

CITY OF CONROE, TEXAS

COMPLIANCE REPORT

FOR THE YEAR ENDED

SEPTEMBER 30, 2013

HL&K

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

CITY OF CONROE, TEXAS
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CITY OF CONROE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Federal Grantor</u>	<u>Federal CFDA #</u>	<u>Project Number</u>	<u>Grant Funds Expended</u>	<u>Pass-Through Amount to Subrecipients</u>
U.S. DEPARTMENT OF JUSTICE				
<i>BJAFY12 Edward Byrne Memorial Justice Assistance (JAG) Program</i>	16.738	2012-DJ-BX-0412	\$ 19,226	\$ -
<i>Bullet Proof Vest Partnership</i>	16.607	10050916	4,875	-
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>24,101</u>	<u>-</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through the Texas Dept. of Public Safety's Division of Emergency Management:				
<i>Emergency Management Performance Grant</i>	97.042	12TX-EMPG-0470	31,657	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Community Development Block Grant</i>	14.218	B-10-MC-48-0038	14,453	-
<i>Community Development Block Grant</i>	14.218	B-11-MC-48-0038	187,145	-
<i>Community Development Block Grant</i>	14.218	B-12-MC-48-0038	218,954	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>420,552</u>	<u>-</u>
U.S. DEPARTMENT OF TRANSPORTATION				
<i>FTA Bus and Bus Facilities Livability Initiative</i>	20.500	TX-04-0110-00	256,627	-
Passed Through TXDOT:				
<i>Section 5317 Federal-New Freedom</i>	20.521	TX-57-X034	90,800	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>347,427</u>	<u>-</u>
GRAND TOTAL ALL FUNDING			<u>\$ 823,737</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CONROE, TEXAS

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

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Conroe, Texas. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a special revenue fund, a component of the governmental fund type or general fund. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing resources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available); and, expenditures in the accounting period in which the fund liability is incurred, if measurable.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly when such funds are received, they are recorded as deferred revenues until earned.

Note 2. Availability of Federal Grant Funds

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Availability of Federal Funds, Part 3 OMB Circular A-133 Compliance Supplement-March 2013.

Note 3. Loans Outstanding

The City of Conroe, Texas has received a loan guarantee from the Department of Housing and Urban Development under the Section 108 Loan Program for \$1,794,000. As of September 30, 2013, the City had a balance of \$1,070,000 on the loan guarantee.

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

The Honorable Mayor
and Members of the City Council and Management of the
City of Conroe, Texas
P.O. Box 3066
Conroe, Texas 77305

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Conroe, Texas (City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Conroe, Texas' basic financial statements and have issued our report thereon dated January 31, 2014

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Conroe, Texas' 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 City of Conroe, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Conroe, Texas' 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Conroe, Texas' 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
January 31, 2014

HLSK

Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor
and Members of the City Council and Management of the
City of Conroe, Texas
P.O. Box 3066
Conroe, Texas 77305

Report on Compliance for Each Major Federal Program

We have audited City of Conroe, Texas' (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Conroe, Texas' major federal programs for the year ended September 30, 2013. City of Conroe, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Conroe, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Conroe, Texas' 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 City of Conroe, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, City of Conroe, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of City of Conroe, Texas 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 City of Conroe, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Conroe, Texas' 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. 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conroe, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Conroe, Texas' basic financial statements. We issued our report thereon dated January 31, 2014, 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 OMB Circular A-133 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 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
January 31, 2014

CITY OF CONROE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

SECTION I – SUMMARY OF AUDITORS’ RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors’ report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified ?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to the Financial Statements noted	No
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditors’ report issued on compliance with major programs	Unmodified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133?	No
7. Identification Major Programs	14.218 Community Development Block Grant 20.500 FTA Bus and Bus Facilities Livability Initiative 20.521 Section 5317 Freedom - New Freedom
8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	\$300,000
9. Auditee Qualified as a Low-Risk Auditee?	No
SECTION II –FINANCIAL STATEMENT FINDINGS	
None reported	
SECTION III –FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
None reported	

CITY OF CONROE, TEXAS
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

PRIOR YEAR FINDINGS

None reported

CITY OF CONROE, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2013

CURRENT YEAR FINDINGS

None reported

