



Single Audit Report -State
September 30, 2016

CITY OF GALVESTON, TEXAS

STATE SINGLE AUDIT REPORT

Year Ended September 30, 2016

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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 <i>Uniform Guidance</i> and the State of Texas Single Audit Circular	3
Schedule of Findings and Questioned Costs	6
Schedule of Expenditures of State Awards	10
Notes to Schedule of Expenditures of State Awards	11

**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, 2016, 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 22, 2017. 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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies: 2016-001, 2016-002 and 2016-003.

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 Findings

The City's response to the 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 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 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 22, 2017

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 *UNIFORM GUIDANCE* AND THE STATE OF TEXAS 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 *OMB Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on the City's major state program for the year ended September 30, 2016. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the provisions of the *State of Texas Single Audit Circular*. Those standards, the Uniform Guidance, and State of Texas Single Audit Circular 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 the major state program for the year ended September 30, 2016.

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 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 the Uniform Guidance and State of Texas Single Audit Circular, 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 Uniform Guidance and State of Texas Single Audit Circular. 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 required by the *Uniform Guidance* and the State of Texas Single Audit Circular

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 22, 2017, 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 Uniform Guidance and the State of Texas Single Audit Circular 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.

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

Houston Texas
March 22, 2017

CITY OF GALVESTON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

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?	Yes: Finding #2016-001 and #2016-002 and #2016-003
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 2 CFR 200.516(a)?	None

Identification of Major Programs:

<u>Name of State Program or Cluster</u>	<u>Grant Number</u>
Texas Department of Transportation	
Public Transportation – State Funds	51512F7021
Public Transportation – State Funds	51512F7516

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 (continued)
For the Year Ended September 30, 2016

II. - Financial Statement Findings

Finding #2016-001: Utility Billing

Criteria: Management is responsible for designing and implementing a system of internal controls that ensures the fair presentation of financial statements in accordance with generally accepted accounting principles. Utility billing accounts receivable and deposits due to customers are significant and material accounts to the City's enterprise funds and should be reconciled to subsidiary ledgers to ensure accurate presentation in the financial statements.

Condition: During our audit, we noted that support from the Utility billing system for accounts receivable and customer deposits did not agree or reconcile to the City's ledgers.

Cause: The City changed Utility billing systems in FY2013; in the years since there has also been significant turnover in personnel in the finance department. It does not appear that the process to reconcile fully between the two systems has been performed to ensure that the change in systems and the integration of data from the Utility system to the financial software is accurate.

Effect: The finance staff were able to reconcile the current year revenues from Utility billing to the current year revenues reported in the financial software. However, accounts receivable balances and customer deposit balances do not agree, and cannot be reconciled, between the two systems. Accounts receivable (assets) are higher in the financial ledger; customer deposits (liabilities) are also higher in the financial ledger, which lowers the net effect on the financial statements. Due to the fact that revenues are able to be reconciled currently, the variance in accounts receivable and customer deposits would seem to date back to previous years and the transition between Utility billing systems. The correcting entries for reconciliation would lead to a net effect in net position rather than revenues.

Recommendation: We recommend that the City staff work with IT and Utility billing to understand the process that occurred during transition to be able to reconcile the subsidiary ledgers per Utility billing and the financial system, and to make the appropriate adjustments to ensure the amounts are accurately reported in the financial system.

CITY OF GALVESTON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2016

II. - Financial Statement Findings (continued)

Finding #2016-002: Reconciliations

Criteria: Management is responsible for designing and implementing a system of internal control that ensures the fair presentation of financial statements in accordance with generally accepted accounting principles. Accounts receivable throughout the City's financials are a significant asset and identifies future cash flows for the City.

Condition: During our audit we noted various receivable accounts that were inaccurate and had not been reconciled or reviewed for possible previous collections or the need for an allowance of uncollectible accounts.

Cause: In the last few years, the City has had significant turnover in the finance and other departments. This has led to some difficulties in being able to perform the day to day functions and monthly reconciliations or following up on items requiring more attention.

Effect: Accounts receivable were found to be misstated at year-end when the auditors requested support for various accounts. City staff were able to research and provide information and adjustments for accounts.

