

SINGLE AUDIT REPORTS

**CITY OF
DICKINSON, TEXAS**

**For the Year Ended
September 30, 2012**

CITY OF DICKINSON, TEXAS

SINGLE AUDIT REPORTS

September 30, 2012

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**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***

March 8, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dickinson, Texas (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2013. We conducted our audit in accordance with generally accepted auditing standards 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

Management at the City is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 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. We consider the deficiencies described in the accompanying schedule of findings and

questioned costs, items 2012-1 through 2012-4 to be material weaknesses.

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. We consider item 2012-5 to be a significant deficiency.

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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City in a separate letter dated March 8, 2013.

The City's responses to the findings identified in our audit are 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.

This report is intended solely for the information and use of management, the City Council, 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS 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, AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

March 8, 2013

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

Compliance

We have audited the compliance of the City of Dickinson, Texas (the "City"), 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 its major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditors' 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 generally accepted auditing standards 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, 2012.

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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, the 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, 2012, and have issued our report thereon dated March 8, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on those financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. OMB Circular A-133, *Audits of States, Local Government, 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City's compliance but not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. 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 DICKINSON, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2012

Finding 11-02 – Recognition of Sub-Recipient Activity

Condition: The City recorded expenses of \$703,165, which represented sub-recipient expenses not yet reimbursed to the sub-recipient. This amount was then also included in the total on the schedule of federal awards (SEFA). The City also recorded their request for advance of funding to pay the sub-recipient \$777,942 as revenue. The indirect administrative expenses included in revenue were not included in the expenses and, therefore, not included on the client-prepared SEFA.

Criteria: Government auditing standards and Circular A-133 audit guide instructs that amounts passed through to sub-recipients are determined to be expended when the disbursement is made to the sub-recipient. An advance request would also represent unearned or deferred revenue and should be recognized as such.

Cause of condition: The City was unaware of the different basis for recognizing the expenditures and revenues for transaction amounts passed through to sub-recipients.

Effect of condition: The City's financial statements and SEFA could be materially misstated in revenues and the related expenditures.

Recommendation: The City should gain an understanding of the basis of accounting used for any new grants awarded and put procedures in place to review grant activity for proper recognition of expenditures and revenues.

Status: Recommendation implemented.

CITY OF DICKINSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of City of Dickinson, Texas.
2. Material weaknesses in internal control were 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 instances of noncompliance material to the basic financial statements were 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 unqualified opinion.
7. No audit findings relative to the major federal award programs for the City are reported.
8. The programs included as major programs are:

Community Development Block Grant -- Disaster Recovery	<u>CFDA</u> 14.255
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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

Material Weaknesses

2012-1. SEGREGATION OF DUTIES

Criteria

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

CITY OF DICKINSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2012

Condition

In certain financial areas of the City, the City lacks segregation of duties. This includes the City's payroll, human resources, and accounts payable functions.

It was noted during the audit that the same employee who performs the payroll duties also performs all of the human resources duties. This employee has the ability to change pay rates, edit employee information, post adjustments, and print checks.

In addition, two employees have unlimited software access which allows these employees to change pay rates, edit employee information, add/edit vendors, print checks, and make adjustments to the general ledger.

Effect

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

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 exception reports, logs of changes made to the finance system, etc.

Corrective Action Plan

The City agrees that internal controls over the payroll and accounts payable functions could be enhanced by separating certain tasks. However, when the City implemented some separation of tasks in 2012, it resulted in inefficiencies and increased the possibility of errors and the procedures were abandoned.

The City has two Administrative Service Coordinators, one whose primary duties include payroll/human resources and the other who is responsible for accounting and accounts payable. These employees are not closely familiar with the systems used outside of their primary responsibilities. In 2012, the City attempted to enhance controls over accounts payable and payroll by segregating certain key tasks. For instance, the employee assigned to payroll was required to enter all new vendors into the accounts payable system, and the employee assigned to accounting entered changes to employee master files. These changes proved inefficient and prone to error, so the City abandoned these procedures and instituted a higher level of supervisory review while new controls could be developed.

The City will implement changes to procedures that will provide additional internal controls to mitigate its exposure to the risks for limited segregation of duties. Currently, the City is working with its financial software provider to develop additional reports that will be required to be generated when checks are

CITY OF DICKINSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2012

produced by either accounts payable or payroll. These reports will log the date, time and nature of any change to the master files in either system. These reports will be reviewed and approved by a supervisor and kept on file for the auditor's review.

2012-2. EMERGENCY MEDICAL SERVICES RECEIVABLES

Background

The City outsources the billing and collection of emergency medical services (EMS) to a third party vendor. This vendor will deposit collections into a post office box and send a collection report to an EMS employee.

Criteria

The City should ensure that there are adequate internal controls over the EMS receipting process.

Condition

It was noted that the same EMS employee will collect the payments from the post office box, reconcile receipts to the third party vendor report, enter the receipts into the system, and prepare the deposits. There is not an independent review process in place. Management currently reviews completed reconciliations and reports that come directly from the employee who performs the receipting duties.

Effect

Lack of controls could make the City vulnerable to the misappropriation of assets.

Cause

One employee performs all duties and there are currently no procedures in place for the review of independent reports.

Recommendation

The City should establish procedures in which either third party collection reports are sent directly to management (for management to compare to reconciliations) or the collection of payments are performed by someone independent of EMS. The EMS employee responsible for the reconciliations should then reconcile collection reports provided by management to the general ledger or reconcile deposit slips (provided by a City employee independent of EMS) to the general ledger and collection reports.

