

**CITY OF ALVIN, TEXAS**  
**FEDERAL SINGLE AUDIT REPORT**  
Year Ended September 30, 2008

Null-Lairson, P.C.  
Certified Public Accounts

**CITY OF ALVIN, TEXAS**  
**FEDERAL SINGLE AUDIT REPORT**  
**Year Ended September 30, 2008**



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**CITY OF ALVIN, TEXAS**  
**FEDERAL SINGLE AUDIT REPORT**  
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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***

To the Honorable Gary Appelt, Mayor  
and Members of the City Council  
City of Alvin, 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 Alvin, Texas (the "City") as of and for the year ended September 30, 2008, which collectively comprise City's basic financial statements and have issued our report thereon dated April 29, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as item #08-01.

To the Honorable Gary Appelt, Mayor  
And Members of the City Council  
City of Alvin, Texas  
April 29, 2009

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### ***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 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 responses and, accordingly, we express no opinion on it.

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



Houston, Texas  
April 29, 2009

**Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control  
over Compliance in Accordance with OMB Circular A-133**

To the Honorable Gary Appelt, Mayor  
and Members of the City Council  
City of Alvin, Texas

***Compliance***

We have audited the compliance of City of Alvin, 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 are applicable to each of its major federal programs for the year ended September 30, 2008. 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 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, the provisions of 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 requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

***Internal Control Over Compliance***

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

To the Honorable Gary Appelt, Mayor  
And Members of the City Council  
City of Alvin, Texas  
April 29, 2009

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #08-02 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

#### ***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, 2008, and have issued our report thereon dated May 5, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 responses and, accordingly, we express no opinion on it.

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



Houston, Texas  
April 29, 2009

**CITY OF ALVIN, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Disbursement/ Expenditures</u>
<i>U.S. Department of Justice</i>			
Sanitary Sewert System Improvements - Schiro Road	16.607		\$ <u>6,210</u>
<b>Total Department of Housing and Urban Development</b>			<u>6,210</u>
<i>U.S. Department of Homeland Security</i>			
<b>Passed through Texas Department of Public Safety:</b>			
Emergency Management Assistance / Ike	* 97.036		<u>1,843,681</u>
<b>Total Federal Awards</b>			<u>\$ 1,849,891</u>

\* Denotes Major Program

**CITY OF ALVIN, TEXAS**  
**NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS**

**Note 1 - Basis of Accounting**

City of Alvin, 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 expenses 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 ALVIN, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended September 30, 2008*

**Section I. - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes, Item #08-01

Noncompliance material to financial statements noted? No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes, Item #08-02

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? No

Identification of Major Programs:

CFDA Number	Name of Federal Program
97.036	Emergency Management Assistance / Ike

Dollar threshold used to distinguish between type A and type B federal programs: \$300,000

Auditee qualified as low-risk auditee? No

**CITY OF ALVIN, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
*Year Ended September 30, 2008*

**Section II. - Financial Statement Findings**

**Significant Deficiency**

**Finding #08-01 - Financial Statements**

**Criteria:** Management is responsible for having the financial statements prepared and free from potential misstatement.

**Condition:** Due to the complexity of various year-end procedures and requirements of the new standards, it is imperative that standard procedures be developed and implemented to ensure that financial statements are free of material misstatements. Significant journal entries were necessary to correct the accounting records for debt and grant related transactions.

**Cause:** Management's reliance on the auditor to detect and make these necessary adjustments.

**Effect:** Errors in the City's financial statements resulted in significant audit adjustments.

**Recommendation:** Management should consider providing accounting personnel with additional training in recording debt and grant related transactions. In addition, the City should implement procedures that require the Finance Director's review and approval of journal entries in complex areas of accounting to mitigate the risk of a material misstatement in the financial statements.

**CITY OF ALVIN, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
*Year Ended September 30, 2008*

**Section III. - Federal Award Findings and Questioned Costs**

**Finding #08-02 - Federal Emergency Management Agency's Public Assistance Grant,  
CFDA #97.036 - Grant Reporting**

**Criteria:** Public Assistance Grant awards are based upon a Project Worksheet prepared by the grantee.

**Condition:** Project Worksheets that had been previously submitted to the Federal Emergency Management Agency's ("FEMA") required revisions to expenditures for force labor costs. The City contracted with a consultant to assist in the preparation of the Project Worksheets. The consultant used an electronic spreadsheet, that was provided by FEMA, to compile the Project Worksheet. During our audit, we noted formula errors in the worksheets which overstated project costs as of September 30, 2008, as follows:

<u>Project</u>	<u>Amount</u>
Pilot Program	\$ 37,721
FEMA-TX-DR-1791	70,198
FEMA-TX-DR-3294	(1,371)

In addition, we noted instances where overtime hours reported on the Project Worksheets did not agree with employee time sheets. The project worksheets were then de-obligated, revised, resubmitted and subsequently approved by FEMA.

**Cause:** Some errors were caused by formula errors in the Project Worksheet template. Additionally, there was no established procedure for review or monitoring of Project Worksheets by the City.

**Effect:** Potential noncompliance with federal program requirements.

**Recommendation:** The City should establish procedures to monitor the reporting of federal program expenditures.

**CITY OF ALVIN, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended September 30, 2008

**Section IV. - Status of Prior Year Findings and Questioned Costs**

***Finding #***

***Corrective Action Taken***

**Finding #07-01** – Year End Close Out Procedures

**Partially Resolved.** The City continues to develop year end close out procedures and consider providing training for staff. See current year finding #08-01.

**Finding #07-02** – Capital Assets

**Resolved.** The City has changed the method in which it utilizes the project accounting software to account for repair and maintenance projects.

**Finding #07-03** – Recording and Use of Sales Tax Revenues

**Resolved.** The City is accounting for street and drainage projects in the Sales Tax Fund.

**Finding #07-04** – Segregation of Duties

**Resolved.** The City has implemented alternative procedures to mitigate the risk of loss due to a lack of segregation of duties in the Utility Department and Municipal Court.

**Finding #07-05** – Policies and Procedures for City Contracts

**Resolved.** The City has amended the Purchasing Policy to require approval by the City Attorney and the Finance Director prior to approval by City Council.

**Finding #07-06** - Fees

**Resolved.** The City Council amended the City's Fee ordinance to include requiring a deposit for garbage service.

**CITY OF ALVIN, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

*Year Ended September 30, 2008*

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

**Finding #08-01 - Financial Statements**      **Description:** The City will provide additional training opportunities for the accounting staff. The training will specifically include accounting for debt and grant related transactions.

**Responsible party:** Suzy Kou, Finance Director

**Estimated completion date:** September 30, 2009

**Finding #08-02 - Grant Reporting - FEMA**      **Description:** The City will implement procedures to monitor the reporting of federal program expenditures.

**Responsible party:** Suzy Kou, Finance Director

**Estimated completion date:** September 30, 2009