



**UNIFORM
GUIDANCE
REPORTS**

**FOR YEAR ENDED
SEPTEMBER 30, 2016
MIDLAND, TEXAS**

CITY OF MIDLAND, TEXAS
UNIFORM GUIDANCE REPORTS
FOR YEAR ENDED
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YEAR ENDED SEPTEMBER 30, 2016

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CITY OF MIDLAND, TEXAS
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Total Program or Award Amount	Subrecipient Expenditures	Expenditures
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
Community Development Block Grants/Entitlement Grants	14.218	N/A	743,626	-	-
Community Development Block Grants/Entitlement Grants	14.218	N/A	730,276	-	61,011
Community Development Block Grants/Entitlement Grants	14.218	N/A	656,282	-	72,113
Community Development Block Grants/Entitlement Grants	14.218	N/A	763,082	114,000	599,287
		Subtotal 14.218	2,893,266	114,000	732,411
Economic Development Initiative-Special Projects Grant	14.251	N/A	190,000	-	35,588
		Subtotal 14.251	190,000	-	35,588
Total U.S. Department of Housing and Urban Development Direct Programs			3,083,266	114,000	767,999
Pass - Through Texas Department of Housing and Community Affairs					
HOME Program					
HOME Investment Partnerships Program	14.239	M-12-SG-48-0100	249,600	-	536
HOME Investment Partnerships Program	14.239	M-12-SG-48-0100	200,000	-	-
		Subtotal 14.239	449,600	-	536
Total U.S. Department of Housing and Urban Development Direct and Pass-Through Programs			3,532,866	114,000	768,536
<u>U.S. Department of Justice</u>					
Direct Programs:					
Bulletproof Vest Partnership Program	16.607	N/A	8,584	-	-
		Subtotal 16.607	8,584	-	-
Justice Assistance Grant 2013	16.738	N/A	17,741	-	-
Justice Assistance Grant 2015	16.738	N/A	26,966	-	26,966
Justice Assistance Grant 2016	16.738	N/A	30,000	-	-
		Subtotal 16.738	56,966	-	26,966
Equitable Sharing Program (Federal Seizure Fund)	16.922	N/A	173,350	-	42,022
		Subtotal 16.922	173,350	-	42,022
Total U.S. Department of Justice Direct Programs			238,900	-	68,988
<u>Department of Transportation Federal Aviation Administration</u>					
Direct Programs:					
Project No. 3-48-0150-055-2015	20.106	N/A	4,078,045	-	317,192
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					
Runway 16L/34R PER Phase					
Runway 16L/34R EA					
Rehab RW 10/28, 16R-34L and Taxiways, Phase 1 Design - 700203-505					
Improve Terminal Building(Checkpoint), Phase 1 Design - 7145					
Rehab RW 16L/34R/ Phase 1 Design -					
Total Department of Transportation Federal Aviation Administration		Subtotal 20.106	4,078,045	-	317,192

