

# **City of Midland, Texas**

Single Audit Reports

September 30, 2017



**City of Midland, Texas**  
**September 30, 2017**

**Contents**

**Schedule of Expenditures of Federal Awards ..... 1**

**Notes to the Schedule of Expenditures of Federal Awards ..... 2**

**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* – Independent  
Auditor’s Report ..... 3**

**Report on Compliance for a Major Federal Program; Report on  
Internal Control Over Compliance; and Report on Schedule of Expenditures of  
Federal Awards Required by the Uniform Guidance – Independent  
Auditor’s Report ..... 5**

**Schedule of Findings and Questioned Costs ..... 8**

**Summary Schedule of Prior Audit Findings ..... 11**

**City of Midland, Texas**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2017**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Awards Expended
<b><u>Department of Housing and Urban Development (HUD)</u></b>				
Direct Programs:				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 114,000	\$ 980,431
<i>Total CDBG - Entitlement Grants Cluster</i>			<u>114,000</u>	<u>980,431</u>
Economic Development Initiative - Special Projects Grant	14.251	N/A	-	119,302
<b>Department of Housing and Urban Development (HUD)</b>			<u><b>114,000</b></u>	<u><b>1,099,733</b></u>
<b><u>Department of Justice</u></b>				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	12,366	64,437
Equitable Sharing Program	16.922	N/A	-	157,424
<b>Total Department of Justice</b>			<u><b>12,366</b></u>	<u><b>221,861</b></u>
<b><u>Department of Transportation</u></b>				
Direct Program:				
Airport Improvement Program	20.106	N/A	-	4,025,910
Passed through from:				
Texas Department of Transportation				
<i>Highway Safety Cluster</i>				
State and Community Highway Safety	20.600	2016-Midland-S-1YG-0026	-	16,685
<i>Total Highway Safety Cluster</i>			<u>-</u>	<u>16,685</u>
<b>Total Department of Transportation</b>			<u><b>-</b></u>	<u><b>4,042,595</b></u>
<b><u>Department of Health and Human Services</u></b>				
Passed through from:				
Texas Department of State Health Services				
Public Health Emergency Preparedness	93.069	2016-001271-00	-	68,544
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	537-18-0134-00001	-	10,939
Immunization Cooperative Agreements	93.268	2017-001273-00	-	74,168
		537-18-0062-00001	-	3,895
		2016-001299-00	-	18,000
			<u>-</u>	<u>96,063</u>
Preventive Health and Health Services Block Grant	93.991	2016-001305-00	-	29,121
Preventive Health and Health Services Block Grant Funded Solely with Prevention and Public Health Funds (PPHF)	93.758	537-18-0234-00001	-	502
<i>Medicaid Cluster</i>				
Medical Assistance Program	93.778	529-13-0033-00001	-	48,193
<i>Total Medicaid Cluster</i>			<u>-</u>	<u>48,193</u>
<b>Total Department of Health and Human Services</b>			<u><b>-</b></u>	<u><b>253,362</b></u>
<b><u>U.S. Committee for Refugees and Immigrants</u></b>				
Direct Program:				
Refugee and Entrant Assistance - State Administered Programs	93.566		-	32,642
<b>Total U.S. Committee for Refugees and Immigrants</b>			<u><b>-</b></u>	<u><b>32,642</b></u>
<b><u>Executive Office of the President</u></b>				
Direct Program:				
High Intensity Drug Trafficking Areas Program	95.001	N/A	-	132,209
<b>Total Executive Office of the President</b>			<u><b>-</b></u>	<u><b>132,209</b></u>
<b>Total Federal Awards Expended</b>			<u><b>\$ 126,366</b></u>	<u><b>\$ 5,782,402</b></u>

The accompanying notes are an integral part of this Schedule.

**City of Midland, Texas**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2017**

**1. General**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the primary government of the City of Midland, Texas (City). The City's reporting entity is defined in *Note 1* in the City's basic financial statements for the year ended September 30, 2017.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 position/fund balance or cash flows of the City.

**2. Basis of Accounting**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for the Airport Improvement Program, which is accounted for on the accrual basis of accounting.

The City's summary of significant accounting policies is presented in *Note 1* to the City's basic financial statements for the year ended September 30, 2017. Such expenditures are recognized following, as applicable, the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements or reports to federal agencies. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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***

**Independent Auditor's Report**

The Honorable Mayor and  
Members of the City Council  
City of Midland, Texas  
Midland, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midland, Texas (City), as of and for the year ended September 30, 2017, 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 28, 2018.

***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.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***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*.

***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.

**BKD, LLP**

Dallas, Texas  
March 28, 2018

**Report on Compliance for a Major Federal Program;  
Report on Internal Control Over Compliance; and Report on Schedule of  
Expenditures of Federal Awards Required by the Uniform Guidance**

**Independent Auditor's Report**

The Honorable Mayor and  
Members of the City Council  
City of Midland, Texas  
Midland, Texas

**Report on Compliance for a Major Federal Program**

We have audited the City of Midland, Texas's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2017. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on a 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 its major federal program for the year ended September 30, 2017.

### **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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Midland, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 28, 2018, 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 the Uniform Guidance 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.

*BKD, LLP*

Dallas, Texas  
March 28, 2018



**City of Midland, Texas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended September 30, 2017**

7. The City's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The City qualified as a low-risk auditee?

Yes

No

**City of Midland, Texas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended September 30, 2017**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.

**Findings Required to be Reported by the Uniform Guidance**

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.

**City of Midland, Texas**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended September 30, 2017**

Reference Number	Summary of Finding	Status
2016-001	<i>Financial Management Tasks</i> - Management should strengthen the City's review and reconciliation procedures throughout the period to help to ensure that account balance details are accurately reflected in the general ledger system on a timely basis. A monthly reconciliation of this account should be performed monthly and an independent review by someone other than the preparer should be documented and maintained in the files.	Implemented.
2016-002	<i>Airport Improvement Program - Equipment and Real Property Management</i> - The City should ensure all recorded assets are properly identified, approvals of capitalization are obtained and associated equipment records are accurately maintained. The City should ensure that federally purchased equipment is monitored effectively and properly safeguarded and maintained.	Implemented.
2016-003	<i>Economic Development Initiative-Special Projects (EDI) - Reporting</i> - The City staff should perform more detailed reviews of the reports to ensure they properly reflect grant receipts and expenditures. This review should be performed by someone other than the preparer and should include documented evidence of agreeing the reported data to the accounting records. We further recommend training for those individuals involved in the preparation and review of the reports to ensure they are fully aware of the requirements.	Implemented.
2016-004	<i>Airport Improvement Program (AIP) and Economic Development Initiative-Special Projects (EDI) - Other - Schedule of Expenditures of Federal Awards preparation</i> - The City should establish formal procedures for determination of federal expenditures for inclusion in the SEFA. In addition, review of SEFA expenditures should include consideration of the underlying transactions to ensure amounts are recorded in the right period and appropriately reflected on the SEFA. We further recommend training for those involved in the preparation and review of the SEFA to ensure that they are fully aware of the requirements for determination of federal expenditures.	Implemented.