

# **City of Monterey**

Monterey, California

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2019*





# 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 10, 2020.

**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 City'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 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.

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

Santa Ana, California  
January 10, 2020



**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 the 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, 2019. 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, 2019.

### ***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 2019-003, 2019-004 and 2019-005. 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as discussed, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompany Schedule of Findings and Questioned Costs as item 2019-003 to be material weaknesses.

*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. We consider deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001, 2019-002, 2019-004 and 2019-005 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 10, 2020, 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 31, 2020, except for the Schedule of Expenditures of Federal Awards, which is as of January 10, 2020.

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**City of Monterey**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2019**

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Expenditures to Subrecipients
<b>U.S. Department of Housing and Urban Development:</b>				
<i>Direct Programs:</i>				
<i>CDBG - Entitlement Grants Cluster:</i>				
Community Development Block Grants / Entitlement Grants	14.218	B-18-MC-06-004	\$ 219,420	\$ -
Community Development Block Grants / Entitlement Grants	14.218	Program Income	966,254	112,839
Total CDBG - Entitlement Grants Cluster			<u>1,185,674</u>	<u>112,839</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,185,674</u>	<u>112,839</u>
<b>U.S. Department of the Interior</b>				
<i>Direct Programs:</i>				
Historic Preservation Fund Grants-In-Aid	15.904	P18AF00112	10,780	-
<b>Total U.S. Department of Justice</b>			<u>10,780</u>	<u>-</u>
<b>U.S. Department of Justice:</b>				
<i>Direct Program:</i>				
Bulletproof Vest Partnership Program	16.607	OMB-1121-0235 BVP	5,229	-
<b>Total U.S. Department of Justice</b>			<u>5,229</u>	<u>-</u>
<b>U.S. Department of Transportation</b>				
<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)	2,305,495	-
Total Highway Planning and Construction Cluster			<u>2,305,495</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>2,305,495</u>	<u>-</u>
<b>U.S. Department of Homeland Security</b>				
<i>Direct Program:</i>				
<i>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>	97.036	FEMA-4301-DR-CA	90,242	-
<i>Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>	97.036	FEMA-4308-DR-CA	3,224	-
Total Disaster Grants - Public Assistance (Presidentially Declared Disasters)			<u>93,466</u>	<u>-</u>
<i>Assistance to Firefighters Grant Program (AFG)</i>	97.044	EMW-2016-FR-00475	11,678	-
<i>Staffing for Adequate Fire and Emergency Response (SAFER)</i>	97.083	EMW-2015-FH-00786	210,555	-
<i>Staffing for Adequate Fire and Emergency Response (SAFER)</i>	97.083	EMW-2017-FH-00540	48,056	-
Total Staffing for Adequate Fire and Emergency Response (SAFER)			<u>258,611</u>	<u>-</u>
<b>Total U.S. Department of Homeland Security</b>			<u>363,755</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 3,870,933</u>	<u>\$ 112,839</u>

**City of Monterey**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2019**

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**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 General Fund, the special revenue funds and the capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the General Fund, the special revenue funds and the 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 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 did not elect to use the 10% de minimis cost rate.

**City of Monterey**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of report the auditors 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? **2019-003**
- Significant deficiency(ies) identified? **2019-001, 2019-002, 2019-004 and 2019-005**

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	\$ 1,185,674
20.205	Highway Planning and Construction (Federal-Aid Highway Program)	2,305,495
	Total Expenditures of All Major Federal Programs	<u>\$ 3,491,169</u>
	Total Expenditures of Federal Awards	<u>\$ 3,870,933</u>
	Percentage of Total Expenditures of Federal Awards	<u>90.19%</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, 2019**

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**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, 2019**

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

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

**2019-001 Procurement and Suspension and Debarment – Internal Controls over Verification against the System for Award Management (“SAM”)**

**Identification of the Federal Program:**

Catalog of Federal Domestic Assistance (“CFDA”) Number:	20.205
CDFA Title:	Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency:	Department of Transportation
Pass-Through Entity:	State of California Department of Transportation
Federal Award Number and Award Year:	ATPL-5086(034)

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

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 testing on the internal control over procurement and suspension, and debarment for formal bids and request for proposals, we selected one formal bid project and one request for proposal for testing. We tested 100% of the transactions and noted the City did not have sufficient documentation to support that suspension and debarment check was performed for the request for proposal selected for testing.

**Cause:**

The City did not follow its policy and procedures in checking suspension and debarment over vendors for federally-funded projects prior to awarding the contracts to vendors.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-001 Procurement and Suspension and Debarment – Internal Controls over Verification against the System for Award Management (“SAM”) (Continued)**

**Effect or Potential Effect:**

Without verifying whether vendors are suspended or debarred from providing goods or services on federally-funded projects prior to the contract being awarded, the City could contract with vendors that are prohibited from providing goods or services to the City on federally funded projects.

**Questioned Costs:**

None

**Context:**

See condition above for context of the finding.

**Identification as a Repeat Finding, If Applicable:**

Not applicable

**Recommendation:**

We recommended the City perform the suspension and debarment check prior to awarding the contracts to the vendors to ensure the vendors are not suspended or debarred from federally-funded projects.

**View of Responsible Officials:**

Management concurs with the finding.



**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-002 Program Income – Internal Control Over Program Income**

**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-18-MC-06-004

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

Pursuant to the Compliance Supplement August 2019, *Program Income*:

1. The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules. Program income does not include income received in a single program year by the grantee and all of its subrecipients if the total amount of such income does not exceed \$25,000 (24 CFR sections 570.500 and 570.504).