CITY OF MIDLAND, TEXAS
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Total Program or Award Amount	Subrecipient Expenditures	Expenditures
Pass-through Texas Department of Transportation:					
State and Community Highway Safety	20.600	2016-Midland-S-1YG-0026	11,876	-	11,876
		Subtotal 20.600	11,876	-	11,876
Total U.S. Department of Transportation Pass-Through Programs			11,876	-	11,876
Total U.S. Department of Transportation Direct and Pass-Through Programs			11,876	-	11,876
<u>U.S. Department of Health and Human Services</u>					
Pass - Through Texas Department of State Health Services					
Public Health Emergency Preparedness	93.069	2016-001271-00	111,045	-	89,202
Public Health Emergency Preparedness	93.069	2017-001271-00	111,045	-	5,215
		Subtotal 93.069	222,090	-	94,417
Immunization Grants	93.268	2016-001273-00	66,899	-	84,866
Immunization Grants	93.268	2017-001273-00	66,899	-	8,080
Immunization Grants-Refugee	93.268	2016-001299-00	19,789	-	27,935
Immunization Grants-Refugee	93.268	2017-001299-00	27,559	-	1,711
		Subtotal 93.268	181,146	-	122,592
Medicaid Administrative Claiming	93.778	529-13-0033-00001	-	-	22,220
		Subtotal 93.778	-	-	22,220
Total U.S. Department of Health and Human Services Pass-Through Programs			403,236	-	239,228
<u>Executive Office of the President</u>					
High Intensity Drug Trafficking Areas (HIDTA) 2014	95.001	N/A	172,400	-	89,479
High Intensity Drug Trafficking Areas (HIDTA) 2015	95.001	N/A	154,800	-	93,552
High Intensity Drug Trafficking Areas (HIDTA) 2016	95.001	N/A	156,600	-	-
Total Executive Office of the President Direct Grants		Subtotal 95.001	327,200	-	183,031
<u>Department of Homeland Security</u>					
Pass-through Texas Department of Public Safety:					
Emergency Management Performance Grant	97.042	14TX-EMPG-763	64,737	-	25,529
Total Department of Homeland Security Pass-Through Programs			64,737	-	25,529
Total Federal Expenditures			\$ 8,656,860	\$ 114,000	\$ 1,614,380

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, 2016

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	\$940,671	
Plus: Health program income	37,556	
Less: Advance receipt of funds	(125,654)	
Adjustments to prior year accruals	(40,000)	
State awards	(191,476)	
Non-grant intergovernmental revenue	<u>(125,308)</u>	
Total General Fund		495,789

Special Revenue Funds:

Community Development Fund	554,767	
Plus: Adjustments to prior year accruals	21,288	
Program income	<u>156,356</u>	
Total Special Revenue Funds:		732,411

Department of Justice Grant Fund		26,966
Federal Police Special Purposes Fund		42,022

Enterprise Fund:

Airport Fund		317,192
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Amount per Schedule of Expenditures of Federal Awards		<u>\$ 1,614,380</u>
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CITY OF MIDLAND, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2016

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. **Indirect Cost Rate.** The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



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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
The 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 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 (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2017.

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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a significant deficiency.

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*.



The City's Response to Finding

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

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

Albuquerque, New Mexico
June 28, 2017



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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Midland, Texas (the City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs 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). Those 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions on compliance. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the Airport Improvement Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the Airport Improvement Program as described in finding number 2016-002 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for the City of Midland, Texas to comply with the requirements applicable to that program.



Qualified Opinion on the Airport Improvement Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Midland, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Airport Improvement Program for the year ended September 30, 2016.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City of Midland, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

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

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 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.

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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-004 to be material weaknesses.



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 consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-003 to be a significant deficiency.

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

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 28, 2017, 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 basic 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.

KPMG LLP

Albuquerque, New Mexico
July 31, 2017

Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles:
- Governmental activities - **Unmodified**
 - Business-type activities - **Unmodified**
 - Aggregate discretely presented component units - **Unmodified**
 - Each major fund - **Unmodified**
 - Aggregate remaining fund information - **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
- Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (e) Type of report issued on compliance for major programs:
- Airport Improvement Program – **Qualified**
 - Economic Development Initiative-Special Projects – **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:
- Airport Improvement Program – CFDA 20.106
 - Economic Development Initiative-Special Projects Grant – CFDA 14.251
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding Number: 2016-001

Entity: The City of Midland and Midland Development Corporation

Finding Title: Financial Management Tasks

Type of Finding: Significant Deficiency in Internal Controls

Criteria

Timely and accurate financial reporting is an integral factor of an effective financial management system. This includes a complete, accurate, and timely review and reconciliation of account balances.

Condition

The City and MDC has experienced difficulties in certain financial management tasks such as timely review, reconciliation, and recording of property, plant, and equipment and related accumulated depreciation. While management has controls in place to reconcile these account balances, the controls did not operate on a consistent basis, which resulted in untimely closing of the financial records for the year ended September 30, 2016.

Cause and Effect

Lack of timely reconciliation of the property, plant, and equipment detail ledger to the related general ledger account resulted in significant delays in the closing and financial reporting process.

