



Single Audit Report  
September 30, 2015



**CITY OF GALVESTON, TEXAS**  
**FEDERAL SINGLE AUDIT REPORT**  
**For the Year Ended September 30, 2015**

**CITY OF GALVESTON, TEXAS**  
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**REPORT OF INDEPENDENT AUDITORS 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, 2015, 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 25, 2016.

**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, and therefore material weaknesses or significant deficiencies may exist that were 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: 2015-001.

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

### **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 cost. The City's response was not subjected to 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. 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.

*Whitley Penn LLP*

Houston, Texas  
March 25, 2016

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

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

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

We have audited City of Galveston, Texas' (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2015. 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.

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, 2015.

### **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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

### **Schedule of Expenditures of Federal Awards**

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, 2015, 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 25, 2016, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming our 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 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 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 25, 2016

**CITY OF GALVESTON, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year Ended September 30, 2015**

**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 #2015-001
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 .510(a) of OMB Circular A-133?	None
Identification of Major Programs:	

<u><b>Name of Federal Program or Cluster</b></u>	<u><b>CFDA Number</b></u>
<b>U.S. Department of Housing and Urban Development</b>	
Community Development Block Grant	14.218
Community Development Block Grant Block Grant	14.228
<b>U.S. Department of Transportation Cluster</b>	
Federal Transit Formula Grant	20.507
Bus and Bus Facilities Formula Program	20.526
<b>U.S. Department of Homeland Security</b>	
Disaster Grants – Public Assistance Hurricane Ike	97.036
Dollar threshold used to distinguish between type A and type B programs:	\$1,160,003
Auditee qualified as low-risk auditee?	Yes

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended September 30, 2015*

**II. - Financial Statement Findings**

**Finding #2015-001: Fixed 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.

**Condition:** During our audit of the construction in progress amounts, it was discovered that certain projects that were substantially complete as of the of the end of the fiscal year under audit were left in construction in progress and not properly moved to capital asset category subject to depreciation.

**Cause:** Communication breakdown between the public works departments and the finance department as to the status of ongoing projects.

**Effect:** Without this communication, projects that were substantially complete were left in construction in progress and not properly depreciated.

**Recommendation:** We recommend the City set up routine status update reporting between the public works and the finance department to help keep track of the status of ongoing projects.

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

The audit disclosed no findings to be reported.

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

**Finding 14-01 – Capital Asset Reconciliation**

**Status** – The City has begun the phase of converting the fixed asset spreadsheets into a fixed asset module.

**Finding 14-02 – Schedule of Expenditures of Federal Awards**

**Status** – The City properly reported the Schedule of Expenditures of Federal awards during the current fiscal year under audit.

**CITY OF GALVESTON, TEXAS**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***  
***For The Year Ended September 30, 2015***

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

**Finding #15-01: Fixed Asset Reporting**

**Response**

In order to increase system control for accuracy, the City is implementing the control to cure this finding in Fiscal Year 2016 and going forward. The first quarterly project status report will be distributed with the 2016 2<sup>nd</sup> Quarter Budget report in April 2016. As required by the Fiscal Year 2016 Budget ordinance, quarterly reports will be provided on all capital projects underway during the year specifically pointing toward milestones including, but not limited to, placement into service. This important piece of information is critical to city operations and not just completion of the fixed assets portion of the Comprehensive Annual Financial Report.

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

**Estimated Completion Date:** April 2016

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2015

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>Expenditures of Federal Awards</b>			
<b>U.S. Department of Housing and Urban Development</b>			
<b>Direct</b>			
<i>Community Development Block Grant</i>	14.218	B-08-MC-48-0016	\$ 2,086
<i>Community Development Block Grant</i>	14.218	B-10-MC-48-0016	5,941
<i>Community Development Block Grant</i>	14.218	B-11-MC-48-0016	(42,636)
<i>Community Development Block Grant</i>	14.218	B-12-MC-48-0016	8,010
<i>Community Development Block Grant</i>	14.218	B-13-MC-48-0016	420,713
<i>Community Development Block Grant</i>	14.218	B-14-MC-48-0016	696,063
<i>Community Development Block Grant</i>	14.218	B-15-MC-48-0016	198,562
<i>Total</i>			<u>1,288,739</u>
<i>Neighborhood Stabilization Program (Recovery Act Funded)</i>	14.256	B-09-MS-48-0016	(50)
<i>HOME Program</i>	14.239	M-03-MC-48-0208	(125)
<i>HOME Program</i>	14.239	M-04-MC-48-0208	2,250
<i>HOME Program</i>	14.239	M-07-MC-48-0208	9,300
<i>HOME Program</i>	14.239	M-08-MC-48-0208	17,657
<i>HOME Program</i>	14.239	M-09-MC-48-0208	38,650
<i>HOME Program</i>	14.239	M-10-MC-48-0208	24,698
<i>HOME Program</i>	14.239	M-11-MC-48-0208	(900)
<i>HOME Program</i>	14.239	M-12-MC-48-0208	13,197
<i>HOME Program</i>	14.239	M-13-MC-48-0208	293,117
<i>HOME Program</i>	14.239	M-14-MC-48-0208	173,924
<i>HOME Program</i>	14.239	M-15-MC-48-0208	3,320
<i>Total</i>			<u>575,088</u>
<b>Total Direct</b>			<u>1,863,777</u>
<b>Passed through Texas Department of Housing and Community Affairs</b>			
<i>Community Development Block Grant State's Program and Non-Entitlement Grants</i>	14.228	70090008	163,112
<b>Total passed through Texas Department of Housing and Community Affairs</b>			163,112
<b>Passed through Texas General Land Office</b>			
<i>Community Development Block Grant State's Program and Entitlement Grants</i>	14.228	DRS010051	16,056,059
<i>Community Development Block Grant State's Program and Entitlement Grants Round 2.1</i>	14.228	DRS210051	7,140,432
<b>Total passed through Texas General Land Office</b>			<u>23,196,491</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>\$ 25,223,380</u>

