

CITY OF CONROE, TEXAS

COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CITY OF CONROE, TEXAS

COMPLIANCE REPORT

FOR THE YEAR ENDED

SEPTEMBER 30, 2016

CITY OF CONROE, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	2
Independent Auditor's 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>Governmental Auditing Standards</i>	3
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	5
Schedule of Findings and Questioned Costs	7
Schedule of Prior Findings	9
Corrective Action Plan.....	11

CITY OF CONROE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor	Federal CFDA #	Project Number	Grant Funds Expended
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Community Development Block Grant</i>	14.218	B-15-MC-48-0038	\$ 212,482
<i>Community Development Block Grant</i>	14.218	B-14-MC-48-0038	327,993
<i>Community Development Block Grant</i>	14.218	B-13-MC-48-0038	244,876
Total CFDA 14.218			<u>785,351</u>
Passed Through Texas General Land Office:			
<i>Community Development Block Grant - Disaster Recovery - Ike 2.2 Grant</i>	14.228	13-255-000-7461	130,785
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>916,136</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Bullet Proof Vest Partnership</i>	16.607	10050916	11,070
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>11,070</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Transit Cluster:			
<i>FY 13 Section 5307 Urbanized Area Formula Fund</i>	20.507	TX-90-Y049-00	191,104
<i>FY 14 Section 5307 Urbanized Area Formula Fund</i>	20.507	TX-90-Y063-00	117,692
<i>FY 15 Section 5307 Urbanized Area Formula Fund</i>	20.507	TX-2016-049-00	205,087
Total Federal Transit Cluster			<u>513,883</u>
<i>FY 13/14 Section 5310 Enhanced Mobility</i>	20.513	TX-16-X024-00	18,979
Passed Through TXDOT			
<i>Surface Transportation Program (STP) and Transportation Enhancement (TE)</i>	20.205	CSJ 0338-03-088	147,492
<i>Congestion Mitigation & Air Quality (CMAQ) - F07</i>	20.205	CSJ 0675-08-108	8,256
Total CFDA 20.205			<u>155,748</u>
Total Passed Through TXDOT			<u>155,748</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>688,610</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	16TX-EMPG-0470	38,489
GRAND TOTAL ALL FUNDING			<u>\$ 1,654,305</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, 2016

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 fund balance.

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 of the Compliance Supplement.

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, 2016, the City had a balance of \$761,002 on the loan guarantee.

**Independent Auditor's 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 City Council of
City of Conroe, Texas
P.O. Box 3066
Conroe, Texas 77305

We have audited, in accordance with 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 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, 2016, and the related notes to financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned cost as item 2016-001 that we consider to be a significant deficiency.

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*.

City of Conroe, Texas's Response to Finding

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.

To The City Council of
City of Conroe, Texas

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.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

March 10, 2017

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The City Council of
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 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, 2016. 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 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 September 30, 2016.

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 as a basis for designing 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.

To The City Council of
City of Conroe, Texas

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 the Uniform Guidance

We have audited 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 the City as of and for the year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 10, 2017, 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 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 (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.

Purpose of this Report

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.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

March 10, 2017

CITY OF CONROE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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?	Yes, 2016-001
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 Uniform Guidance?	No
7. Identification Major Programs	Community Development Block Grant 14.218
8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	\$750,000
9. Auditee Qualified as a Low-Risk Auditee?	Yes

CITY OF CONROE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

SECTION II –FINANCIAL STATEMENT FINDINGS

2016-001 FEDERAL GRANT RECONCILIATION (RECURRING)

Significant Deficiency in Controls

Criteria:

The City is required to report its expenditures of federal awards in accordance with the Federal Single Audit Act.

Condition:

During the past three years, the City has significantly increased its use of grant funds and the current accounting system is no longer providing timely and accurate information required to produce required information and reporting. The City should consider segregating grant awards into separate special revenue funds, which may make it easier to identify the matching receipts and expenditures for cost-reimbursement grants.

Questioned Cost:

None

Perspective Information:

The Senior Accountant within the City's accounting division was assigned the task of grant accounting specialist.

