

CITY OF GARLAND, TEXAS

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2014

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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 Honorable Mayor, Members of the City Council and City Manager
City of Garland, 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 Garland (the City), as of and for the year ended September 30, 2014, 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 17, 2015, which included an emphasis of matter paragraph on the implementation of a new accounting standard. Our report includes a reference to other auditors who audited the financial statements of the Garland Housing Finance Corporation ("GHFC"), as described in our report on the City's financial statements. The financial statements of the GHFC were not audited in accordance with *Government Auditing Standards*.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain

City of Garland, Texas

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deficiency in internal control, described in the Schedule of Findings and Questioned Costs that we consider to be a significant deficiency, listed as item 2014-01.

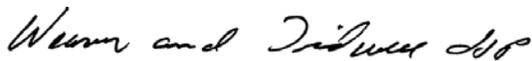
The City's written response to the significant deficiency identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 17, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB
CIRCULAR A-133**

The Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Garland (the City)'s 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, 2014. 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 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, 2014.

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.

Purpose of this Report

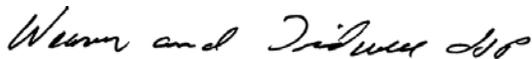
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

City of Garland, Texas

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Report on Schedule of Expenditures of Federal and State 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 unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 17, 2015, which contained unmodified opinions on those financial statements, which included an emphasis of matter paragraph on the implementation of a new accounting standard and included a reference to other auditors. 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 and state 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 and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 17, 2015

**CITY OF GARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

I. Summary of the Auditor's Results:

Financial Statements

- a. An unmodified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
 - Significant deficiency(ies) identified that are not considered a material weakness? _____ X Yes _____ None reported
- c. Noncompliance material to financial statements noted _____ Yes X No

Major Programs

- d. Internal control over major programs:
- Material weakness(es) identified? _____ Yes X No
 - Significant deficiency(ies) identified that are not considered a material weakness? _____ Yes X None reported
- e. An unmodified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular A-133. _____ Yes X No
- g. Identification of major programs:
- | | |
|--------|--------------------------------------|
| 14.218 | Community Development Block Grant |
| 14.239 | Home Investment Partnerships Program |
| 14.871 | Housing Choice Voucher Program |
- h. The dollar threshold used to distinguish between type A and type B programs. \$443,345
- i. Auditee qualified as a low-risk auditee. _____ Yes X No

**CITY OF GARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*

Finding 2014-01 Advance Funding Agreement
Significant deficiency in controls

Criteria— A thorough review of accounting and reporting implications detailed within significant contracts and funding agreements is crucial for reliable financial reporting.

Condition and Context — Advanced funding received in a previous fiscal year had been recognized as revenue, prior to eligible expenditures being incurred.

Effect —The prior year fund balance in the capital projects fund was overstated.

Cause —This error resulted from not having a detailed review of the accounting implications detailed within the advanced funding agreement.

Recommendation— Implement policies and procedures that require contracts or agreements with significant monetary amounts to be thoroughly reviewed for unusual provisions to ensure proper accounting recognition for transactions. The City could consider developing a checklist to be completed for significant contracts and agreements, which would ensure important factors regarding large or unusual transactions, such as the accounting recognition and disclosures, were considered and would also document such considerations.

Views of responsible officials— Procedures have been put in place to ensure contracts and funding agreements are reviewed and the accounting implications have been identified.

III. Findings and Questioned Costs for Federal Awards

None

**CITY OF GARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

IV. Summary of Prior Year Findings

Finding 2013-01 Capital Assets Accounting and Reporting
Significant deficiency in controls

Contact person: Jose Mendoza

Corrective action: Procedures are in place whereby the finance department thoroughly reviews all fixed asset data as it is forwarded from departments during the fiscal year. Controls are in place to ensure timely recognition of construction in progress expenditures and fixed asset completion. Construction in progress and capital asset completions are coordinated with budget and each department. Procedures are now in place to test capitalized interest calculations on construction in progress.

Status: Corrected.

