

SINGLE AUDIT REPORTS

**CITY OF
MONTGOMERY, TEXAS**

For the Year Ended
September 30, 2017

CITY OF MONTGOMERY, TEXAS

SINGLE AUDIT REPORTS

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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**

July 17, 2018

To the Honorable Mayor and
City Council Members of the
City of Montgomery, 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 unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Texas (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 17, 2018.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. We

consider the deficiency 2017-001 described in the accompanying schedule of findings and questioned costs 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'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 compliance 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

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, AND
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

July 17, 2018

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

Report on Compliance for Each Major Federal Program

We have audited the City of Montgomery, Texas' (the "City") compliance with the types of compliance requirements described in the *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, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated July 17, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule

of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CITY OF MONTGOMERY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2017

No prior findings.

CITY OF MONTGOMERY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Montgomery, Texas.
2. A material weakness in internal control was not disclosed by the audit of the financial statements.
3. A significant deficiency in internal control was disclosed by the audit of the financial statements.
4. No instances of noncompliance material to the basic financial statements were 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.
8. The programs included as major programs are:

<u>Program Title</u>	<u>CFDA</u>
Texas Community Development Block Grant	14.228
9. The threshold for distinguishing Type A and B programs was \$750,000.
10. The City did not qualify as a low-risk auditee in the context of the Uniform Guidance.

B. FINDINGS – BASIC FINANCIAL STATEMENTS AUDIT

Significant Deficiency

2017-001. RECONCILIATION PROCESS FOR GRANT FUNDS

Criteria

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires that the schedule of expenditures of federal awards (SEFA) includes total federal awards expended for the period covered in the financial statements.

Condition

Several differences were noted between the expenditures reported on the SEFA for the CDBG grant fund and expenditures reported on the general ledger. In addition, federal revenue in the CDBG grant fund did not reconcile to the federal expenditures reported in that fund nor on the SEFA.

CITY OF MONTGOMERY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

Effect

Variances between the City's SEFA and grantor's records could result in significant additional time for management, grantor, and outside professionals to resolve differences.

Cause

The grant year end and fiscal year end are different; therefore, revenue/expenditures for multiple grant years fall into one accounting fiscal year requiring extra attention to reporting in accordance with the grantor's requirements.

Recommendation

The City should closely monitor the federal expenditures and revenue recorded by fund in the general ledger, as well as the amounts reported on the SEFA. A formal reconciliation between the general ledger and SEFA should be part of the annual closing process.

Management's Corrective Action Plan

Management concurs with the recommendation and plans to continue to improve its processes in reporting grant expenditures on the SEFA.

C. FINDINGS – FEDERAL AWARDS

None

CITY OF MONTGOMERY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2017

<u>Department/Pass-Through Agency/Program Name</u>	<u>Program/Grant/ Project Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Pass-through Texas Department of Public Safety</i>			
Bulletproof Vest Partnership Program	N/A	16.607	\$ 2,302
Total U.S. Department of Justice			<u>2,302</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through Texas Department of Agriculture</i>			
Texas Community Development Block Grant	7215102	14.228	678,942
Texas Community Development Block Grant	7215112	14.228	283,545
Total U.S. Department of Housing and Urban Development			<u>962,487</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Pass-Through Texas Department of Public Safety's Division of Emergency Management</i>			
Disaster Reimbursement	FEMA-4272-DR-TX	97.024	92,797
Total U.S. Department of Homeland Security			<u>92,797</u>
Total Federal Expenditures			<u>\$ 1,057,586</u>

CITY OF MONTGOMERY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2017

1. REPORTING ENTITY

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

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. INDIRECT COST RATE

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