Auditors' Recommendation

Management should strengthen the organization'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.

View of Responsible Officials

In fiscal year 2016, the City went live with a software conversion. While the overall software conversion was a success, the City did experience issues related to property, plant, and equipment which required review and correction. As a result, closing of financial records was delayed.

As noted, the City has controls in place to reconcile property, plant, and equipment balances and has reemphasized with Accounting Staff the importance of performing this responsibility accurately and timely. Additionally, Accounting Division Management re-evaluated the responsibilities and duties of Accounting Staff and intends to dedicate a position strictly with the responsibility of managing property, plant, and equipment and related duties.

Findings and Questioned Costs Relating to Federal Awards

Finding Number: 2016-002

Federal Agency: Department of Transportation – Federal Aviation Administration

Program Name: Airport Improvement Program

CFDA No. and Program Expenditures: 20.106; \$317,192

Award Number and Program Award Year: 3-48-0150-055-2015

Compliance Requirement: Equipment and Real Property Management

Type of Finding: Material Noncompliance and Material Weakness in Internal Control

Questioned Costs: None

Repeat Finding: No

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Criteria

Per 2 CFR 200.313(d) through (e), an appropriate control system should be in place to manage equipment, and to safeguard and adequately maintain equipment. Equipment records shall be maintained accurately and shall include the description of the equipment, serial number or other identification number, source of the property, who holds title, the acquisition date, and the cost of the property, percentage of Federal participation in the project cost, the location, use and condition of the property.

Condition

The City did not have adequate controls over the capitalization of equipment. Of the three equipment items tested for additions and safeguarding requirements, one item listed in the City's records as equipment did not contain the required elements for equipment records, and was limited to planning and engineering costs for equipment installation. Due to project delays, the planning and engineering activities will need to be reperformed at the time the related equipment will actually be installed. As such, the City should not have capitalized the equipment and therefore did not ensure property records were properly maintained.

Cause

The City did not follow the established practice and procedures for fixed asset purchases and capitalization determinations.

Effect

Weaknesses in internal control and the identified noncompliance with equipment and real property requirements, could result in sanctions by the Federal Aviation Administration. Questioned costs are not applicable to the finding

as the associated cost is allowable under the grant. The total gross book value of equipment as of September 30, 2016 associated with the Airport Improvement Program was \$5,536,059.

Recommendation

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.

View of Responsible Officials

Management acknowledges that an item was inappropriately capitalized. At the creation of the project, the project was intended to be capitalized upon completion. However, the project was stopped after planning and engineering costs were incurred and those costs were improperly capitalized as no equipment was purchased.

To address, Management has reemphasized to Accounting Staff the need to evaluate projects upon completion, especially those that are discontinued, to determine if capitalizing the project is the proper treatment. Additionally, Accounting Division Management re-evaluated the responsibilities and duties of Accounting Staff and intends to dedicate a position strictly with the responsibility of managing property, plant, and equipment and related duties.

Finding Number: 2016-003

Federal Agency: Department of the Housing and Urban Development

Program Name: Economic Development Initiative-Special Projects (EDI)

CFDA No. and Program Expenditures: 14.251; \$35,588

Grant Number and Program Award Year: B-09-SP-TX-0152; September 30, 2016

Compliance Requirement: Reporting

Type of Finding: Noncompliance and Significant Deficiency in Internal Control

Questioned Cost: None

Repeat Finding: No

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Criteria

In accordance with 24 CFR Part 85.41, the Federal Financial Report (SF-425) is required to be submitted for the EDI program. Recipients use the SF-425 as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status. Recipients are required to report both cash management information on lines 10(a) through 10(c) and financial status information lines 10(d) through 10(o). In addition, 2 CFR Part 200.303 requires the program establish and maintain effective internal controls over Federal awards that provides reasonable assurance of compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.

