

*SINGLE AUDIT REPORTS*

**CITY OF  
LA MARQUE, TEXAS**

For the Year Ended  
September 30, 2014

# CITY OF LA MARQUE, TEXAS

## *SINGLE AUDIT REPORTS*

September 30, 2014

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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 21, 2015

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, 2014, 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 21, 2015.

**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 a material weakness 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 deficiencies 2014.001 and 2014.002 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

**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*.

**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 21, 2015

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, 2014. 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, 2014.

## **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. 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.

## **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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 21, 2015, 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, 2014

**No prior findings.**



**CITY OF LA MARQUE, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2014

**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. Significant deficiencies in internal control were disclosed by the audit of the financial statements.
4. No noncompliance material to the basic financial statements was disclosed during the audit.
5. No significant deficiencies in internal control over major federal award programs were disclosed by the audit.
6. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
7. No audit findings relative to the major federal award programs for the City are reported in Part C of this schedule.
8. The programs included as major programs are:

<b>Program Title</b>	<b>CFDA</b>
CDBG – State Administered CDBG Cluster	14.228, 14.255

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***

**2014.001. BANK RECONCILIATIONS**

**Criteria**

One of the key components of any internal control structure is timeliness. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines timeliness of information as “to be suitable, information must be produced and used in a time frame that makes it possible to prevent control deficiencies or detect and correct them before they become material to the organization.”

**Condition**

It was noted during the audit that the City was several months behind on their bank reconciliations.

**CITY OF LA MARQUE, TEXAS**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***  
**For the Year Ended September 30, 2014**

**Effect**

Lack of timely and consistent reconciliation of all cash accounts could increase the risk of errors, misstatements, and the misappropriation of assets. As a result, these occurrences may go undetected.

**Cause**

The credit card processing company that the City used was bought out by another company. The reports that the City started receiving did not provide the details needed in order to complete the reconciliations. The City had to work with the credit card processing company in order to obtain reports with the information needed to complete the reconciliations. The finance department also experienced high turnover during the fiscal year which caused various delays.

**Recommendation**

The City should ensure that bank reconciliations are completed within a timely manner. It is recommended that bank reconciliations are completed within 30 days of month end.

**Management's Response and Corrective Action Plan**

*The City has hired a permanent staff to perform this function. Bank reconciliation has been accomplished within normal allowable time frame.*

**2014.002. SEGREGATION OF DUTIES – MUNICIPAL COURT**

**Criteria**

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction.

**Condition**

The City lacks segregation of duties within the municipal court department.

The municipal court department currently has one employee and only had one employee for part of the fiscal year. This employee handles all aspects of the court administration and recordkeeping. This employee enters defendant information into the system, posts adjustments, has the ability to adjust fine/fee amounts, receipts payments, fields questions/complaints, and maintains files/supporting documentation.

It was also noted that independent reviews of defendant files are not performed when a file is closed out for defendants on payment plans or extensions. All other files are reviewed by the judge when a defendant has made the final payment and the file is ready to be closed and stored.

**Effect**

The lack of segregation of duties could lead to unauthorized changes going undetected and make the City vulnerable to the misappropriation of assets.

**CITY OF LA MARQUE, TEXAS**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***  
**For the Year Ended September 30, 2014**

**Cause**

The extent to which the City can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the City.

**Recommendation**

As with other cities of the same staff size, there are instances where additional controls could be put in place if more personnel were available and further segregation in duties could be achieved. There are inherent inefficiencies with full segregation of duties and inherent risk with the lack of segregation of duties. The cost versus benefits for both should be considered. The City should explore opportunities to mitigate its exposure to the inherent risks of limited segregation of duties through the use of software controls and assigning duties to additional employees.

**Management's Response and Corrective Action Plan**

*The City currently has two deputy court clerks handling cash and a court department head to supervise activities within the Court department.*

***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.

**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.

**CITY OF LA MARQUE, TEXAS**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***  
For the Year Ended September 30, 2014

**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 began 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**

**None**

**CITY OF LA MARQUE, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2014

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Pass-through Texas General Land Office</i>			
Community Development Block Grant - State's Program - Disaster Recovery	14.255	GLO-12-216-000-5516	\$ 373,284
Community Development Block Grant - State's Program - Disaster Recovery	14.255	GLO-13-167-000-7268	895,286
Community Development Block Grant - State's Program	14.228	712171	117,810
<i>Direct Award</i>			
Section 8 Housing Choice Vouchers	14.871	TX530	<u>902,297</u>
<b>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>2,288,677</u>
<b>DEPARTMENT OF JUSTICE</b>			
<i>Direct Award</i>			
Justice Assistance Grant	16.803		<u>18,195</u>
<b>TOTAL DEPARTMENT OF JUSTICE</b>			<u>18,195</u>
<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<u><u>\$ 2,306,872</u></u>

**CITY OF LA MARQUE, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
For the Year Ended September 30, 2014

**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.