 2018.

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

Identification of the Federal Program:

Catalog of Federal Domestic Assistance

(“CFDA”) Number: 14.218

CDFA Title:

Community Development Block Grants / Entitlement Grants

Federal Agency:

Department of Housing and Urban Development

Pass-Through Entity:

N/A

Federal Award Number and Award Year:

B-11-MC-06-004, B-12MC-06-004, B-13-MC-06-004,
B-14-MC-06-004, B-15-MC-06-004, and B-16-MC-06-004

City of Monterey
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2018

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

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

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

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.

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.

Current Status:

See current year finding 2018-002.

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