

CITY OF GROVES, TEXAS
FEDERAL SINGLE AUDIT REPORT
For the Year Ended September 30, 2011

CITY OF GROVES, TEXAS
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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***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Groves, Texas (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 4, 2012. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**To the Honorable Mayor and
Members of City Council
City of Groves, Texas
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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 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 the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Closing

This report is intended solely for the information and use of management, the Finance Committee, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Whitley Penn LLP

Houston, Texas
June 4, 2012

**Independent Auditors' Report on Compliance
That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control
Over Compliance in Accordance With *OMB Circular A-133***

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

Compliance

We have audited the City of Groves, 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2011, and have issued our report thereon dated June 4, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, The Finance Committee, City Council, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Whitley Penn LLP

Houston, Texas
June 4, 2012

CITY OF GROVES, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures Indirect Costs or Award Amount
<u>U. S. Department of Justice</u>		
Direct Programs:		
DOJ Anti Gang	16.744	\$ 18,355
Edward Byrne Memorial Justice Assistance Grant (JAG) 2009	16.738	30,000
Total U. S. Department of Justice		48,355
<u>U. S. Department of Energy</u>		
Pass-Through the Comptroller of Public Accounts, State Energy Conservation Office:		
Energy Efficiency and Conservation Block Grant ARRA	81.128	67,686
Total Pass-Through the Comptroller of Public Accounts, State Energy Conservation Office		67,686
Total U. S. Department of Energy		67,686
<u>U. S. Department of Homeland Security</u>		
Pass-Through the Governor's Division of Emergency Management:		
State Homeland Security Program 2008	97.067	39,751
State Homeland Security Program 2009	97.067	94,865
State Homeland Security Program 2010	97.067	35,815
2008 LETPP Grant	97.067	19,483
2009 LETPP Grant	97.067	65,082
Total Pass-Through the Governor's Division of Emergency Management		254,996
Pass-Through the Texas Department of Public Safety's Division of Emergency Management:		
FEMA	97.036	\$ 11,388
Total Pass-Through the Texas Department of Public Safety's Division of Emergency Management		11,388
Pass-Through Jefferson County:		
FY 2008 Port Security Grant Program	97.056	1,016,592
Total Pass-Through Jefferson County		1,016,592
Total U. S. Department of Homeland Security		1,282,976
Total Expenditures of Federal Awards		\$ 1,399,017

CITY OF GROVES, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended September 30, 2011

Note 1 - 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, 2011. 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 the States, Local Governments, and Nonprofit Organizations*. Because the schedule presents on 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.

Note 2 - Summary of Significant Accounting Policies

The City accounts for awards under federal programs in the General and Special Revenue 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 reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

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.

CITY OF GROVES, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended September 30, 2011

I. SUMMARY OF AUDITORS' RESULTS	
Financial Statements	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unqualified
Findings and questioned costs for federal awards as defined in Section 510(a) OMB Circular A-133	There were no known questioned costs above \$10,000
Identification of major programs:	
<i>Name of Federal Program or Cluster</i>	<i>CFDA Numbers</i>
Department of Homeland Security - Port Security Grant Program Award Number 2008-GB-T8-K007	97.056
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	No

CITY OF GROVES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For The Year Ended September 30, 2011

Section II. - FINANCIAL STATEMENT FINDINGS

Finding #2011-01 – Municipal Court Adjustment and approval process

Criteria:

Internal controls over adjustments should limit those that can make adjustments as well as make all adjustments reviewed by supervisor.

Condition:

There is a lack of controls over who can make adjustments to Municipal courts fines and fees. There is also lack of review over adjustments that are being made.

Effect:

There is increased risk that the municipal court receivable and related revenue will be misstated.

Recommendation:

The City should set up limits with the municipal court software system as to who can make adjustments. A workflow system should be set up where all adjustments are reviewed by Court Administrator.

Finding #2011-02 – Review of Cash Reconciling items

Criteria:

Internal controls over cash reconciliations should include a review of all reconciling items for viability and write off stale items.

Condition:

There is a lack of controls over review of all reconciling items for viability.

Effect:

There is increased risk that the City's cash balances will be misstated.

Recommendation:

The City should set up a control to verify the viability of all reconciling items on the bank reconciliation and to write off stale items and submit surplus funds to the state

Section III. - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

Section IV. - STATUS OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS

None reported

CITY OF GROVES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For The Year Ended September 30, 2011

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

Finding #2011-01

Municipal Court
Adjustment and
approval process

Response: The City will put in place a system of review for all municipal court adjustments.

Responsible party: Lamar Ozley, Finance Director

Estimated completion date: September, 2012

Finding #2011-02

Review of Cash
Reconciling items

Response: The City will research long outstanding items on bank reconciliations and determine the proper treatment of each. Items that are over 90 days will be researched and accounted for appropriately going forward.

Responsible party: Lamar Ozley, Finance Director

Estimated completion date: September, 2012