

SINGLE AUDIT REPORTS

**CITY OF
DEER PARK, TEXAS**

**For the Year Ended
September 30, 2013**

CITY OF DEER PARK, TEXAS

SINGLE AUDIT REPORTS

September 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
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 OMB CIRCULAR A-133, AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
<u>SCHEDULES</u>	
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	8
<i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i>	9
<i>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</i>	15
<i>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</i>	16



**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**

March 10, 2014

To the Honorable Mayor and
City Council Members of the
City of Deer Park, Texas:

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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Deer Park, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

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A significant deficiency is a deficiency, or 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. We consider the deficiencies 2013-1 through 2013-3 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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'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.

BELT HARRIS PECHACEK, LLLP

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Certified Public Accountants
Houston, Texas



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133, AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

March 10, 2014

To the Honorable Mayor and
City Council Members of the
City of Deer Park, Texas:

Report on Compliance for Each Major Federal Program

We have audited the City of Deer Park, Texas's (the "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 the City's major federal programs for the year ended September 30, 2013. 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 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 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 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 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.

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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, 2013.

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 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 the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated March 10, 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 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.

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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CITY OF DEER PARK, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2013

No prior findings.

CITY OF DEER PARK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Deer Park, Texas.
2. No material weaknesses in internal control were disclosed by the audit of the financial statements.
3. Significant deficiencies in internal control were disclosed by the audit of the financial statements.
4. No noncompliance material to the basic financial statements was disclosed during the audit.
5. No significant deficiencies in internal control over major federal award programs were disclosed by the audit.
6. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
7. No audit findings relative to the major federal award programs for the City are reported in Part C of this schedule.
8. The programs included as major programs are:

<u>Program Title</u>	<u>CFDA Number</u>
Hazard Mitigation Grant	97.039

9. The threshold for distinguishing Type A and B programs was \$300,000.
10. The City did not qualify as a low-risk auditee in the context of OMB Circular A-133.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

CURRENT YEAR MATTERS

Significant Deficiencies:

2013-1. CENTRALIZED GRANT ADMINISTRATION

Criteria

The City is responsible for administering and satisfying the compliance requirements associated with grants that have been awarded and accepted.

Condition

The City had not prepared a schedule of expenditures of federal awards. Department heads are responsible for the administration and reporting of any grants their department receives. Grant reports with financial information are not sent to the finance department for review.

CITY OF DEER PARK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2013

Effect

The lack of a centralized grant administrator and a grant policy could lead to noncompliance with grant requirements and inadequate reporting.

Cause

The City has not adopted a grant policy or established a centralized grant administration function.

Recommendation

The City should establish a policy for the tracking and recording of grants. The City should assign an individual as the grant administrator. All grant related activity should be reported to this individual. The grant administrator should track and maintain records of all grant related activity and correspondence with granting agencies. This individual should be alerted by department heads whenever a new grant is awarded. The grant administrator should be responsible for the preparation of the schedule of expenditures of federal awards.

Management's Response

The City has determined it is most reasonable to decentralize grant administration since the City does not have a large volume of grant activity. With this decentralized approach, each department is responsible for the application, administration and reporting of any grants appropriate for the particular department.

The City's Financial Management Policy addresses "Grants" summarized as follows: "The City shall seek, apply for, and effectively administer federal, state, and local grants, which support the City's current and future priorities and policy objectives." The policy indicates the City will prepare an annual report on the status of grant programs. Previously, the City's auditors prepared a schedule of expenditures of federal awards as part of their audit work.

Based on this recommendation, the City will assign the duties of grant coordination to one individual and this designated individual will serve as a grant coordinator to organize and report on all grant activity of the various departments of the City. This grant coordinator will work with all applicable departments to prepare and maintain a consolidated schedule of expenditures of federal awards. The City will update the Financial Management Policy to reflect this designation of a grant coordinator.

2013-2. MONITORING

Criteria

A system of internal controls is designed, implemented, and maintained to protect assets, ensure compliance with laws and regulation, and the preparation and presentation of financial information in accordance with applicable professional standards.

Condition

While the City has functioning internal controls over the three areas identified below, there are additional procedures that could be put in place to strengthen the existing controls.

CITY OF DEER PARK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2013

Capital Assets

- Capital asset listings are not sent to department heads to verify the existence of assets and whether the assets are impaired or obsolete. It was also noted that the City does not perform periodic inventories of capital assets.

Journal Entries

- The City does not have formal review procedures in place for the posting of journal entries above the supervisory level.

Reconciliation of Bank Balances

- Bank reconciliations are currently completed by one staff member and reviewed by a supervisor. The City does not have procedures established for the additional review of bank reconciliations by management. It was also noted that certain bank reconciliations are completed manually.

Effect

The lack of additional monitoring procedures to strengthen existing controls could increase the risk of errors and unauthorized activity going undetected.

Cause

Formal procedures have not been established to provide additional monitoring or review procedures over the areas noted above.

Recommendation

In order to strengthen existing controls it is recommended that the City implement the following:

Capital Assets

- The City should establish additional procedures to track the existence, condition, and retirement/disposal of capital assets. This could include a periodic inventory of capital assets to verify the asset is still in use and serviceable.

Journal Entries

- The City should establish additional procedures for the management level review of journal entries over a certain dollar threshold prior to their posting. Review of these entries should be documented and retained.