Finding 2013-02 Control Environment
Significant deficiency in controls

Contact person: Jed Johnson, Clark Richardson, Priscilla Wilson

Corrective action: Internal Audit conducted a city-wide risk assessment in fiscal year 2014. The results of this assessment were discussed in the Audit Committee meeting on Sep 15, 2014. Though formal written employee performance reviews were not conducted for a period of two years, the City administration recognized that employees should receive ongoing feedback on their performance (whether formally or informally) to ensure they are performing their duties at a competent level. During 2014, formal written performance reviews were conducted. Administration is committed to retaining a performance evaluation process going forward.

Status: Corrected.

**CITY OF GARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Finding 2013-03 Financial Close and Reporting
Significant deficiency in controls

Contact person: Kathryn Ritchie

Corrective action: Review processes have been evaluated and appropriate changes have been implemented. Review and reconciliation procedures are now in place to improve reliability of financial information prior to the year-end close. Procedures are also in place to review financial transactions prior to recording to the general ledger. New GASB pronouncements will be reviewed with external auditors to ensure proper implementation. Staff is participating in additional training of new concepts and industry changes.

Status: Corrected.

Finding 2013-04 CFDA 16.738 & 16.804 Justice Assistance Grant Cluster
Reporting and period of availability – material weakness in controls and material noncompliance with grant requirements

Contact person: Nancy Guerra

Corrective action: Police department staff administering the JAG grants are aware of the expense liquidation deadlines and controls are in place to monitor the grant's disbursements closely. The City of Dallas monitored the program in the spring of 2014, with nothing to report.

Status: Corrected.

Finding 2013-05 CFDA 14.218 Community Development Block Grants/Entitlement Cluster
Allowable costs and costs principles – noncompliance and significant deficiency in controls

Contact person: Nancy Guerra

Corrective action: A fair market rent analysis was completed by the City and new rent contracts were executed in May 2014, based upon new market rent. Rent charged for the fiscal year 2014 was based on the new rent contract amount.

Status: Corrected

**CITY OF GARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Finding 2013-06 **CFDA 14.218 Community Development Block Grants/Entitlement Cluster**
Procurement – significant deficiency in controls

Contact person: Nancy Guerra

Corrective action: The finance and purchasing department staff have coordinated efforts and procedures are in place to monitor grant-funded expenses and purchase orders to ensure that suspension and debarment verifications are in all related vendor files.

Status: Corrected.

Finding 2013-07 **CFDA 97.044 Staffing for Adequate Fire and Emergency Response Assistance to Firefighters Grant**
Period of availability – material weakness in controls

Contact person: Nancy Guerra

Corrective action: The AFG grant is complete; however, the fire department staff is aware of the requirement to obtain in writing amending documentation to future grant periods of availability.

Status: Grant was completed.

Finding 2013-08 **CFDA 97.044 Staffing for Adequate Fire and Emergency Response Assistance to Firefighters Grant**
Reporting – significant deficiency in controls

Contact person: Nancy Guerra

Corrective action: The AFG and SAFER grants are complete; however, the fire department staff is aware of the requirement to keep report submittal date documentation (official or supplemental) on file for all future grants.

Status: Grant was completed.