Condition

The City did not have adequate controls over the SF-425. Of the two SF-425 Federal Financial Reports tested, the SF-425 for the reporting period end date of February 2, 2017 report's data did not agree to the City's accounting records. Management's review of the report did not identify the amounts reported under line 10(a) (cash receipts) and line 10(c) (cash on hand) were understated by \$6,351.

Cause

The City of Midland did not properly report cash receipts or cash on hand and the reviewer failed to detect these errors.

Effect

Weaknesses in internal controls and the identified noncompliance with reporting requirements, could result in sanctions by the Department of the Housing and Urban Development. Questioned costs are not applicable to this finding.

Recommendation

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.

View of Responsible Officials

Management acknowledges that an error was made in the preparation of a Federal Financial Report (Standard Form 425). Grant expenditures were properly recorded on the City's books in 2016, however a corrected Form 425 was needed. Management is committed to properly preparing Standard Form 425.

To address this error, Management will identify training related to Standard Form 425 reporting for the Grant Accountant and for those reviewing the reports. Additionally, Accounting Division Management has re-evaluated the responsibilities and duties of the Grant Accountant and plans to shift some duties to other positions allowing the Grant Accountant to focus more time on grant administration and reporting.

Finding Number: 2016-004

Federal Agency: Department of Transportation – Federal Aviation Administration and Department of Housing and Urban Development

Program Name: Airport Improvement Program (AIP) and Economic Development Initiative-Special Projects (EDI)

CFDA Nos. and Program Expenditures: 20.106; \$317,192 and 14.251; \$35,588

Award Number and Program Award Year: 3-48-0150-055-2015 and B-09-SP-TX-0152; September 30, 2016

Compliance Requirement: Other – Schedule of Expenditures of Federal Awards preparation

Type of Finding: Material Noncompliance and Material Weakness in Internal Control

Questioned Costs: None

Repeat Finding: No

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Criteria

2 CFR 200.510 indicates that the auditee must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 200.502 Basis for Determining Federal Awards Expended. Per 2 CFR 200.502 the determination of when a Federal award is expended should be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards. In addition, 2 CFR Part 200.303 requires the program establish and maintain effective internal controls over Federal awards that provides reasonable assurance of compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.

Condition

The City did not have adequate controls to ensure the SEFA was accurate. The amounts included in the SEFA for the AIP and EDI programs were based on cash draw-downs received rather than when the actual expenditure related to the Federal award occurred. This resulted in expenditures on the SEFA being overstated by \$266,443 for the AIP program and \$125,654 for the EDI program. The inclusion of inaccurate expenditures for these programs resulted in initial major program determination to be incomplete in relation to actual expenditure balances. Revisions to the SEFA were required to accurately present the federal expenditures. In addition, revisions to major program determination were necessary based on the revised federal expenditures.

Cause

The City did not follow the established requirements for determination of the expenditures to include in the SEFA, and the review performed over the SEFA did not include procedures to ensure the amounts recorded were complete and accurate in relation to the financial statements.

Effect

If not corrected, inaccurate expenditures would have been reported to the Federal government. In addition, the errors could result in improper selections of major program(s) for the single audit.

Auditors' Recommendation

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.

View of Responsible Officials

Management acknowledges that an error was made in the preparation of the Schedule of Expenditures of Federal Awards (SEFA). Grant expenditures were properly recorded on the City's books in 2016, and Management is committed to properly preparing the SEFA.

To address this error, Management will identify training related to SEFA reporting for the Grant Accountant and for those reviewing the reports. Additionally, Accounting Division Management has re-evaluated the responsibilities and duties of the Grant Accountant and plans to shift some duties to other positions allowing the Grant Accountant to focus more time on grant administration and reporting.

**END OF UNIFORM
GUIDANCE REPORTS
PAMPHLET**

**PAGES TO FOLLOW ARE
ASSOCIATED
DOCUMENTS**

CITY OF MIDLAND, TEXAS
Schedule of Prior Year Findings and Questioned Costs
Year ended September 30, 2016

The status of prior year audit recommendations is summarized below:

Original
Finding
Number

Current Status of Prior Audit Finding

None noted for 2015