



OMB  
CIRCULAR A-133  
REPORT

FOR YEAR ENDED  
SEPTEMBER 30, 2013

MIDLAND, TEXAS

CITY OF MIDLAND, TEXAS

OMB CIRCULAR A-133 REPORT

FISCAL YEAR ENDED  
SEPTEMBER 30, 2013

CITY OF MIDLAND, TEXAS  
OMB CIRCULAR A-133 REPORT  
YEAR ENDED SEPTEMBER 30, 2013

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CITY OF MIDLAND, TEXAS  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Total Program or Award Amount	Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	991,986	80,036
Community Development Block Grants/Entitlement Grants	14.218	N/A	830,012	830,012
Community Development Block Grants/Entitlement Grants	14.218	N/A	699,035	402,464
		Subtotal 14.218	2,521,033	1,312,512
Economic Development Initiative-Special Projects Grant	14.251	N/A	190,000	2,119
		Subtotal 14.251	190,000	2,119
Total U.S. Department of Housing and Urban Development Direct Programs			2,711,033	1,314,631
Pass - Through Texas Department of Housing and Community Affairs				
HOME Program				
HOME Investment Partnerships Program	14.239	1001296	40,343	343
HOME Investment Partnerships Program	14.239	1001774	249,600	40,000
		Subtotal 14.239	289,943	40,343
Total U.S. Department of Housing and Urban Development Direct and Pass-Through Programs			3,000,976	1,354,974
<u>U.S. Department of Justice</u>				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607	N/A	26,440	17,026
Bulletproof Vest Partnership Program	16.607	N/A	9,914	489
		Subtotal 16.607	36,354	17,515
Justice Assistance Grant 2009	16.738	N/A	44,563	26,771
Justice Assistance Grant 2010	16.738	N/A	42,313	25,421
Justice Assistance Grant 2011	16.738	N/A	36,251	9,245
Justice Assistance Grant 2012	16.738	N/A	31,908	12,763
		Subtotal 16.738	155,035	74,200
Equitable Sharing Program (Federal Seizure Fund)	16.922	N/A	344,546	294,153
		Subtotal 16.922	344,546	294,153
Total U.S. Department of Justice Direct Programs			535,935	385,868
Pass-Through Programs				
Texas Alcoholic Beverage Commission:				
Enforcing the Underage Drinking Laws	16.727	80009	12,340	1,780
		Subtotal 16.727	12,340	1,780
Texas State Office of the Governor:				
Use-of-Force Training Technology	16.738	2586301	60,339	58,380
		Subtotal 16.738	60,339	58,380
Total U.S. Department of Justice Pass-Through Programs			12,340	60,160
Total U.S. Department of Justice Direct and Pass-Through Programs			535,935	446,028

(continued)

CITY OF MIDLAND, TEXAS  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Total Program or Award Amount	Expenditures
<u>U.S. Department of Transportation</u>				
<u>Federal Aviation Administration</u>				
Direct Programs:				
Project No. 3-48-0150-052-11 Rehabilitate Taxiway System Executive Apron Reconstruction	20.106	N/A	7,543,382	1,376,570
Project No. 3-48-0150-053-12 Executive Apron Reconstruction Area B	20.106	N/A	2,936,724	2,575,121
Project No. 3-48-0150-054-13 Rehab Emergency Perimeter Road and Access Gates Northwest Taxilane Extension Airfield Security Access Control Upgrade Construct Runway 16R Run Up Apron Wildlife Hazard Management Plan Airfield Lighting Cabling Replacement & Airfield Signage Rehab Entrance Road Pavement and Guidance Signage	20.106	N/A	3,404,500	217,069
Total Federal Aviation Administration Direct Programs		Subtotal 20.106	13,884,606	4,168,760
Pass-through Texas Department of Transportation:				
State and Community Highway Safety	20.600	2013-Midland-S-1YG-0018	28,715	7,100
		Subtotal 20.600	28,715	7,100
Total U.S. Department of Transportation Pass-Through Programs			28,715	7,100
Total U.S. Department of Transportation Direct and Pass-Through Programs			13,913,321	4,175,860
<u>U.S. Department of Health and Human Services</u>				
Pass - Through Texas Department of State Health Services				
Public Health Emergency Preparedness	93.069	2013-041409-002	118,871	101,300
Public Health Emergency Preparedness	93.069	2014-041409-002	100,950	9,025
		Subtotal 93.069	219,821	110,325
Immunization Grants	93.268	2013-041409-003	66,899	69,593
Immunization Grants	93.268	2014-001299-003	66,899	6,974
Immunization Grants-Refugee	93.268	2013-041409-004	19,790	10,587
Immunization Grants-Refugee	93.268	2014-001299-004	19,789	720
		Subtotal 93.268	173,377	87,874
Total U.S. Department of Health and Human Services Pass-Through Programs			393,198	198,199
<u>Executive Office of the President</u>				
High Intensity Drug Trafficking Areas (HIDTA) 2011	95.001	N/A	169,400	83,888
High Intensity Drug Trafficking Areas (HIDTA) 2012	95.001	N/A	190,714	97,410
		Subtotal 95.001	360,114	181,298
<u>Federal Emergency Management Agency</u>				
Pass-through State Department of Public Safety:				
Emergency Management Performance Grant	97.042	13TX-EMPG-0763	38,929	38,929
Assistance to Firefighters Grant 2007	97.044	EMW-2007-FO-11558	62,000	28,006
Total Federal Emergency Management Pass-Through Programs			100,929	66,935
Total Federal Expenditures			\$ 18,364,813	\$ 6,423,294