Cause:

Individuals in multiple departments, whom do not have grant and accounting experience, are requested to provide a schedule of expenditures for the grants they manage. This information is then aggregated onto the SEFA with no reconciliation to the general ledger.

Effect:

This could result in a misstatement on the Schedule of Expenditures of Federal Awards.

Recommendation:

We recommend that the City assign the task of preparing the SEFA to an experienced individual with accounting experience related to grant awards and expenditures. The individual's duties would include reconciling the SEFA, the compliance reports submitted to the grant agencies and the City's general ledger to one another. As noted above, we recommend that the City setup special revenue funds to assist the City in the reconciliation process.

Views of Responsible Officials and Planned Corrective Actions:

See corrective action plan.

SECTION III –FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

CITY OF CONROE, TEXAS
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

PRIOR YEAR FINDINGS

2015-001 HUMAN RESOURCE INTERNAL CONTROLS

Significant Deficiency in Controls

Criteria:

The human resources department is responsible for ensuring that employee pay rates are within the compensation range as approved by City Council.

Condition:

An employee of the City was identified as being paid above their position's maximum hourly City approved compensation range. The amount of overpayment appears to be immaterial. Even though this appears to be an isolated instance the lack control procedures warrants reporting the deficiency.

Questioned Cost:

None

Perspective Information:

None

Cause:

Only one individual performs a comparison of all City employees' compensation to the City's compensation schedule. The human resources department does not have a secondary internal control procedure in place to monitor that proper compensation is being applied to the related position.

Effect:

Lack of a secondary monitoring control could result in other City employees receiving excess compensation above the maximum allowed by City Council.

Recommendation:

We recommend that a second individual in human resources perform a review and approval of the placement of each employee on the City approved compensation scale. We also recommend that the City work with their software provider to implement an application control which will notify the user of any pay rate changes are outside the appropriate compensation range.

Views of Responsible Officials and Planned Corrective Actions:

Deficiency resolved during fiscal year ended September 30, 2016.

CITY OF CONROE, TEXAS
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

2015-002 FEDERAL GRANT RECONCILIATION

Significant Deficiency in Controls

Criteria:

The City is required to report its expenditures of federal awards in accordance with the Federal Single Audit Act.

Condition:

During the past two years, the City has significantly increased its use of grant funds and the current accounting system is no longer providing timely and accurate information required to produce required information and reporting. The City should consider segregating grant awards into separate special revenue funds, which may make it easier to identify the matching receipts and expenditures for cost-reimbursement grants.

Questioned Cost:

None

Perspective Information:

The City's central accounting office does not have a grant accounting specialist with experience in preparing a Schedule of Expenditures of Federal Awards (SEFA).

Cause:

Individuals in multiple departments, whom do not have grant and accounting experience, are requested to provide a schedule of expenditures for the grants they manage. This information is then aggregated onto the SEFA with no reconciliation to the general ledger.

Effect:

This could result in a misstatement on the Schedule of Expenditures of Federal Awards.

Recommendation:

We recommend that the City assign the task of preparing the SEFA to an experienced individual with accounting experience related to grant awards and expenditures. The individual's duties would include reconciling the SEFA, the compliance reports submitted to the grant agencies and the City's general ledger to one another. As noted above, we recommend that the City setup special revenue funds to assist the City in the reconciliation process.

Views of Responsible Officials and Planned Corrective Actions:

See corrective action plan.

CITY OF CONROE, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CURRENT YEAR FINDINGS

2015-002 FEDERAL GRANT RECONCILIATION

Contact Person:

Kathleen Richey
Accounting Manager

Response:

Since prior year, the Senior Accountant within the City's accounting division was assigned the responsibility to be the City's grant accounting specialist. The Senior Accountant attended grant management training in August 2016.

In October 2016, the City established a different special revenue fund for each grant to facilitate tracking each grant's revenues and expenditures

The City plans to complete the integration of this position to facilitate the reconciliation process between the general ledger and the grant reimbursement reports, which may be used to prepare the City's schedule of expenditures of federal awards.

Estimated Date of Completion:

September 30, 2017