

CITY OF ANAHUAC, TEXAS

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

**CITY OF ANAHUAC, TEXAS
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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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**

To the City Council
Anahuac, Texas

We have audited, in accordance with U.S. generally accepted auditing standards 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 Anahuac, 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 31, 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow the City's 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. We consider the deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as item 2013-1 to be a material weakness.

Compliance and Other Matters

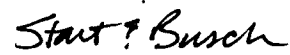
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The City'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.

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.



Start & Busch, LLC

Baytown, Texas
March 31, 2014

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

To the City Council
Anahuac, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Anahuac, Texas' (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 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 U.S. generally accepted auditing standards; 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.

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 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 the City's internal control over compliance.

Report on Internal Control Over Compliance (continued)

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

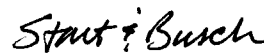
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-2 to be a material weakness.

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, 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 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 the 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 U.S. generally accepted auditing standards. 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 City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Start & Busch, LLC

Baytown, Texas
March 31, 2014

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

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted: yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

Major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

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

II. FINANCIAL STATEMENT FINDINGS

2013-1 - Year End Close

Condition and Criteria: Due to recent turnover in the City's administrative office, a change in personnel at its contracted bookkeeper, and a software conversion, standard fiscal year-end procedures were not performed in a timely manner to ensure accurate reporting of the City's financial statements.

Cause and Effect: Turnover in key positions, including a software conversion, required several adjustments to properly state year end financial statements.

Recommendation: City administrative personnel should better familiarize themselves with closing procedures (and new accounting software) and prepare the necessary adjustments throughout the fiscal year, particularly at year end. While the conversion to the new accounting software will improve the City's financial reporting process in the next reporting year, administrative personnel should perform analytical reviews on a periodic basis to mitigate the risk that a material misstatement to the financial statements could occur.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2013-2 - Community Development Block Grant, CFDA 14.228

Condition and Criteria: As noted in Finding 2013-1 above, the City's standard fiscal year procedures were not performed in a timely manner to ensure accurate reporting of the City's financial statements.

Cause and Effect: Grant construction expenses were recorded in the general ledger when paid. Under the modified accrual basis of accounting, expenses should be recorded in the accounting period in which the liability is incurred. The City's process of only recording the expenditure upon payment understates expenses and liabilities in the accounting period when incurred, as well as understating related grant revenues and receivables. As a result, the preliminary information used to prepare the Schedule of Expenditures of Federal Awards (SEFA) was not incorrect.

Questioned Costs: \$-0-

Recommendation: The City should review and record grant expenses (and related liabilities, receivables, and revenues) when incurred rather than when paid, which is consistent with the City's accounting policies.

IV. STATUS OF PRIOR YEAR FINDING

2011-2 - Debt Service Fund

Recommendation: The City assesses taxes to meet its interest & sinking fund obligations for both general obligation and combination bonds. Tax collections for general obligation debt were reported in the General Fund and then transferred to separate debt service accounts reported in the Utility Fund for payment of debt. The City should allocate its tax collections between maintenance & operations (General Fund) and interest & sinking (Debt Service Fund) to ensure funds are reported correctly and spent in accordance with any restrictions.

Current Status: In September 2013, the City began allocating its tax collections between maintenance & operations (General Fund) and interest & sinking (Debt Service Fund) to ensure funds are reported correctly and spent in accordance with any restrictions.

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

2012-1 - Year End Close

Recommendation: Due to turnover in the City's administrative office and new personnel's unfamiliarity with the City's close out procedures, standard fiscal year-end procedures were not performed in a timely manner. The administrative personnel should better familiarize themselves with the City's closing procedures and prepare the necessary adjustments throughout the fiscal year, particularly at year end. While there was improvement in the City's financial reporting process in the current year, the administrative personnel should enhance this process by performing analytical reviews on a periodic basis to mitigate the risk that a material misstatement to the financial statements could occur.

