

**CITY OF GALVESTON, TEXAS**  
**STATE SINGLE AUDIT REPORT**  
**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 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 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 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 charges 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 over financial reporting that might be material weaknesses or, significant deficiencies and therefore material weaknesses or significant deficiencies may exist that are 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. The 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.

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 STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE AWARDS REQUIRED BY THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS *TEXAS STATE SINGLE AUDIT CIRCULAR***

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

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

We have audited the City of Galveston, Texas' (the "City") compliance with the types of compliance requirements described in the State of Texas Uniform Grant Management Standards *Texas State Single Audit Circular (UGMS)* that could have a direct and material effect on the City's major state program for the year ended September 30, 2017. The City's major state program is 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 state statutes, regulations and the terms and conditions of its state awards applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City's major state program 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; and the provisions of the UGMS. Those standards and the UGMS 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 state 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 state 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 State Program**

In our opinion, the City complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each major state program 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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with UGMS, 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 state 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 reasonable possibility that material noncompliance with a type of compliance requirement of a 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 program that is less 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.

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 UGMS. 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 State Awards**

We have audited 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 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 issued our report thereon dated March 29, 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 State Awards is presented for purposes of additional analysis as required by the UGMS and is not a required part of the 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 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 financial statements or to the 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 State Awards is fairly stated in all material respects in relation to the basic financial statements 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
Noncompliance material to financial statements noted?	No

*State Awards*

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 UGMS 510(a)?	None

Identification of Major Programs:

<u>Name of State Program or Cluster</u>	<u>Grant Number</u>
<b>Texas Department of Transportation</b>	
Public Transportation – State Funds	51218011217
Public Transportation – State Funds	51218011218
<b>Texas Parks and Wildlife Department</b>	
Galveston Community Swim Center (Lasker)	55-000470

Dollar threshold used to distinguish between type A and type B State programs:	\$300,000
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. - State Award Findings and Questioned Costs**

There are no current year findings.

**IV. Prior Year 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.

**V. Views of Responsible Officials and Planned Corrective Action**

Not applicable

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

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>Texas Department of Transportation</b>		
<b>Direct</b>		
<i>Public Transportaion - State Funds</i>	51218011217	\$ 690,461
<i>Public Transportaion - State Funds</i>	51218011218	225,917
<i>Routine Airport Maintenance Program</i>	M1712GLVS1	50,000
<b>Total Direct</b>		<u>966,378</u>
<b>Total Texas Department of Transportation</b>		<u>966,378</u>
<b>Texas Department of Public Safety</b>		
<b>Direct</b>		
<i>Texas Department of Public Safety</i>	16TX-EMPG-0339	35,787
<b>Total Texas Department of Public Safety</b>		<u>35,787</u>
<b>Criminal Justice Division</b>		
<b>Passed through Texas Office of the Governor</b>		
<i>Body Worn Camera Program</i>	3055401 BWC	88,736
<b>Total Criminal Justice Division</b>		<u>88,736</u>
<b>Texas Parks and Wildlife Department</b>		
<b>Direct</b>		
<i>Galveston Community Swim Center (Lasker)</i>	55-000470	400,000
<b>Total Texas Parks and Wildlife Department</b>		<u>400,000</u>
<b>Total Expenditures of State Awards</b>		<u>\$ 1,490,901</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS**

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

City of Galveston, Texas accounts for awards under state 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) the cost principles contained in UGMS, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

State 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.

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of state awards (the "Schedule") includes the state grant activity of the City under programs of the state government for the year ended September 30, 2017. The information in this schedule is presented in accordance with the requirements of UGMS. 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, changes in net position or cash flows of the City.