**CITY OF GARLAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Federal Grantor/ Pass-Through Grantor/ Program Title	Grant I.D. Number	Federal CFDA Number	Expenditures
FEDERAL AWARDS			
<u>U. S. DEPARTMENT OF HOUSING AND</u>			
<u>URBAN DEVELOPMENT</u>			
Emergency Shelter Grant	S-13-MC-480011	14.231	\$ 64,797
Emergency Shelter Grant	S-14-MC-480011	14.231	107,365
Neighborhood Stabilization Program (HERA)	B-08-MN-480005	14.218	52,960
Community Development Block Grant Entitlement 35 - 2012	B-11-MC-480011	14.218	656
Community Development Block Grant Entitlement 36 - 2013	B-12-MC-480011	14.218	113,180
Community Development Block Grant Entitlement 37 - 2014	B-13-MC-480011	14.218	1,521,446
Community Development Block Grant Entitlement 38 - 2015	B-14-MC-480011	14.218	3,720
Centerville Marketplace Economic Development	CCPTX0066-11	14.704	41,888
Housing Choice Voucher Program	TX435VOxxxx	14.871	10,875,813
Disaster Housing Assistance Program	HSFEHQ-07-x-0249	97.109	35,604
HOME - Home Investment Partnership (incl. ADDI allocation)	M-12-MC-480225	14.239	234,036
HOME - Home Investment Partnership (incl. ADDI allocation)	M-13-MC-480225	14.239	652,544
Fair Housing Assistance Program - Capacity Building Program 2013	FF206K126007	14.401	50,634
Fair Housing Assistance Program - Capacity Building Program 2014	FF206K136007	14.401	143,792
Total Direct Funding U.S. Department of Housing and Urban Development			13,898,435
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through State Department of Public Safety			
Metropolitan Medical Response FY2012	EMW-2012-SS-00018-S01	97.067	16,862
Urban Areas Security Initiative 2012 (UASI)	EMW-2012-SS-00018-S01	97.008	(18,675)
Urban Areas Security Initiative 2013 (UASI)	EMW-2013-SS-00045	97.008	45,965
Urban Areas Security Initiative 2014 (UASI)	EMW-2014-SS-00029	97.008	83,498
State Homeland Security Program - (SHSP-LETPA)	EMW-2013-SS-00045	97.073	9,499
Total U.S. Department of Homeland Security			137,149
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Passed through the City of Dallas			
Justice Assistance Grant (J.A.G.) 2014	2012-DJ-BX-0199	16.738	21,231
Internet Crimes Against Children - Investigative Satellite 2012	NONE	16.543	1,806
Internet Crimes Against Children - Investigative Satellite 2013	NONE	16.543	7,180
Internet Crimes Against Children - Investigative Satellite 2014	NONE	16.543	3,239
Total U.S. Department of Justice			33,456

(Continued)

**CITY OF GARLAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Federal Grantor/ Pass-Through Grantor/ Program Title	Grant I.D. Number	Federal CFDA Number	Expenditures
<u>U. S. DEPARTMENT of AGRICULTURE</u>			
Passed through Texas Department of Agriculture Summer Nutrition Program	CE ID# 01511	10.559	232,850
Total U.S. Department of Agriculture			232,850
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through State Department of Transportation			
Comprehensive (ITC, OP, Speed, DWI) STEP Grant 2014	2014-Garland-P-S-MYG-xxxx	20.600	241,204
Impaired Driver Mobility Grant	2014-GarlanPD-IDM-0000x	20.600	26,565
Click It or Ticket (CIOT) STEP Grant 2013	2014-GarlanPD-CIOT-000xx	20.600	4,996
Total U.S. Department of Transportation			272,765
<u>CENTER FOR DISEASE CONTROL</u>			
Passed through Texas Department of State Health Services			
Immunization Grant 2014	2014-154922-001	93.268	186,017
Immunization Grant 2015	2015-000016-001	93.268	17,493
Total Institute of Museum and Library Services			203,510
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 14,778,165
STATE AWARDS			
<u>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</u>			
Immunization Grant 2014	2014-154922-001	State	\$ 295,546
Immunization Grant 2015	2015-000016-001	State	22,558
Total Texas Department of State Health Services			318,104
TOTAL EXPENDITURES OF STATE AWARDS			\$ 318,104
TOTAL FEDERAL AND STATE FINANCIAL ASSISTANCE EXPENDED			\$ 15,096,269

(Concluded)

**CITY OF GARLAND, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

1. GENERAL

The accompanying schedule of expenditures of federal and state awards presents the activity of all applicable federal and state awards of the City of Garland, Texas (the City). The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal and state awards received directly from federal and state agencies as well as federal and state awards passed through other government agencies are included in the respective schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal and state awards is presented using modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditures reports as of September 30, 2014, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

4. SUBRECIPIENTS

During the fiscal year ended September 30, 2014, three of the City's grant programs passed funds through to subrecipients. The City passed \$138,829 from the HOME Investment Partnership Program grant, CFDA #14.239; \$184,885 from the Community Development Block Grants/Entitlement Grants Cluster, CFDA #14.218; and \$156,508 from the Emergency Shelter Grant, CFDA #14.231, to each grant's corresponding subrecipients.