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF MIDLAND, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**SEPTEMBER 30, 2013**

1. **General.** The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the City of Midland, Texas. The City of Midland reporting entity is defined in Note 1 to the City's basic financial statements. Federal awards received directly from federal agencies and federal awards passed through other government agencies are included on the schedule. Grant expenditures that exceed the program or award amount for a grant include expenditures incurred as a result of program income generated by the program.
2. **Basis of Accounting.** The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, except for the Airport Improvement Program which is accounted for using the accrual basis of accounting. Both basis of accounting are described in Note 1 to the City's basic financial statements.
3. **Relationship to Basic Financial Statements.** A reconciliation of Federal expenditures as reported as intergovernmental revenue in the City's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards is presented below:

General Fund:		
Amount per City's basic financial statements	\$ 782,449	
Plus: Health program income	21,911	
Adjustments to prior year accruals	3,676	
Less: State awards	(217,949)	
Non-grant intergovernmental revenue	<u>(16,418)</u>	
Total General Fund		573,669
Special Revenue Funds:		
Community Development Fund	1,186,881	
Plus: Program income	125,631	
Less: Adjustment to accrual	<u>0</u>	
		1,312,512
Department of Justice Grant Fund	74,133	
Plus: Interest earnings expended	<u>67</u>	
		74,200
Federal Police Special Purposes Fund		294,153
Enterprise Fund:		
Airport Fund		4,168,760
Amount per Schedule of Expenditures of Federal Awards		<u><u>\$ 6,423,294</u></u>

4. **Relationship to Federal Financial Reports.** Amounts reported in the accompanying schedule agree with the amounts reported in the related Federal financial reports except for Federal Aviation Administration (FAA) programs which are reported on a cash basis.
5. **Subrecipients.** Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant - Entitlement Grants	14.218	\$ <u>70,000</u>

6. **Loan and Loan Guarantee Programs.** OMB Circular A-133, Subpart B, §310(b) (6) requires that loans or loan guarantees outstanding at year-end be included in either the schedule or a note to the schedule. Loans and loan guarantees outstanding at September 30, 2013, are described below. The City acts in an administrative capacity for the distribution and collection of these Community Development funds and has no ownership interest. Consequently, these loans are not reported in the City's basic financial statements.

<u>Loan Program</u>	<u>CFDA Number</u>	<u>Loan Balances Outstanding at September 30, 2013</u>
Owner Occupied Housing Assistance Program (OHAP) Loan	14.218	\$ 861,559
OHAP Forgivable Loan Balances	14.218	<u>538,901</u>
Total Loan Program		\$ <u>1,400,460</u>



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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***

The Honorable Mayor, City Council, and City Manager  
City of Midland, Texas:

We have audited, in accordance with the 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 City of Midland (the City), as of and for the year then ended September 30, 2013, which comprise the statement government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information and have issued our report thereon dated March 21, 2014.

**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 opinion 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 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

March 21, 2014



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**Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**

The Honorable Mayor, City Council, and City Manager  
City of Midland, Texas:

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

We have audited the City of Midland, 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 the City's major federal program for the year ended September 30, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of 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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Basis for Qualified Opinion on Airport Improvement Program***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 20.106 Airport Improvement Program as described in finding number 2013-001 for the Davis Bacon Act. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.