Corrective Action Plan

The City agrees with the auditors that the collection of payments should be separated from the reconciliation of the receivable ledgers. A new policy has been developed that separates key functions by assigning to the Finance Department the responsibility of processing incoming EMS payments directly into the City's Depository Bank. Reconciling the detailed EMS receivable will remain with the EMS Administrative staff.

CITY OF DICKINSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2012

2012-3. MONTH END PROCEDURES

Criteria

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

Condition

It appeared the City lacked a formal process for closing the books at the end of each month. Multiple adjustments were required at year-end during the audit process to correct general ledger account balances. Accordingly, it did not appear that some subsidiary ledgers and other support were being compared to the general ledger on a monthly basis to ensure that interim financial statements were correct.

Effect

The lack of consistent monthly procedures could lead to misstated account balances.

Cause

The City has not established formal procedures to reconcile balance sheet accounts to detailed ledgers on a consistent basis.

Recommendation

The City should develop a formal closing process at month end including reviewing supporting subsidiary ledgers and other supporting documents to determine their accuracy and to ensure the general ledger is appropriately adjusted and the financial statements accurate. These procedures should be performed at the same time cash reconciliations are performed.

Corrective Action Plan

The City has a process of reviewing supporting subsidiary ledgers and other supporting documents to determine their accuracy. This process is performed quarterly, in connection with the quarterly financial report delivered to the City Council. Bank accounts are reconciled monthly. In view of the size of the City of Dickinson and the number of transactions involved, the City does not agree that it is necessary to increase the frequency of the reconciliation of balance sheet accounts.

In 2012, the City had three different Finance Directors. Turnover at this key position gave rise to the appearance that the City was behind in maintaining control over balance sheet accounts because responsibility for reconciliations were largely assumed by this position. The City is currently working to improve stability within the Finance Department.

2012-4. POSTING TO FUND BALANCE

Criteria

Fund balance should be recognized on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF DICKINSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2012

Condition

It was noted during the audit that the City posted entries directly to fund balance. The City posted entries during the fiscal year for budget purposes (on a budget basis) when fund balance/net asset restrictions were drawn down upon. The City did not post year-end adjusting entries to return the previous entries to GAAP basis.

Effect

Posting entries to fund balance will cause multiple accounts to be misstated.

Cause

The City posted journal entries on a budget basis and did not make the appropriate year-end entries to return to the GAAP basis for financial reporting purposes.

Recommendation

The City should establish procedures in which any transactions posted directly to fund balance for budget purposes (budget basis) are properly adjusted at year-end to reflect the GAAP basis of accounting.

Corrective Action Plan

In prior years, the City kept its books on the budget basis and relied on the auditors to adjust the working trial balances to GAAP basis. Beginning in 2013, the City will supply the auditors with the journal entries necessary to adjust the working trial balances to the GAAP basis.

Significant Deficiencies

2012-5. MUNICIPAL COURT

Criteria

The City should ensure that there are adequate internal controls over the receipting process of the municipal court.

Condition

It was noted through inquiry and a walkthrough of the municipal court receipting process that clerks have the ability to change citation amounts within the system. There are currently no software controls in place to mitigate this risk.

Effect

Lack of controls could make the City vulnerable to the misappropriation of assets.

Cause

The municipal court software does not restrict the ability of clerks from making unauthorized changes to fine amounts.

CITY OF DICKINSON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2012

Recommendation

The City should either restrict the ability of a clerk who is receipting money from being able to change fine amounts within the system or establish a policy in which files are reviewed to verify no unauthorized changes have been made prior to files being closed.

Corrective Action Plan

The City agrees that Municipal Court Clerks should not have the ability to adjust fines, and the City will work with the Municipal Court software provider to implement a process for restricting adjustments.

C. FINDINGS – FEDERAL AWARDS

None

CITY OF DICKINSON, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

Grantor/Program Title	CFDA Number	Grant/Contract Number	Expenditures
DEPARTMENT OF JUSTICE			
<i>Direct Award</i>			
Bulletproof Vest Partnership Program	16.607	2010BUBX10055050 / 2011BUBX11060219	\$ 3,820
<i>Direct Award</i>			
ARRA - 2010 COPS Hiring Program	16.710	2010UMWX0305	99,347
<i>Direct Award</i>			
ARRA - Edward Byrne Memorial Justice Assistance Program	16.804	2009-F3587-TX-SB	2,855
<i>Direct Award</i>			
Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies	16.922		87,204
<i>Pass-through Office of the Governor, Criminal Justice Division</i>			
Crime Victim Assistance	16.575	1890905	39,083
TOTAL DEPARTMENT OF JUSTICE			232,309
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through Texas General Land Office</i>			
Community Development Block Grant - Disaster Recovery	14.255	GLO-12-201-000-5501	13,227
Community Development Block Grant - Disaster Recovery	14.255	GLO-10-5036-000-5012	1,075,358
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			1,088,585
DEPARTMENT OF ENERGY			
<i>Pass-through Texas Comptroller of Public Accounts</i>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000893	53,000
TOTAL DEPARTMENT OF ENERGY			53,000
DEPARTMENT OF HOMELAND SECURITY			
<i>Pass-through Texas Division of Emergency Management</i>			
Emergency Management Performance Grant 2012	97.042	12TX-EMPG-0337	27,480
TOTAL DEPARTMENT OF HOMELAND SECURITY			27,480
TOTAL FEDERAL AWARDS EXPENDED			\$ 1,401,374

CITY OF DICKINSON, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES

OF FEDERAL AWARDS

For the Year Ended September 30, 2012

1. REPORTING ENTITY

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

3. SUB-RECIPIENTS

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provided federal awards to sub-recipients as follows:

<u>CFDA</u>	<u>Program Name</u>	<u>Amount</u>
14.255	Community Development Block Grant	\$ 844,757