**Condition:**

During our audit, we noted the City did not have a process in place to review the reconciliation of the program income received during the year to the Integrated Disbursement and Information System (“IDIS”).

**Cause:**

The City experienced an employee turnover at the department.

**Effect or Potential Effect:**

Without reviewing and reconciling general ledger to IDIS, it may lead to improper reporting of program income or drawdown requests.

**Questioned Costs:**

None

**Context:**

See condition above for context of the finding.

**Identification as a Repeat Finding, If Applicable:**

Not applicable

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-002 Program Income – Internal Control Over Program Income (Continued)**

**Recommendation:**

We recommended the City establish a process of tracking the program income in order to report in the IDIS and reconcile to the City's general ledger timely and accurately.

**View of Responsible Officials:**

Management concurs with the finding.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-003 Reporting – Internal Control 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-18-MC-06-004

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

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 the City did not file the FFR timely during the year ended June 30, 2019. The submission date for each quarter is summarized as follows:

<b>Reporting Period End Date</b>	<b>Grantee Submission Deadlines</b>	<b>Grantee File Date</b>
September 30, 2018	October 30, 2018	March 21, 2019
December 31, 2018	January 30, 2019	March 4, 2019
March 31, 2019	April 30, 2019	February 25, 2020
June 30, 2019	July 30, 2019	February 25, 2020

**Cause:**

Policies and procedures are not sufficient to ensure compliance over the reporting requirements.

**Effect or Potential Effect:**

The delay in filing the report resulted in noncompliance.

**Questioned Costs:**

None

**Context:**

See condition above for context of the finding.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-003 Reporting – Internal Control and Compliance Over Reporting (Continued)**

**Identification as a Repeat Finding, If Applicable:**

Not applicable

**Recommendation:**

We recommend that the City follows its comprehensive policies and procedures and specify the deadlines for all required reporting for all City employees to follow.

**View of Responsible Officials:**

Management concurs with the finding.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-004 Special Tests and Provision – Internal Control and Compliance over Wage Rate Requirements**

**Identification of the Federal Program:**

Catalog of Federal Domestic Assistance (“CFDA”) Number:	20.205
CDFA Title:	Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency:	Department of Transportation
Pass-Through Entity:	State of California Department of Transportation
Federal Award Number and Award Year:	ATPL-5086(034)

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

Pursuant to the August 2019 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 5 out of 40 payroll certifications selected for testing were not filed by the vendors and provided to the City; 1 out of 40 payroll certifications selected for testing was not signed by the contractor.

**Cause:**

The City’s policies and procedures are not sufficient to enhance compliance over the wage rate requirements.

**Effect or Potential Effect:**

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

**Questioned Costs:**

None

**Context:**

The projected numbers of payroll certifications that were not properly submitted would be 49.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-004 Special Tests and Provision – Internal Control and Compliance over Wage Rate Requirements (Continued)**

**Identification as a Repeat Finding, If Applicable:**

It is a repeat finding from prior year 2018-002.

**Recommendation:**

We recommend that the City establish formal policies and procedures to enhance all wage rate requirements and specifically to address receipt of timely certifications with the proper authorization for the federally-funded projects and to ensure the City are in compliance with the compliance requirements.

**View of Responsible Officials:**

Management concurs with the finding.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-005 Special Tests and Provision – Internal Control and Compliance over Quality Assurance Program**

**Identification of the Federal Program:**

Catalog of Federal Domestic Assistance (“CFDA”) Number:	20.205
CDFA Title:	Highway Planning and Construction (Federal-Aid Highway Program)
Federal Agency:	Department of Transportation
Pass-Through Entity:	State of California Department of Transportation
Federal Award Number and Award Year:	ATPL-5086(034)

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

Pursuant to the August 2019 Compliance Supplement, Highway Planning and Construction Cluster, Quality Assurance Program:

A State Department of Transportation (“DOT”) or LPA must have a quality assurance (“QA”) program, approved by Federal Highway Administrator (“FHWA”), for construction projects on the NHS to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, and 637.207).

**Condition:**

During our audit, we noted that the City did not have a approved QA program by either FHWA or the State of California Department of Transportation between July 1, 2018 to April 25, 2019.

**Cause:**

The City did not have policies and procedures in place for having the approval process performed.

**Effect or Potential Effect:**

Lack of QA program policies and procedures led to noncompliance with the compliance requirements.

**Questioned Costs:**

None

**Context:**

See condition above for context of the finding.

**Identification as a Repeat Finding, If Applicable:**

Not applicable

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

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

**2019-005 Special Tests and Provision – Internal Control and Compliance over Quality Assurance Program (Continued)**

**Recommendation:**

We recommended the City establish policies and procedures in obtaining the approval of the City's QA program.

**View of Responsible Officials:**

Management concurs with the finding.



**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

**B. Prior Year Findings and Questions 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

**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.

**Recommendation:**

We recommended that the City incorporate the Uniform Guidance requirements into its existing policies and procedures to ensure the City’s compliance with the Uniform Guidance.

**Current Status:**

Finding was resolved during the year ended June 30, 2019.

**City of Monterey**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2019**

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

**B. Prior Year Findings and Questions 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

**Condition:**

During our audit, we noted that 2 out of 37 payroll certifications were not filed by the vendors and provided to the City.

**Recommendation:**

We recommended 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 2019-004.