

CITY OF PELHAM, ALABAMA

Single Audit Report

September 30, 2020

TABLE OF CONTENTS

	Page
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance.....	5
Schedule of Expenditures of Federal Awards.....	8
Notes to the Schedule of Expenditures of Federal Awards.....	9
Schedule of Findings and Questioned Costs.....	10
Corrective Action Plan.....	13
Summary Schedule of Prior Audit Findings.....	15

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

To the Mayor and City Council
The City of Pelham, Alabama
Pelham, Alabama

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 Pelham, Alabama (the City), as of and for the year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 2, 2021.

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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, and 2020-003 that we consider to be material weaknesses.

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 financial statements. 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 that are required to be reported under *Government Auditing Standards*.

City of Pelham's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BMSS, LLC

Birmingham, Alabama
August 2, 2021

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Council
The City of Pelham, Alabama
Pelham, Alabama

Report on Compliance for Each Major Federal Program

We have audited the City of Pelham, Alabama's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2020. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 September 30, 2020.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pelham, Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Pelham, Alabama's basic financial statements. We issued our report thereon dated August 2, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming 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 additional 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BMSS, LLC

Birmingham, Alabama
August 2, 2021

CITY OF PELHAM, ALABAMA
Schedule of Expenditures of Federal Awards
For the year ended September 30, 2020

Federal Grantor/Pass-Through Agency/Program Title	Federal CFDA Number	Grant, Contract, or Pass-Through Number	Federal Expenditures
U.S. Department of Defense			
Direct Program			
1033 Program	12.205		\$ 27,200
U.S. Department of Justice			
Direct Program			
Bulletproof Vest Partnership Program	16.607		8,250
U.S. Department of Transportation			
Pass-through the Alabama Department of Transportation			
Highway Planning and Construction Cluster			
Recreational Trails Program	20.219	TAPAA-TA16 (901)	754,056
Recreational Trails Program	20.219	CMAQ-5916	29,078
Total U.S. Department of Transportation			<u>783,134</u>
U.S. Department of Treasury			
Pass-through the Alabama Department of Treasury			
Coronavirus Relief Fund	21.019		1,133,797
National Endowment for Humanities			
Pass-through the Alabama Public Library Services			
Library Services and Technology Grant	45.310		4,512
U.S. Department of Health and Human Services			
Pass-through the Administration for Community Living and the Middle Alabama Area Agency on Aging			
Paramedic Assistance Program	93.470		<u>7,556</u>
Total expenditures of federal awards			<u>\$ 1,964,449</u>

See notes to the Schedule of Expenditures of Federal Awards.

CITY OF PELHAM, ALABAMA
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Pelham, Alabama (the City) under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The City has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
September 30, 2020

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of the City of Pelham, Alabama were prepared in accordance with GAAP.
2. Material weaknesses in internal control over financial reporting were identified during the audit of the financial statements and are listed below as Findings No. 2020-001, 2020-002, and 2020-003.
3. No instances of noncompliance material to the financial statements of the City of Pelham, Alabama which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for the City of Pelham, Alabama expresses an unmodified opinion on the major federal program.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The programs tested as a major program included the Highway Planning and Construction Cluster: Recreational Trails Program (CFDA number 20.219) and the Coronavirus Relief Fund (CFDA number 21.019).
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. The City of Pelham, Alabama did not qualify as a low-risk auditee.

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
September 30, 2020
(Continued)

FINANCIAL STATEMENT FINDINGS

Material Weaknesses

Finding No. 2020-001: Accrual Basis of Accounting

Criteria: Recording transactions on the accrual basis of accounting is in accordance with U.S. generally accepted accounting principles (GAAP). Although the year-end audited financial statements are prepared on an accrual basis, the City maintains its books on a cash basis.

Condition: The City's management has elected to use the cash basis of accounting.

Effect: Balances within accounts receivable, accounts payable, and inventory are not being recorded.

Identification of a Repeat Finding: This is not a repeat finding.

Recommendation: We believe the City would benefit more from its financial reporting if internal records were prepared in accordance with U.S. generally accepted accounting principles (GAAP). Recording transactions on an accrual basis provides more meaningful financial information. Proper cutoffs are critical for the accuracy of the financial statements on the accrual basis of accounting.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with this finding and will adhere to the corrective action plan presented in this audit report.

Finding No. 2020-002: Journal Entries

Criteria: To ensure that interim financial information aligns with year-end audited financial statements, management should perform a monthly review and evaluation of transactions and proper month-end closing procedures.

Condition: Monthly general ledger transactions are not being reviewed and evaluated and proper month-end closing procedures are not being consistently performed.