Reconciliation of Bank Balances

- The City should establish additional procedures for the management level review of bank reconciliations. It is also recommended that bank statements are either re-printed or viewed on-line in conjunction with the review process to verify there were no modifications to the bank statements and to check for unusual activity. To the extent possible, bank reconciliations should be system generated.

CITY OF DEER PARK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2013

Management's Response

Capital Assets

- Based on this recommendation, the City will update the Financial Management Policy to ensure there is better monitoring of all capital assets. The Finance Department will send capital asset listings to department heads for review near the conclusion of each fiscal year. The Finance Department will also conduct a periodic inventory of capital assets in each department.

Journal Entries

- As a matter of internal control, the Accounting Supervisor reviews and posts all journal entries prepared by the Accountant. Cash receipts from systems not directly interfaced with the General Ledger are manually keyed by the Payroll Coordinator based on the source documentation. The Payroll Coordinator also posts these entries. The Director of Finance prepares the financial reports and reviews account activity and balances as part of the financial analysis of these reports; however, this does not necessarily include a review of every journal entry or account.

Based on this recommendation, the City will establish a formal review process for journal entries over a certain dollar threshold, which will include a review by the Director of Finance of the journal entries prepared by the Accounting Supervisor.

Reconciliation of Bank Balances

- Based on this recommendation, the Director of Finance shall independently review bank statements during the management level review of the bank reconciliations. The City will also work with the financial software provider to determine whether the software can be tailored to allow for more efficient completion of bank reconciliations through the system.

2013-3. SEGREGATION OF DUTIES

Criteria

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

Condition

One individual is either responsible for or has the ability to complete all aspects of a given transaction.

Payroll

- One employee prepares and submits payroll registers, including direct deposit files, to the bank for processing.

Accounts Payable

- It was noted that one employee has the ability to post adjusting entries, print checks, and also reviews bank reconciliations.

CITY OF DEER PARK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2013

Effect

The lack of segregation of duties could lead to unauthorized changes in the financial system going undetected and make the City vulnerable to the misappropriation of assets.

Cause

The extent to which the City can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the City.

Recommendation

As with other cities of the same staff size, there are instances where additional controls could be put in place if more personnel were available and further segregation in duties could be achieved. There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered. The City should explore opportunities to mitigate its exposure to the inherent risks of limited segregation of duties through the segregating the authorization of payroll and limiting rights within the financial software.

Management's Response

Payroll

- The City's payroll registers are maintained in an electronic format rather than as a hard copy because personal and confidential information is included in the report. The Payroll Coordinator prepares a Tax Payment Worksheet and a Letter of Transfer Request, which is balanced to the Payroll Register and Deduction Register (and also used to balance to Form 941, which is the employer's quarterly Federal tax return sent to the IRS). The worksheet and transfer request, as well as the associated journal entry, are reviewed and signed by the Director of Finance and the City Manager. During the training period, the Payroll & Budgeting Supervisor reviews the payroll registers more closely, but that level of review is not continued beyond the training period.

Based on this recommendation, the Payroll & Budgeting Supervisor will review each payroll register prior to the submission of the direct deposit files to the bank. Further, the supervisor will follow-up with the Personnel Department at the beginning of each payroll week to ensure all status changes have been processed for the period and will verify that the status changes have been properly reflected in the payroll register.

Accounts Payable

- The City's Financial Management Policy addresses "Segregation of Duties" as follows: "The City shall strive to maintain appropriate segregation of duties in the conduct of City business in order to reduce the opportunities for any person to perpetrate and conceal errors or irregularities in the normal course of assigned duties." Because of the small staff in the Finance Department, most staff are trained and authorized to serve in a back-up capacity should the need arise. The City recognizes that there are inherent risks associated with the need to balance the small staff with the demands on the department. While an employee may be authorized to perform multiple functions, the regular duties of any employee do not require they perform all or conflicting activities simultaneously. Other internal controls, review processes and fiscal authority are in

CITY OF DEER PARK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2013

place to monitor financial activities. For example, the Director of Finance reviews and signs all A/P vouchers and check register transfers and receives alerts from the depository bank relative to any electronic disbursements, including book transfers.

Based on this recommendation, the City will continue to evaluate opportunities for greater segregation of duties but must work within the constraints of its staff size. If additional internal controls are identified to accommodate the limitations created by the small staff size, the City will consider and implement these measures. Additionally, the City can update the Financial Management Policy to clearly state its current practice which is that the person who completes the bank reconciliations does not handle cash or post related cash or adjusting entries.

C. FINDINGS – FEDERAL AWARDS

None

CITY OF DEER PARK, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2013

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
DEPARTMENT OF JUSTICE			
<i>Direct Award</i>			
Bulletproof Vest Partnership Program	16.607		\$ 1,488
TOTAL DEPARTMENT OF JUSTICE			<u>1,488</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through Texas General Land Office</i>			
Community Development Block Grant - Disaster Recovery	14.218	GLO10-5262-000-5267	118,017
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>118,017</u>
DEPARTMENT OF HOMELAND SECURITY			
<i>Pass-through Texas Division of Emergency Management</i>			
Hazard Mitigation Grant	97.039	DR-1791-079	2,270,090
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>2,270,090</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
<i>Pass-through Texas State Library & Archives Commission</i>			
Impact Grant Program	45.310	475-13014	9,550
TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES			<u>9,550</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 2,399,145</u>

CITY OF DEER PARK, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
For the Year Ended September 30, 2013

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Deer Park, Texas.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.