

SINGLE AUDIT REPORTS

**CITY OF
LA MARQUE, TEXAS**

For the Year Ended
September 30, 2015

CITY OF LA MARQUE, TEXAS

SINGLE AUDIT REPORTS

September 30, 2015

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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

May 12, 2016

To the Honorable Mayor and
City Council Members of the
City of La Marque, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of La Marque, 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 May 12, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency 2012.007 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or 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. We consider the deficiency 2015.001 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015.001.

City's Response to Findings

The City's response to the findings 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



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

May 12, 2016

To the Honorable Mayor and
City Council Members of the
City of La Marque, Texas:

Report on Compliance for Each Major Federal Program

We have audited the City of La Marque, Texas' (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with *OMB Circular A-133* and which are described in the accompany schedule of findings and questioned costs as item 2015.001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance 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.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015.001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements. We issued our report thereon dated May 12, 2016, 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 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CITY OF LA MARQUE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2015

No prior findings.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of La Marque, Texas.
2. A material weakness in internal control was disclosed by the audit of the financial statements.
3. A significant deficiency in internal control was disclosed by the audit of the financial statements.
4. No noncompliance material to the basic financial statements was disclosed during the audit.
5. A significant deficiency in internal control over major federal award programs was disclosed by the audit.
6. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
7. An audit finding relative to the major federal award programs for the City is reported in Part C of this schedule.
8. The programs included as major programs are:

Program Title	CFDA
CDBG – State Administered CDBG Cluster	14.255
Section 8 Housing Choice Vouchers	14.871

9. The threshold for distinguishing Type A and B programs was \$300,000.
10. The City did not qualify as a low-risk auditee in the context of OMB Circular A-133.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

CURRENT YEAR MATTERS

Significant Deficiencies

2015.001. RENT REASONABLENESS (SECTION 8)

Criteria

The City's Section 8 administrative plan must state the method used by the City to determine that the rent to the owner is reasonable in comparison to rent for other comparable unassisted units. The City must determine that the rent to the owner is reasonable at the time of initial leasing. Also, the City must determine reasonable rent during the term of the contract (a) before any increase in the rent to the owner, and (b) at the Housing Assistance Payment (HAP) contract anniversary, if there is a five percent decrease in the published fair market rent in effect 60 days before the HAP contract anniversary. The City must maintain records to document the basis for the determination that rent to the owner is a reasonable rent (initially and during the term of the HAP contract).

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2015

Condition

It does not appear the City is performing the required rent reasonableness procedures for increases in rent. Eight of the 25 files tested did not have rent reasonableness documentation as required for increases in rent.

Effect

The City is not in compliance with the rent reasonableness requirements and could potentially be making unreasonably high rental payments.

Cause

The City did not perform calculations of rent reasonableness for all increases in rent. In addition, the City did not have a system in place to ensure these calculations were being performed each time there was an increase in rent.

Recommendation

The City should develop a system to ensure that rent reasonableness procedures are performed and documented for all rent increases. The City should review all participant files to ensure that there is current rent reasonableness documentation on file. If a current document is not on file, the City should perform the rent reasonableness procedures.

Management's Response and Corrective Action Plan

Per Council approved Resolution R-2016-009, the City has assigned Section 8 administrative duties to Texas City Housing Authority effective May 19, 2016.

MATTERS PREVIOUSLY REPORTED

Material Weaknesses

2012.007. MONTH END PROCEDURES

Criteria

The City should ensure that there are formal procedures in place to reconcile balance sheet accounts to subsidiary ledgers.

Condition

It appeared the City lacked a formal process for closing the books at the end of each month. As a result, a large number of adjusting journal entries were required to accurately state account balances. In addition, multiple transaction types were not consistently being recorded in the same accounts used in prior years.

Effect

The lack of consistent monthly procedures could lead to misstated account balances resulting in over/understated assets, liabilities, revenues, and expenditures.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2015

Cause

Due to the high turnover in the finance department, the City has not established formal procedures to reconcile balance sheet accounts to detailed subsidiary ledgers.

Recommendation

The City should establish procedures in which management reviews and reconciles all detailed ledgers to the general ledger accounts on a monthly basis.

Management's Response and Corrective Action Plan

The City has already begun applying some procedures to reconcile some critical accounts to ensure proper recordings in general ledger. The City will continue this process until they capture all balance sheet accounts.

C. FINDINGS – FEDERAL AWARDS

2015.001. RENT REASONABLENESS (SECTION 8)

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SECTION 8 HOUSING CHOICE VOUCHERS
CFDA No. 14.871, Award No. TX530**

Criteria

The City's Section 8 administrative plan must state the method used by the City to determine that the rent to the owner is reasonable in comparison to rent for other comparable unassisted units. The City must determine that the rent to the owner is reasonable at the time of initial leasing. Also, the City must determine reasonable rent during the term of the contract (a) before any increase in the rent to the owner, and (b) at the Housing Assistance Payment (HAP) contract anniversary, if there is a five percent decrease in the published fair market rent in effect 60 days before the HAP contract anniversary. The City must maintain records to document the basis for the determination that rent to the owner is a reasonable rent (initially and during the term of the HAP contract).

Condition

It does not appear the City is performing the required rent reasonableness procedures for increases in rent. Eight of the 25 files tested did not have rent reasonableness documentation as required for increases in rent.

Effect

The City is not in compliance with the rent reasonableness requirements and could potentially be making unreasonably high rental payments.

Cause

The City did not perform calculations of rent reasonableness for all increases in rent. In addition, the City did not have a system in place to ensure these calculations were being performed each time there was an increase in rent.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended September 30, 2015

Recommendation

The City should develop a system to ensure that rent reasonableness procedures are performed and documented for all rent increases. The City should review all participant files to ensure that there is current rent reasonableness documentation on file. If a current document is not on file, the City should perform the rent reasonableness procedures.

Management's Response and Corrective Action Plan

Per Council approved Resolution R-2016-009, the City has assigned Section 8 administrative duties to Texas City Housing Authority effective May 19, 2016.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through Texas General Land Office</i>			
Community Development Block Grant - State's Program - Disaster Recovery	14.255	GLO-13-167-000-7268	\$ 1,848,905
<i>Direct Award</i>			
Section 8 Housing Choice Vouchers	14.871	TX530	<u>472,263</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>2,321,168</u>
TOTAL FEDERAL AWARDS EXPENDED			<u><u>\$ 2,321,168</u></u>

CITY OF LA MARQUE, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
For the Year Ended September 30, 2015

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of La Marque, Texas.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.