

**CITY OF GALVESTON, TEXAS**  
**FEDERAL SINGLE AUDIT REPORT**  
**For the Year Ended September 30, 2017**



**CITY OF GALVESTON, TEXAS**  
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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 Honorable Mayor and  
Members of City Council  
City of Galveston, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Galveston, 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 March 29, 2018. Our report includes a reference to other auditors who audited the financial statements of the Park Board of Trustees of the City of Galveston (the "Park Board") as described in our report on the City's financial statements. The financial statements of the Park Board 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.

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

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 were not identified. 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.

### **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 purposes.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
March 29, 2018

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

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

**Report on Compliance for Each Major Federal Program**

We have audited the City of Galveston, 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 auditor's 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.

**Auditor's Responsibility**

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

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

### **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 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 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 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.

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.

To the Honorable Mayor and  
Members of City Council  
City of Galveston, Texas

**Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance***

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 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 March 29, 2018, which contained unmodified opinions on those financial statements.

Our audit was performed 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 other 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 taken as a whole.

*Whitley Penn LLP*

Houston, Texas  
March 29, 2018

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

**I. - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued:	Unmodified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	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 2 CFR 200.516(a)?	None
Identification of Major Programs:	

<b><u>Name of Federal Program or Cluster</u></b>	<b><u>CFDA Number</u></b>
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<b>U.S. Department of Housing and Urban Development</b> Community Development Block Grant Block Grant	14.228
<b>U.S. Department of Housing and Urban Development</b> Community Development Block Grant State's Program and Entitlement Grant	14.218
<b>U.S. Department of Transportation</b> TIGER Discretionary Grant	20.933

Dollar threshold used to distinguish between type A and type B programs:

Auditee qualified as low-risk auditee? Yes

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

**II. - Financial Statement Findings**

There are no current year findings.

**III. - Federal Award Findings and Questioned Costs**

There are no current year findings.

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the year ended September 30, 2017*

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
<b>Direct</b>			
<b>CDBG - Entitlement Grants Cluster</b>			
<i>Community Development Block Grant</i>	14.218	B-07-MC-48-0016	\$ 125
<i>Community Development Block Grant</i>	14.218	B-10-MC-48-0016	9,732
<i>Community Development Block Grant</i>	14.218	B-11-MC-48-0016	5,981
<i>Community Development Block Grant</i>	14.218	B-12-MC-48-0016	69
<i>Community Development Block Grant</i>	14.218	B-14-MC-48-0016	21,664
<i>Community Development Block Grant</i>	14.218	B-15-MC-48-0016	(4,223)
<i>Community Development Block Grant</i>	14.218	B-16-MC-48-0016	543,184
<i>Community Development Block Grant</i>	14.218	B-17-MC-48-0016	157,672
<b>Total CDBG - Entitlement Grants Cluster</b>			<u>734,204</u>
<b>HOME Program</b>			
<i>HOME Program</i>	14.239	M-08-MC-48-0208	11,474
<i>HOME Program</i>	14.239	M-09-MC-48-0208	40,832
<i>HOME Program</i>	14.239	M-10-MC-48-0208	50,007
<i>HOME Program</i>	14.239	M-12-MC-48-0208	3,450
<i>HOME Program</i>	14.239	M-13-MC-48-0208	65,717
<i>HOME Program</i>	14.239	M-14-MC-48-0208	93,427
<i>HOME Program</i>	14.239	M-15-MC-48-0208	19,100
<i>HOME Program</i>	14.239	M-16-MC-48-0208	20,870
<i>HOME Program</i>	14.239	M-17-MC-48-0208	9,437
<b>Total HOME Program</b>			<u>314,314</u>
<b>Total Direct</b>			<u>1,048,518</u>
<b>Passed through Texas General Land Office</b>			
<i>Community Development Block Grant State's Program and Entitlement Grants</i>	14.228	DRS010051	(2,579,556)
<i>Community Development Block Grant State's Program and Entitlement Grants Round 2.1</i>	14.228	DRS210051	494,559
<i>Community Development Block Grant State's Program and Entitlement Grants Round 2.2</i>	14.228	DR 2.2	14,165,356
<b>Total passed through Texas General Land Office</b>			<u>12,080,359</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>13,128,877</u>

CITY OF GALVESTON, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended September 30, 2017

