

City of Midland, Texas

Single Audit Reports

September 30, 2018



City of Midland, Texas
September 30, 2018

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City of Midland, Texas
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>Department of Housing and Urban Development (HUD)</u>				
Direct Programs:				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 114,000	\$ 749,181
<i>Total CDBG - Entitlement Grants Cluster</i>			114,000	749,181
Department of Housing and Urban Development (HUD)			114,000	749,181
<u>Department of Justice</u>				
Passed through from:				
Texas Office of the Governor - Criminal Justice Division (CJD)				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0956	-	123,000
Direct Programs:				
Equitable Sharing Program	16.922	N/A	-	191,667
Total Department of Justice			-	314,667
<u>Department of Transportation</u>				
Direct Program:				
Airport Improvement Program	20.106	N/A	-	3,875,224
Passed through from:				
Texas Department of Transportation				
<i>Highway Safety Cluster</i>				
State and Community Highway Safety	20.600	2016-Midland-S-1YG-0026	-	18,103
<i>Total Highway Safety Cluster</i>			-	18,103
Total Department of Transportation			-	3,893,327
<u>Department of Health and Human Services</u>				
Passed through from:				
Texas Department of State Health Services				
Hospital Preparedness Program (HPP) and Public Health				
Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	537-18-0134-00001	-	80,933
Immunization Cooperative Agreements	93.268	537-18-0062-00001	-	106,565
Preventive Health and Health Services Block Grant	93.991	537-18-0234-0001	-	47,193
<i>Medicaid Cluster</i>				
Medical Assistance Program	93.778	529-13-0033-00001	-	34,236
<i>Total Medicaid Cluster</i>			-	34,236
Direct Program:				
Refugee and Entrant Assistance - State Administered Programs	93.566	N/A	-	15,974
Total Department of Health and Human Services			-	284,901

The accompanying notes are an integral part of this Schedule.

City of Midland, Texas
Schedule of Expenditures of Federal Awards (Continued)
Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>Executive Office of the President</u>				
Direct Program:				
High Intensity Drug Trafficking Areas Program	95.001	N/A	-	121,035
Total Executive Office of the President			-	121,035
<u>Department of Homeland Security</u>				
Passed through from:				
Texas Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4332	-	97,607
Emergency Management Performance Grants	97.042	17TX-EMPG-763	-	23,700
Fire Management Assistance Grant	97.046	FM2910	-	6,886
Total Department of Homeland Security			-	128,193
Total Expenditures of Federal Awards			\$ 114,000	\$ 5,491,304

City of Midland, Texas
Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

1. General

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the primary government of the City of Midland, Texas (City) under programs of the federal government for the year ended September 30, 2018. The City's reporting entity is defined in *Note 1* in the City's basic financial statements for the year ended September 30, 2018.

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, 2018. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 31, 2019, which contained an emphasis of a matter paragraph regarding a change in accounting principle. The financial statements of Spaceport Development Corporation (Spaceport) and Midland Economic Development Corporation (MDC), component units included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Spaceport or MDC.

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.

The Honorable Mayor and
Members of the City Council
City of Midland, Texas
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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
May 31, 2019

**Report on Compliance for the 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 the 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, 2018. 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; and 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 the 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, 2018.

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 31, 2019, which contained unmodified opinions on those financial statements and an emphasis of a matter paragraph regarding a change in accounting principle. 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
May 31, 2019

City of Midland, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2018

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, 2018

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
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No matters are reportable.

City of Midland, Texas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2018

Reference Number	Summary of Finding	Status
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No matters are reportable.