

*SINGLE AUDIT REPORTS*  
**CITY OF LEAGUE CITY,  
TEXAS**

For the year ended  
September 30, 2009

# CITY OF LEAGUE CITY, TEXAS

## SINGLE AUDIT REPORTS

Year ended September 30, 2009

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**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**

March 5, 2010

To the Honorable Mayor and  
City Council Members of the  
City of League City, Texas:

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 League City, Texas (the "City"), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 5, 2010. We conducted our audit in accordance with generally accepted auditing standards 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs, item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider item 2007-1 to be a material weakness in internal control over financial reporting.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain other matters that we reported to management of the City in a separate letter dated March 5, 2010.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 BELT HARRIS & ASSOCIATES, LLLP

Belt Harris & Associates, LLLP  
*Certified Public Accountants*  
Houston, Texas



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM, INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS**

March 5, 2010

To the Honorable Mayor and  
City Council Members of the  
City of League City, Texas

**Compliance**

We have audited the compliance of the City of League City, Texas (the “City”), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards 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. Our audit does not provide a legal determination of the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

**Schedule of Expenditures of Federal Awards**

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 League City, Texas (the "City"), as of and for the year ended September 30, 2009, and have issued our report thereon dated March 5, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Belt Harris & Associates, LLLP  
*Certified Public Accountants*  
Houston, Texas

**CITY OF LEAGUE CITY, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
Year ended September 30, 2009

No prior findings.

**CITY OF LEAGUE CITY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended September 30, 2009

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of League City, Texas.
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements, one of which was considered to be a material weakness.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the City are reported in Part C of this schedule.
7. The programs included as major programs included:

	<u>CFDA number</u>
a. Disaster Grants – Hurricane Ike	97.036
b. Community Development Block Grant (CDBG)	14.218
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City did not classify as a low-risk auditee in the context of OMB Circular A-133.

**CITY OF LEAGUE CITY, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued*  
Year ended September 30, 2009

**B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT**

*Material Weakness:*

**2007-1. SEGREGATION OF DUTIES**

**Background**

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the City can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the City.

**Finding**

As with other cities of the same staff size, there are instances where additional controls could be put in place if more personnel were available and further segregation in duties could be achieved. While the City's segregation of duties appears reasonable given the number of personnel there are some inherent risks given the City's staff size. This matter is being reported to comply with new reporting requirements pertaining to matters commonly known or previously reported.

**Recommendation**

The City should continue to evaluate opportunities for greater segregation of duties.

**Management's Response**

The City segregates duties where possible. However, in many circumstances, full segregation is not efficient due to the small number of staff. In those situations, other controls are in place to reduce the risk of material misstatement. Management will continue to evaluate the cost versus the benefit of greater segregation.

**CITY OF LEAGUE CITY, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued*  
Year ended September 30, 2009

**C. FINDINGS – FEDERAL AWARDS**

None

**CITY OF LEAGUE CITY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended September 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<i>Pass-through Texas Department of Public Safety's Division of Emergency Management</i>			
Disaster Grants - Public Assistance-Hurricane Ike	97.036	DR 1791	\$ 3,294,531
<i>Pass-through Texas Division of Emergency Management</i>			
Emergency Management Performance Grant	97.042	09TX-EMPG-0344	52,579
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u>3,347,110</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Community Development Block Grant	14.218	B-07-MC-48-0045	201,857
Community Development Block Grant	14.218	B-08-MC-48-0045	155,571
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>357,428</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Bulletproof Vest Partnership Grant Program	16.607	2009BUBX08042026	2,535
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u>2,535</u>
<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<u>\$ 3,707,073</u>

# **CITY OF LEAGUE CITY, TEXAS**

## ***NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

**Year ended September 30, 2009**

### **1. REPORTING ENTITY**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of League City, Texas.

### **2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.