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the year ended September 30, 2015*

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>			
<i>Federal Transit Formula Grant</i>	20.507	TX-03-0217	\$ 18,914
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X780-00	50,659
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X813-00	306,328
<i>Federal Transit Formula Grant</i>	20.507	TX-04-0037-00	294,101
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X873	11,022
<i>Federal Transit Formula Grant</i>	20.507	TX-12-X001	85,896
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X940-00	39,847
<i>Federal Transit Formula Grant</i>	20.507	TX-95-X032-00	2,972,228
<i>Federal Transit Formula Grant</i>	20.507	TX-58-0006	112,000
<i>Federal Transit Formula Grant</i>	20.507	TX-39-0007-00	1,000
<i>Federal Transit Formula Grant</i>	20.507	TX-90-X990-00	115,648
<i>Federal Transit Formula Grant</i>	20.507	TX-04-0113-00	396,794
<i>Federal Transit Formula Grant</i>	20.507	TX-95-X067-00	117,108
<i>Total</i>			<u>4,521,545</u>
<b>Total Direct</b>			4,521,545
<b>Passed-through the Texas Department of Transportation (TXDOT)</b>			
<b>- Airport Grants:</b>			
<i>Formula Grants for Rural Areas</i>	20.509	51412F7185	487,468
<i>Formula Grants for Rural Areas</i>	20.509	51412F7210	192,358
<i>Formula Grants for Rural Areas</i>	20.509	51212F7163	475,181
<i>Total</i>			<u>1,155,007</u>
<i>Enhanced Mobility of Seniors and Individuals with Disabilities</i>	20.513*	51412F146	326,030
<i>Enhanced Mobility of Seniors and Individuals with Disabilities</i>	20.513*	51412F7056	8,003
<i>Total</i>			<u>334,033</u>
<i>Job Access Reverse Commute</i>	20.516*	51312F7216	313,209
<i>New Freedom Program</i>	20.521*	51312F7168	140,434
<i>Bus and Bus Facilities Formula Program</i>	20.526	51412F7233	65,231
<i>Airport Improvement Program</i>	20.106	CSJ No1212GLVSN	634,771
<i>Airport Improvement Program</i>	20.106	CSJ No 1212GVSTN	109,965
<i>Total</i>			<u>744,736</u>
<b>Total passed through Texas Department of Transportation (TXDOT)</b>			<u>2,752,650</u>
<b>Total U.S. Department of Transportation</b>			<u>\$ 7,274,195</u>

CITY OF GALVESTON, TEXAS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the year ended September 30, 2015

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>ARRA - Public Safety Partnership and Community Policing (COPS) Grant</i>	16.710	2009RKWX0822	\$ 315,597
<b>Total Direct</b>			<u>315,597</u>
<b>Passed through Galveston County</b>			
<i>2012 JAG Grant</i>	16.738	N/A	48,706
<b>Total passed through Galveston County</b>			<u>48,706</u>
<b>Total U.S. Department of Justice</b>			<u>364,303</u>
<b>U.S. Department of Homeland Security</b>			
<b>Direct</b>			
<i>Disaster Grants - Public Assistance Hurricane Ike</i>	97.036	PA-06-TX-1791	5,746,400
<b>Total Direct</b>			<u>5,746,400</u>
<b>Passed through Texas Department of Public Safety</b>			
<i>Hazard Mitigation Grant</i>	97.039	FEMA-1791-DR	58,496
<b>Total Texas Department of Public Safety</b>			<u>58,496</u>
<b>Total U.S. Department of Homeland Security</b>			<u>5,804,896</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 38,666,774</u>

\* Clusters

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

**Note 1 – 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 the office of management and budget (OMB) Circular A-133, Audits of States and local Governments, and Non-profit organizations. 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 2 – Basis of Accounting**

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

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

Grant expenditure reports as of September 30, 2015, 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.