Current Status: In August/September 2013, the City converted to new accounting software in an effort to improve its reporting process. In addition, the City plans to contract with a CPA firm to help perform monthly close-out services, particularly at year end.

2012-2 - Excess Expenditures over Appropriations

Recommendation: Insufficient and untimely review resulted in general fund expenditures exceeding appropriations in two functional categories. The City should review all transactions during the year to ensure necessary budget amendments are approved before September 30.

Current Status: During fiscal year 2013, the City reviewed transactions and amended the budget appropriately during the year. Expenditures in the general fund did not exceed appropriations in fiscal year 2013. Budget amendments are now being prepared and presented to City Council for review and approval.

2012-3 - Public Funds Investment Act

Recommendation: The City should implement policies and procedures that will ensure it is in compliance with the Public Funds Investment Act. The City should revise, or at least review, its investment policy and strategies on an annual basis.

Current Status: During fiscal year 2013, the City's funds were maintained in depository bank accounts and the City did not have any funds in investment type securities defined by the Public Funds Investment Act or the City's current investment policy. City funds are covered by federal depository insurance coverage and pledged collateral to protect the City's funds. City Administrators are in the process of receiving public investment training.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2012-4 - Community Development Block Grant, CFDA 14.228

Recommendation: The City should review and record grant expenses (and related liabilities, receivables, and revenues) when incurred rather than paid.

Current Status: The City engages a municipal bookkeeping firm to perform monthly accounting services on behalf of the City. The City will continue to work with its bookkeeper and staff to improve its financial reporting responsibilities. The City recently converted its accounting software in August/September 2013 to help improve its financial reporting. The new accounting software allows the City to record obligations when incurred rather than paid. Community Development Block Grant project expenses were incurred and completed in fiscal year 2013; therefore, no grant expenses are anticipated in 2014.

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

V. CORRECTIVE ACTION PLAN

2013-1 - Year End Close

Recommendation: The City should better familiarize themselves with the City's closing procedures and prepare the necessary adjustments throughout the fiscal year, particularly at year end. In addition, the City should perform periodic analytical reviews to mitigate the risk that a material misstatement to the financial statements could occur.

Action Taken: The City currently engages a municipal bookkeeping firm to perform monthly accounting services on behalf of the City; however, the City plans to contract with a CPA firm to help perform monthly close-out services, particularly at year end.

Anticipated Completion Date: September-October 2014.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2013-2 - Community Development Block Grant, CFDA 14.228

Recommendation: The City should review and record grant expenses (and related liabilities, receivables, and revenues) when incurred rather than paid.

Action Taken: The City currently engages a municipal bookkeeping firm to perform monthly accounting services on behalf of the City; however, the City plans to contract with a CPA firm to help perform monthly close-out services, particularly at year end. Community Development Block Grant project expenses were incurred and completed in fiscal year 2013; therefore, no grant expenses are anticipated in 2014.

Anticipated Completion Date: September-October 2014 (see 2013-1 Corrective Action Plan noted above).

Please contact Cheryl Sanders, City Mayor, at 409-267-6681 with any questions regarding this corrective action plan.

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

(1) Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)			
Passed Through Texas Department of Agriculture			
Community Development Block Grant - Disaster Recovery Program	14.228	DRS010007	\$ 303,539
Community Development Block Grant Program (TxCDBG)	14.228	711009	260,686
Total passed through Texas Department of Agriculture			<u>564,225</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>564,225</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Texas Department of Public Safety			
Disaster Grants - FEMA Hurricane Reimbursements (Ike)	97.036	1791-DR	21,109
Total passed through Texas Department of Public Safety			<u>21,109</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>21,109</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 585,334</u>

CITY OF ANAHUAC, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2013

General

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs and awards of the City of Anahuac, Texas (the City). The 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*.

Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. 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 liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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. Generally, unused balances are returned to the grantor at the close of specified project periods.