

# **City of Conroe, Texas**

Compliance Report

For the Fiscal Year Ended September 30, 2018

**City of Conroe, Texas**  
Compliance Report  
For the Fiscal Year Ended September 30, 2018  
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# City of Conroe, Texas

## Schedule of Expenditures of Federal Awards For the Fiscal Year Ended September 30, 2018

Federal Grantor	Federal CFDA #	Project Number	Grant Funds Expended
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
CDBG Entitlement Grants Cluster:			
Community Development Block Grant	14.218	B-15-MC-48-0038	\$ 84,083
Community Development Block Grant	14.218	B-16-MC-48-0038	128,703
Community Development Block Grant	14.218	B-17-MC-48-0038	275,117
Total CDBG Entitlement Grants Cluster			<u>487,903</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>487,903</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Direct:			
Bullet Proof Vests	16.607	2016BUBX16081273	11,070
Bullet Proof Vests	16.607	2017BUBX17085801	7,458
Total CFDA 16.607			<u>18,528</u>
Passed Through Houston Police Department:			
Houston Metro Internet Crimes Against Children Task Force	16.543	4600014572 2017-0726	100,007
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u>118,535</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Federal Transit Cluster:			
Section 5309 Transit Access Improvements	20.500	TX-04-0110-00	229,463
FY 13 Section 5307 Urbanized Area Formula Fund	20.507	TX-90-Y049-00	2,791
FY 14 Section 5307 Urbanized Area Formula Fund	20.507	TX-90-Y063-00	20,634
FY 15 Section 5307 Urbanized Area Formula Fund	20.507	TX-2016-049-00	178,829
FY 16 Section 5307 Urbanized Area Formula Fund	20.507	TX-2017-003-00	218,765
Safe School Access Program FHWA Transfer	20.507	TX-2018-016-00	650,827
Total Federal Transit Cluster			<u>1,301,309</u>
Transit Services Programs Cluster:			
FY 13/14 Section 5310 Enhanced Mobility	20.513	TX-16-X024-00	11,314
FY 15/16 Section 5310 Enhanced Mobility	20.513	TX-2017-017-00	131,946
Total Transit Services Programs Cluster			<u>143,260</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>1,444,569</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Passed Through the Texas Department of Public Safety's Division of Emergency Management:			
Disaster Grants - Public Assistance (FEMA)	97.036	PA-06-TX-4272	50,562
Emergency Management Performance Grant	97.042	17TX-EMPG-0470	34,869
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>85,431</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 2,136,438</u></u>

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

## **City of Conroe, Texas**

Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended September 30, 2018

### **Note 1. General**

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the City of Conroe, Texas (the City). The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in this schedule. The information on this schedule is prepared 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).

### **Note 2. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a special revenue fund, a component of the governmental fund type or general fund. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing resources) and decreases (i.e. expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available); and, expenditures in the accounting period in which the fund liability is incurred, if measurable. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly when such funds are received, they are recorded as deferred revenues until earned.

The City has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

### **Note 3. Availability of Federal Grant Funds**

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions of the Compliance Supplement.

### **Note 4. Relationship to Federal Financial Reports**

Grant expenditures reports as of September 30, 2018, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

### **Note 5. Loans Outstanding**

The City of Conroe, Texas has received a loan guarantee from the Department of Housing and Urban Development under the Section 108 Loan Program for \$1,794,000. As of September 30, 2018, the City had a balance of \$530,002 on the loan guarantee. The City incurred \$118,000 of expenditures during the year ended September 30, 2018 related to principal repayments on this program.

**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

To the City Council of  
City of Conroe, Texas  
P.O. Box 3066  
Conroe, Texas 77305

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 discretely presented component units, each major fund, and the aggregate remaining fund information of City of Conroe, Texas (City) as of and for the year ended September 30, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 21, 2019.

***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 City'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.

***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 Council of  
City of Conroe, Texas

**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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 21, 2019

**Independent Auditor's Report on the Schedule of Expenditures of  
Federal Awards and on Compliance for Each Major Federal  
Program and Report on Internal Control over Compliance  
in Accordance with the Uniform Guidance**

To the City Council of  
City of Conroe, Texas  
P.O. Box 3066  
Conroe, Texas 77305

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

We have audited the City of Conroe, Texas' (the City) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (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, 2018. The City's major federal programs are 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 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 (CFR) 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 our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each 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 each of its major federal programs 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 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.

*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. *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 were not identified.

## **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 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, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 21, 2019, 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.

The City Council of  
City of Conroe, Texas

**Purpose of this Report**

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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 21, 2019

**City of Conroe, Texas**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended September 30, 2018

**Section 1. Summary of Auditor's Results**

**Financial Statements**

- 1. Type of auditor's report issued: Unmodified
- 2. Internal control over financial reporting:
  - a. Material weakness(es) identified? Yes
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
- 3. Noncompliance material to the financial statements noted? No

**Federal Awards**

- 4. Internal control over major programs:
  - a. Material weakness(es) identified? No
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
- 5. Type of auditor's report issued on compliance with major programs: Unmodified
- 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No
- 7. Identification of major programs: Federal Transit Cluster  
CFDA No. 20.500 and 20.507
- 8. Dollar threshold used to distinguish between Type A and Type B federal programs: \$750,000
- 9. Auditee qualified as a low-risk auditee? Yes

## City of Conroe, Texas

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended September 30, 2018

### Section 2. Financial Statement Findings

2018-001

#### Material Weakness in Internal Control over Financial Reporting: Financial Statement Misstatement

##### Criteria

Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

##### Condition

A material adjusting journal entry was identified during the audit of the financial statements that was not previously identified or corrected in a timely manner by the City.

##### Cause

In the preparation of its financial records for the year ended September 30, 2018, the City did not properly adjust Conroe Industrial Development Corporation's (CIDC) land held for sale during the year end close process to remove cost associated with land sold during the fiscal period. Proceeds from CIDC land sales of \$4,710,887 were recorded in fiscal year 2018; however, \$1,613,945 of historical cost associated with those sales was not removed from the land held for sale asset account or from the gain from sale account until discovery from audit procedures. Because this error was not detected timely by the City, there is an indication that closing procedures, specifically the monitoring and review of financial information, were not being effectively performed.

##### Effect or Potential Effect

Material misstatement of the City's financial statements was not prevented, or detected and corrected, by the City's system of internal control. Failure to establish effective monitoring and closing procedures will allow possible irregularities to exist and continue without notice.

##### Recommendation

We recommend that the City review its internal control procedures over financial reporting to ensure controls are in place to identify and record all transactions in the correct period.

### Section 3. Federal Award Findings and Questioned Costs

None reported

### Section 4. Schedule of Prior Audit Findings and Questioned Costs

None reported



### **Corrective Action Plan**

#### **2018-001 Material Weakness in Internal Control over Financial Reporting: Financial Statement Misstatement**

*Response:* The City's financial management team will review the internal control procedures over financial reporting, specifically in regards to the retirement and/or sale of capital assets. The procedure manual will be updated to include a monthly reconciliation between the fixed asset module and general ledger with a review process.

*Estimated Completion Date:* September 30, 2019

*Contact Person:* Cassie Smith, Accounting Manager