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>U.S. Department of Transportation</b>			
<b>Direct</b>			
<b>Federal Transit Cluster</b>			
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X780-00	\$ 1
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X813-00	57,031
<i>Federal Transit Formula Grant</i>	20.507	TX-04-0037-00	8,150
<i>Federal Transit Formula Grant</i>	20.507	TX-03-0303-00	811,926
<i>Federal Transit Formula Grant</i>	20.507	TX-04-0113-00	1,798,317
<i>Federal Transit Formula Grant</i>	20.507	TX-95-X067-00	964,039
<b>Total Federal Transit Cluster</b>			<u>3,639,464</u>
<b>Total Direct</b>			<u>3,639,464</u>
<b>Passed-through the Texas Department of Transportation (TXDOT)</b>			
<i>Formula Grants for Rural Areas</i>	20.509	51018041217	281,192
<i>Formula Grants for Rural Areas</i>	20.509	512XXF7056	500,000
<i>Formula Grants for Rural Areas</i>	20.509	51018031216	528,808
<i>Formula Grants for Rural Areas</i>	20.509	51018021217	3,611
<i>Total</i>			<u>1,313,611</u>
<b>Transit Services Programs Cluster</b>			
<i>Enhanced Mobility of Seniors and Individuals with Disabilities</i>	20.513	510616011217	20,000
<b>Total Transit Services Programs Cluster</b>			<u>20,000</u>
<i>TIGER Discretionary Grant</i>	20.933	51079011217	537,660
<i>Step Comprehensive Grant</i>	20.600	2017-Galvesto-S-1YG-0060	3,858
<i>Airport Improvement Program</i>	20.106	CSJ No1612GLVST	2,174
<i>Airport Improvement Program</i>	20.106	CSJ No421212GLVSN	18,108
<i>Airport Improvement Program</i>	20.106	CSJ No1712GLVST	163,730
<i>Total</i>			<u>184,012</u>
<b>Total passed through Texas Department of Transportation (TXDOT)</b>			<u>2,059,141</u>
<b>Total U.S. Department of Transportation</b>			<u>5,698,605</u>

CITY OF GALVESTON, TEXAS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the year ended September 30, 2017

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>U.S. Department of Justice</b>			
<b>Direct</b>			
<i>Bulletproof Vest Partnership Program</i>	16.607	2003BUBX03019785	\$ 37,125
<b>Total Direct</b>			<u>37,125</u>
<b>Passed through the Texas Office of the Governor -</b>			
<b>    Criminal Justice Division</b>			
<i>Upward Hope Academy Grant</i>	16.540	2016-JF-FX-0008	75,326
<b>Total Passed through the Texas Office of the Governor -</b>			<u>75,326</u>
<b>    Criminal Justice Division</b>			
			75,326
<b>Passed through Galveston County</b>			
<i>2016 Edward Byrne Memorial Justice Assistance Grant</i>	16.738	2016-H1810-TX-RJ	8,685
<b>Total passed through Galveston County</b>			<u>8,685</u>
<b>Total U.S. Department of Justice</b>			<u>121,136</u>
<b>U.S. Department of Homeland Security</b>			
<b>Passed through Harris County</b>			
<i>Disaster Grants - Public Assistance Hurricane Ike</i>	97.036	PA-06-TX-1791	8,435,016
<i>Hazard Mitigation Grant</i>	97.039	FEMA-1791-DR	2,310,630
<b>Total Harris County</b>			<u>10,745,646</u>
<b>Passed through Texas Department of Public Safety</b>			
<i>Homeland Security Grant Program - HSGP</i>	97.067	EMW-2015-SS-00080	22,371
<b>Total Texas Department of Public Safety</b>			<u>22,371</u>
<b>Total U.S. Department of Homeland Security</b>			<u>10,768,017</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 29,716,635</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year ended September 30, 2017*

**Note 1 - Summary of Significant Accounting Policies**

City of Galveston, Texas accounts for awards under federal programs primarily in the General and Special Revenue governmental funds.

In the Governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. The modified accrual basis of accounting is used for these funds. 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. Expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments or the Uniform Guidance (2 CFR 200), wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grants 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 unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the respective schedule. Negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the City of Galveston, Texas (the City). The City's reporting entity is defined in Note 1 to the City's basic financial statements. The information in this schedule 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* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, change in net position or cash flows of the City.

**Note 3 - Relationship to Federal Financial Reports**

Grant expenditure reports as of September 30, 2017, 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.

**Note 4 - Schedule of Findings and Questioned Costs**

The schedule of findings and questioned costs, including the summary of auditor's results for federal awards, is included beginning on page 6.

**CITY OF GALVESTON, TEXAS**  
**SUMMARY OF PRIOR YEAR AUDIT FINDINGS**  
*For The Year ended September 30, 2017*

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.” The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit’s schedule of findings and questioned costs and
- All audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected.

The Summary Schedule of Prior Audit Findings for the year ended September 30, 2017 has been prepared to address these requirements.

**I. Prior Year Audit Findings and Questioned Costs**

**Finding #2016-001: Utility Billing**

**Status** – Reconciliations between the utility billing system and City’s ledgers were performed in the current year.

**Finding #2016-002: Reconciliations**

**Status** – Accounts receivables in the various funds were updated and reconciled to the appropriate ledgers and information.

**Finding #2016-003: Capital Assets**

**Status** – The Finance department distributes a list of unprocessed assets to responsible accountants on a weekly basis. The responsible accountants process the assets in the Fixed Assets Module. Construction in Progress projects are placed in services at fiscal year-end once confirmation is received from the various departments.