### ***Qualified Opinion on Airport Improvement Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the major federal program for the year ended September 30, 2013.

### ***Other Matters***

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

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

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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 as of and for the year ended September 30, 2013, and have issued our report thereon dated March 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*KPMG LLP*

May 6, 2014

**CITY OF MIDLAND, TEXAS**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2013**

**Section I—Summary of Auditor's Results**

**Financial Statements**

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified?                     yes         no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?                     yes         none reported

Noncompliance material to financial statements noted?                     yes         no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?                     yes         no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?                     yes         none reported

Type of auditor's report issued on compliance for major program: **Qualified**

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

Programs tested as major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

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

Auditee qualified as low-risk auditee?                     yes         no

**Section II- Financial Statement Findings**

**None Noted**

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

***Finding Number: 2013-01***

***Federal Agency: U.S. Department of Transportation, Federal Aviation Administration***

***Federal Program Name: Airport Improvement Program***

***CFDA No. and Program Expenditures: 20.106 (\$4,168,760)***

***Grant Numbers and Year: 3-48-0150-052-2011; 3-48-0150-053-2012***

***Fiscal Program Award Years Ended: September 30, 2013***

***Compliance Requirement: Davis-Bacon Act***

***Type of Finding: Material Weakness and Material Non-Compliance***

***Questioned Costs: None***

***Responsible Division: City of Midland-Midland International Airport***

#### ***Criteria***

In accordance with OMB Circular A-133, the program is required to have internal controls in place to mitigate risk of noncompliance with Davis-Bacon Act requirements. The Davis-Bacon Act requires all laborers and mechanics employed by contractors and subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages at prevailing wage rates. Per 29 CFR Sections 5.5 and 5.6, contractors should submit to the nonfederal entity on a weekly basis, a copy of the certified payroll for each week in which any contract work is performed by the prime contractor and all subcontractors.

#### ***Condition Found***

The City could not provide evidence that subcontractors made the requisite weekly submissions.

#### ***Possible Asserted Cause and Effect***

The program does not have a formal process in place to ensure all subcontractor certified payrolls are received by the prime contractor and a review is made of subcontractor certified payrolls prior to making payment to contractors. Subcontractors may be paying employees less than what is required per the Davis-Bacon Act.

#### ***Recommendation***

As it is the prime contractor's responsibility for submitting all subcontractor certified payrolls, we recommend that program management identify all subcontractors of prime contractors so management can monitor the receipt of certified payrolls. Management can track the receipt and review of subcontractor certified payrolls for each pay cycle through the use of a tracking log. A review for completeness of the subcontractor certified payroll reports should occur before payment is made to the prime contractor.

#### ***Views of Responsible Officials***

To address this finding we have already communicated with our current contractors, and this will also apply to future contractors, the procedures to follow in order to comply with the Davis Bacon Act. The airport will not release any payment to any contractor for work performed without the certified payroll sheets from that contractor or sub-contractor for each week in which work has been performed. Implementation date: January 2014. Designated contact person: Kim Watkins.

**END OF OMB CIRCULAR  
A-133 REPORT PAMPHLET**

**PAGES TO FOLLOW ARE  
ASSOCIATED  
DOCUMENTS**

**CITY OF MIDLAND, TEXAS**  
**Corrective Action Plan for Current Year Audit Findings**  
**Year ended September 30, 2013**

The corrective action plan for current year audit findings is summarized below:

Finding #2013-01

Contact person responsible for corrective action: Kim Watkins

Anticipated completion date: Corrective action plan will be implemented January 2014

Corrective action plan: To address this finding we have already communicated with our current contractors, and this will also apply to future contractors, the procedures to follow in order to comply with the Davis Bacon Act. The airport will not release any payment to any contractor for work performed without the certified payroll sheets from that contractor or sub-contractor for each week in which work has been performed.

**CITY OF MIDLAND, TEXAS**  
**Schedule of Prior Year Findings and Questioned Costs**  
**Year ended September 30, 2013**

The status of prior year audit recommendations is summarized below:

Original  
Finding  
Number

Current Status of Prior Audit Finding

#2012-01

Programmer access to production was not restricted. Developer access to production should be restricted. Segregation of duties (SoD) was not enforced for people performing software development activities and production migration of system changes.

Due to the ongoing software conversion in both Human Resources and Finance, corrective action has not been fully implemented.

Full corrective action has been taken.