Effect: Transactions that are coded incorrectly are not being timely detected and corrected, resulting in variances between interim financial information and year-end audited financial statements.

Identification of a Repeat Finding: This is not a repeat finding.

Recommendation: We suggest reviewing monthly general ledgers to ensure that transactions are being coded correctly so that interim financial statements will align more closely with year-end audited financial statements.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with this finding and will adhere to the corrective action plan presented in this audit report.

CITY OF PELHAM, ALABAMA
Schedule of Findings and Questioned Costs
September 30, 2020
(Continued)

Findings No. 2020-003: Water and Sewer Allowance for Doubtful Accounts

Criteria: The City is required to report an estimated loss from uncollectible accounts receivable in accordance with U.S. generally accepted accounting principles (GAAP) on the proprietary fund statement of net position.

Condition: During our audit, we noted that the Water and Sewer allowance for doubtful accounts is not being analyzed and no adjustment is made to account for estimated losses from uncollectible accounts receivable. There are no procedures in place for management's analysis and adjustment of Water and Sewer allowance for doubtful accounts.

Effect: Without preparation and review of an analysis of uncollectible accounts, management cannot provide reasonable assurance that estimated loss from uncollectible accounts receivable is reflected in accordance with U.S. generally accepted accounting principles (GAAP) on the proprietary fund statement of net position.

Identification of a Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management prepare an analysis of uncollectible accounts at least quarterly. This analysis should consider prior charge-off experience and experience with the customer, as well as other information management may have about the account, such as indications of financial difficulty. Management should adjust the allowance for doubtful accounts after reviewing the analysis of uncollectible accounts and make appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from uncollectible accounts receivable is reflected on the proprietary fund Statement of Net Position.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with this finding and will adhere to the corrective action plan presented in this audit report.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no current findings or questioned costs that are considered material instances of noncompliance in accordance with the Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

CITY OF PELHAM, ALABAMA
Corrective Action Plan
September 30, 2020

August 2, 2021

The City of Pelham, Alabama respectfully submits the following corrective action plan for the year ended September 30, 2020.

Name and address of independent public accounting firm:

BMSS, LLC
1121 Riverchase Office Road
Birmingham, Alabama 35244

Audit period: October 1, 2019 through September 30, 2020

The findings from the September 30, 2020, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENTS FINDINGS

Finding No. 2020-001

Recommendation: We believe the City would benefit more from its financial reporting if internal records were prepared in accordance with U.S. generally accepted accounting principles (GAAP). Recording transactions on an accrual basis provides more meaningful financial information. Proper cutoffs are critical for the accuracy of the financial statements on the accrual basis of accounting.

Corrective Action Plan: The City is currently undergoing the implementation of its ERP system. The City intends to transition to the accrual basis of accounting within one year of our go-live date, currently projected for January 1, 2022, as the new system will be easily able to handle the transition.

Finding No. 2020-002

Recommendation: We suggest reviewing monthly general ledgers to ensure that transactions are being coded correctly so that interim financial statements will align more closely with year-end audited financial statements.

Corrective Action Plan: In the fiscal year ending September 30, 2021, City management is providing the City Council with a mid-year budget review, at which time, transactions and actual results are reviewed in detail to project necessary budget adjustments. The interim financial statements for the City are currently not comparable to the audited financial statements in large part due to the cash basis versus accrual balance issue which is addressed above.

CITY OF PELHAM, ALABAMA
Corrective Action Plan
September 30, 2020
(Continued)

Finding No. 2020-003

Recommendation: We recommend that management prepare an analysis of uncollectible accounts at least quarterly. This analysis should consider prior charge-off experience and experience with the customer, as well as other information management may have about the account, such as indications of financial difficulty. Management should adjust the allowance for doubtful accounts after reviewing the analysis of uncollectible accounts and make appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from uncollectible accounts receivable is reflected on the proprietary fund Statement of Net Position.

Corrective Action Plan: In transitioning to the accrual basis of accounting, the City intends to accrue an allowance for doubtful accounts and will monitor it as recommended.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

If there are any questions regarding this plan, please call Jenny Gray at (205) 620-6542.

Sincerely,

Gary W. Waters, Mayor
City of Pelham, Alabama

CITY OF PELHAM, ALABAMA
Summary Schedule of Prior Audit Findings
September 30, 2020

FINANCIAL STATEMENT FINDINGS

There are no prior year financial statement findings required to be reported in accordance with *Government Auditing Standards*.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior year findings or questioned costs that are considered material instances of noncompliance in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.