Recommendation: We recommend that the City assign funds to various accountants and perform monthly reconciliations to ensure receivables and other balances are accurately reflected in the financial statements.

Finding #2016-003: Capital Asset Reporting

Criteria: Governmental Accounting Standards Board No. 34: Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments, requires the reporting of capital assets. A system should be in place for the City to properly track these assets and monitor projects to be placed into service when complete.

Condition: During the audit, work was ongoing by the City finance department to record these assets, accurately record projects placed into service, and accurately report in the correct funds. Adjusting entries to prior period were required to reflect assets in the correct funds and the process was completed well into the reporting period.

Cause: Late implementation of the capital asset module in conjunction with staff turnover made it difficult for the City to implement the capital asset module in a timely manner and to provide the auditors with detail and support in a timely manner.

Effect: Capital assets reporting was prepared in an untimely manner for audit and reporting purposes. Completed projects were still being reviewed and placed into service during the audit period.

Recommendation: We recommend that the City continue to work on the capital asset module and ensure the closing of projects is completed within a reasonable amount of time after year-end. Financial close and reporting should be completed in a timely fashion.

CITY OF GALVESTON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2016

III. - State Award Findings and Questioned Costs

The audit disclosed no findings to be reported.

IV. - Status of Prior-Year Findings and Questioned Costs

Finding #2015-001: Fixed Asset Reporting

Status – See finding #2016-003

V. - Views of Responsible Officials and Planned Corrective Action

Finding #2016-001: Utility Billing

Response: The finance department will be working with IT and the Utility billing department to review data from the inception of the CUSI (utility billing) software to determine if the accounts receivable balances and customer deposits were properly loaded to CUSI. They will also review the interface between CUSI and Banner (financial software) to ensure that accounts are properly mapped for the interface.

Contact Person: Tammy Jacobs, Assistant Finance Director, 409-797-3567

Estimated Completion Date: Fiscal year-end 2017

Finding #2016-002: Reconciliations

Response: Funds will be assigned to the appropriate staff. Monthly fund account reconciliations will be performed for accounts receivable, payables and other significant account balances and reviewed by either the accounting manager or the Assistant Finance Director. Past due balances will be reviewed for collectability and adjusted as appropriate.

Contact Person: Tammy Jacobs, Assistant Finance Director, 409-797-3567

Estimated Completion Date: April 2017

Finding #2016-003: Capital Assets

Response: The City implemented the capital asset module for the fiscal year ended September 30, 2016. They will continue to review the process and monitor the status of ongoing projects for completion with the help of the various departments responsible for the projects. The financial close process will begin promptly after the end of the fiscal year in time to ensure timely completion for the audit and reporting.

Contact Person: Tammy Jacobs, Assistant Finance Director, 409-797-3567

Estimated Completion Date: Fiscal year-end 2017

CITY OF GALVESTON, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended September 30, 2016

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
Texas Department of Transportation		
Direct		
<i>Public Transportaion - State Funds</i>	512XXF7163	\$ 571,324
<i>Public Transportaion - State Funds</i>	51218011217	94,224
<i>Routine Airport Maintenance Program</i>	M1612GLVS	43,231
Total Direct		<u>708,779</u>
Total Texas Department of Transportation		<u>708,779</u>
Texas Department of Public Safety		
Direct		
<i>Texas Department of Public Safety</i>	16TX-EMPG-0339	38,896
Total Texas Department of Public Safety		<u>38,896</u>
Texas Historical Commission		
Direct		
<i>Certified Local Government Grant</i>	TX-15-024	10,999
Total Texas Historical Commission		<u>10,999</u>
Texas Commission on Environmental Quality		
Direct		
<i>H-GAC Solid Waste - Recycling Services Grant</i>	15-16-G03	14,256
Total Texas Commission on Environmental Quality		<u>14,256</u>
Total Expenditures of State Awards		<u>\$ 772,930</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 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.

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. 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 state awards (the “Schedule”) includes the state grant activity of the City under programs of the state government for the year ended September 30, 2016. 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) and the provisions of the *State of Texas Single Audit Circular*. 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.