

SINGLE AUDIT REPORTS

**CITY OF LIBERTY HILL,
TEXAS**

For the Year Ended
September 30, 2013

CITY OF LIBERTY HILL, TEXAS

SINGLE AUDIT REPORTS

September 30, 2013

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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**

July 22, 2014

To the Honorable Mayor and
City Council Members, of the
City of Liberty Hill, 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, and each major fund of the City of Liberty Hill, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 22, 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 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 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 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, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies 2013-1 through 2013-3 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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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.

BELT HARRIS PECHACEK, LLLP

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Certified Public Accountants
Houston, Texas



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

July 22, 2014

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

Report on Compliance for Each Major Federal Program

We have audited the City of Liberty Hill, Texas (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013. 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 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 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 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

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Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the 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, 2013.

Other Matters

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, 2013.

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.

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 and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report 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, and each major fund of the City, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 22, 2014, 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 OMB Circular A-133 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 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CITY OF LIBERTY HILL, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2013

No prior findings.

CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Liberty Hill, Texas.
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified 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>Program Title</u>	<u>CFDA Number</u>
Clean Water State Revolving Fund Awards	66.458

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City did not qualify as a low-risk auditee in the context of OMB Circular A-133.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

Material Weaknesses:

2013-001. MONTH END PROCEDURES

Criteria

Balance sheet accounts should tie to subsidiary ledgers on a consistent basis to ensure that financial statements are materially correct.

Condition

It appeared the City lacked a formal process for closing the books at the end of each month. Multiple adjustments were required at year-end during the audit process to correct general ledger account balances. Accordingly, it did not appear that some subsidiary ledgers and other support were being compared to the general ledger on a monthly basis to ensure that interim financial statements were correct.

CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2013

Effect

The lack of consistent monthly procedures could lead to misstated account balances.

Cause

The City has not established formal month end procedures to reconcile balance sheet accounts to detailed ledgers on a consistent basis.

Recommendation

The City should develop a formal closing process at month end including reviewing supporting subsidiary ledgers and other supporting documents to determine their accuracy and to ensure the general ledger is appropriately adjusted and the financial statements are accurate.

2013-002 PAYROLL TAX DOCUMENTATION

Criteria

The City should maintain copies of statutory required financial documentation that are filed with other governments.

Condition

The City could not provide copies of their employer's quarterly federal tax return filed with the Internal Revenue Service (IRS) for payroll taxes paid for the first three quarters of 2013.

Effect

The City could not provide copies of statutory required financial documents that were filed with another government.

Cause

The City lacks procedures for retaining copies of financial documentation.

Recommendation

The City should develop policies and procedures to make copies of statutory required financial documentation that are filed with other governments.

2013-003 SEGREGATION OF DUTIES

Criteria

Segregation of duties refers to internal control policies to assign tasks among personnel so that no one person handles substantially all aspects of a transaction.

CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2013

Condition

The City lacks segregation of duties within the municipal court department. It was noted during the audit that the same employee who collects money from citation fines also deposits the money in the City's bank account.

Effect

The lack of segregation of duties potentially leaves the City vulnerable to the misappropriation of assets.

Cause

The City's segregation of duties is limited by the number of personnel, their skill set and work load, and the organizational structure of the City.

Recommendation

The City should explore opportunities to mitigate its exposure to the inherent risks of limited segregation of duties through the use of exception reports, logs of changes made to the finance system, etc. The cost versus benefits to apply mitigating controls should be considered.

C. FINDING – FEDERAL AWARDS

None noted

CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2013

<u>Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award</u>	<u>Expenditures</u>
FEDERAL AWARDS				
U.S. Environmental Protection Agency				
<i>Pass-Through Texas Water Development Board</i>				
Capitalization Grants for Clean Water, State Revolving Funds	66.458	XP-96628301	\$ 779,215	\$ 779,215
		Total this Grantor	<u>779,215</u>	<u>779,215</u>
		Total U.S. Environmental Protection Agency	<u>779,215</u>	<u>779,215</u>
		Total Federal Expenditures	<u>\$ 779,215</u>	<u>\$ 779,215</u>

CITY OF LIBERTY HILL, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2013

1. REPORTING ENTITY

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