

CITY OF GROVES, TEXAS
FEDERAL SINGLE AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2013

CITY OF GROVES, TEXAS
FEDERAL SINGLE AUDIT REPORT
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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 City Council
City of Groves, 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, each major fund, and the aggregate remaining fund information of the City of Groves, Texas (the "City") as of and for the year ended September 30, 2013, 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 24, 2014.

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 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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and City Council
City of Groves, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. 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 purpose.

Whitley Penn LLP

Houston, Texas
March 24, 2014

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR
FEDERAL 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 City Council
City of Groves, Texas

Report on Compliance for Each Major Federal Program

We have audited City of Groves, Texas's (the "City") compliance with the types of 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 City's major federal programs for the year ended September 30, 2013. 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.

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.

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, 2013.

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.

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.

Honorable Mayor and City Council
City of Groves, Texas

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2013, 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 24, 2014, 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 City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Whitley Penn LLP

Houston, Texas
March 24, 2014

CITY OF GROVES, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified that are not considered to be material weaknesses?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Item #13-01
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?	No
Significant deficiencies(s) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs.	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
Department of Homeland Security - Port Security Grant Program	97.056
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low risk auditee?	No

CITY OF GROVES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the Year Ended September 30, 2013

II. Financial Statement Findings

Finding #13-01 - Internal Controls over Purchasing Procedures

Criteria:

The State's Procurement Laws require that vendors that the city makes cumulative purchases of fifty thousand dollars or more in a given fiscal year must be competitively bid.

Condition:

The City's does not have a central person responsible for making sure that the city is complying with the State Procurement laws.

Effect:

Increased risk of purchases being made that are not in compliance with State Procurement Laws.

Recommendation:

Assign a central person to make sure that all State Procurement laws have been followed and all required documentation has been received before purchase.

III. Federal Awards Findings and Questioned Costs

None

IV. Schedule of Prior Year Findings

No prior year findings

V. Corrective Action Plan

Finding #13-01

Internal Controls over Purchasing

Response: The City will set up an employee with the responsibility to oversee the purchasing procedures to ensure that all purchasing laws and policies are being followed and proper documentation is being retained.

Responsible Party: Lamar Ozley, Finance Director

Estimated completion date: May 2014

CITY OF GROVES, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 September 30, 2013

Federal Grantor /Pass Through	CFDA	Pass Through	Federal
<u>Grantor/Program Title</u>	<u>Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Department of Justice</u>			
Direct Program:			
Bureau of Justice Assistance Bulletproof Vest Partnership	16.607	2007BUBX07039659	\$ 1,078
Total U. S. Department of Justice			<u>\$ 1,078</u>
<u>U. S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant	14.228	710299	\$ 96,306
Total U. S. Department of Housing and Urban Development			<u>\$ 96,306</u>
<u>U. S. Department of Homeland Security</u>			
Pass-Through the Governor's Division of Emergency Management:			
State Homeland Security Program 2012	97.067	EMW-2012-SS-00018-S01	\$ 2,824
Total Pass-Through the Governor's Division of Emergency Management			2,824
Pass-Through Jefferson County:			
Port Security Grant Program	97.056	2009-PU-T9K002	\$ 596,148
Total Pass-Through Jefferson County			<u>\$ 596,148</u>
Total U. S. Department of Homeland Security			598,972
Total Expenditures of Federal Awards			<u><u>\$ 696,356</u></u>

CITY OF GROVES, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 -Basis of Accounting

The City of Groves, Texas accounts for federal funding using the modified accrual method of accounting. 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, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Equipment purchases for grant purposes are treated as expenses in the schedule of expenditures of federal awards and typically capitalized for financial statement purposes.

Federal grant funds 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 deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2013. 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, Local Government, 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, changes in net assets or cash flows of the City.