

**OMB Circular A-133 Single Audit - Federal and State Awards**

**City of Arlington, Texas**

**September 30, 2013**

**City of Arlington, Texas**

**OMB Circular A-133 Single Audit - Federal and State Awards**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

**Grant Thornton LLP**  
1717 Main Street, Suite 1500  
Dallas, TX 75201-4667  
**T** 214.561.2300  
**F** 214.561.2370  
GrantThornton.com  
[linkd.in/GrantThorntonUS](http://linkd.in/GrantThorntonUS)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

The Honorable Mayor, City Council and City Manager  
The City of Arlington, Texas

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, 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 March 4, 2014.

Our report includes a reference to other auditors who audited the financial statements of the Arlington Housing Authority and the Arlington Convention and Visitors Bureau, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Arlington Convention and Visitors Bureau, Inc., were not audited in accordance with *Government Auditing Standards*.

**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 design 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 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.

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. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and other matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Intended purpose**

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 report is not suitable for any other purpose.

GRANT THORNTON LLP

Dallas, Texas  
March 4, 2014



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

The Honorable Mayor, City Council and City Manager  
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twitter.com/GrantThorntonUS

**Report on compliance for each major federal and state program**

We have audited the compliance of the City of Arlington, Texas (the “City”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Circular A-133 Compliance Supplement* and the State of Texas *Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2013. The City’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Our audit of, and opinion on, the City’s compliance for each major federal and state program does not include the operations of the Arlington Housing Authority, (a component unit), which received federal awards for the year ended September 30, 2013 that are not included in the accompanying schedule of findings and questioned costs. The Arlington Housing Authority engaged other auditors to audit its compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*.

**Management’s responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the City’s federal and state programs.

**Auditor’s responsibility**

Our responsibility is to express an opinion on compliance for each of the City’s major federal and state 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*.

The above-mentioned standards, OMB Circular A-133, and the State of Texas *Single Audit Circular* 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 or state 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 and state program. However, our audit does not provide a legal determination of the City's compliance.

### **Opinion on each major federal and state 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 and state programs for the year ended September 30, 2013.

### **Instance of noncompliance**

The results of our audit procedures disclosed an instance of noncompliance, described in the accompanying schedule of findings and questioned costs as item 2013-01 that is required to be reported in accordance with OMB Circular A-133 and the State of Texas *Single Audit Circular*. Our opinion on each major federal and state program is not modified with respect to this matter.

### **City's response to the finding**

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

### **Report on internal control over compliance**

Management of the City is responsible for designing, implementing, 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 compliance requirements that could have a direct and material effect on each major federal or state program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas *Single Audit Circular*, 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.

As described in our Report on Compliance for Each Major Federal and State Program above, this Report on Internal Control Over Compliance does not include the results of the other auditors' testing of internal control over compliance that is reported on separately by those auditors.

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 or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 or state program will not be prevented, or detected and corrected, on a timely basis.

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. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 or state 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 identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2013-01 that we consider to be a significant deficiency in the City's internal control over compliance.

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

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas *Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP

Dallas, Texas  
March 4, 2014



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE  
AUDIT CIRCULAR**

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twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager  
The City of Arlington, Texas

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, 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 our report thereon dated March 4, 2014 expressed unmodified opinions on these financial statements. 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 and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*, and is not a required part of the basic financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

GRANT THORNTON LLP

Dallas, Texas  
March 4, 2014



**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2013  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>FEDERAL AWARDS</b>			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grant Entitlement Grants Cluster			
Comm Dev Block Grant - 36th year	B-10-MC-48-0008	14.218	\$ 92
Comm Dev Block Grant - 37th year	B-11-MC-48-0008	14.218	142
Comm Dev Block Grant - 38th year	B-12-MC-48-0008	14.218	3,741
Comm Dev Block Grant - 39th year	B-13-MC-48-0008	14.218	<u>498</u>
Total Community Development Block Grant Entitlement Grants Cluster			4,473
Emergency Shelter Grant 11	E-11-MC-48-0009	14.231	47
Emergency Shelter Grant 12	E-12-MC-48-0009	14.231	166
Emergency Shelter Grant 13	E-13-MC-48-0009	14.231	<u>79</u>
Total Emergency Shelter Grants Program			292
Home Investment Partnership/10	M-10-MC-48-0212	14.239	37
Home Investment Partnership/11	M-11-MC-48-0212	14.239	183
Home Investment Partnership/12	M-12-MC-48-0212	14.239	1,154
Home Investment Partnership/13	M-13-MC-48-0212	14.239	<u>154</u>
Total Home Investment Partnerships Program			<u>1,528</u>
Total Department of Housing and Urban Development			6,293
ENVIRONMENTAL PROTECTION AGENCY			
Direct Program:			
Brownfields Petroleum Assessment	BF-00F21601-0	66.818	16
Brownfields Hazardous Substances Assessment	BF-00F22201-0	66.818	<u>28</u>
Total Brownfields Grants			44
Pass-through Texas Water Development Board:			
Drinking Water Loan 2008	61442	66.468	1,675
Clean Water Loan 2010	72313	66.458	<u>2,948</u>
Total Texas Water Development Board			<u>4,623</u>
Total Environmental Protection Agency			4,667

**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2013  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>DEPARTMENT OF JUSTICE</b>			
Direct Programs:			
HIDTA	Not Specified	95.001	\$ 17
N Texas Anti-Trafficking Team	2011-VT-BX-K007	16.320	254
Public Safety Partnership and Community Policing Grants			
COPS - Child Sexual Predator Program	2011-CS-WX-0018	16.710	247
COPS Technology 2010	2009-CK-WX-0055	16.710	<u>107</u>
Total Public Safety Partnership and Community Policing Grants			<u>354</u>
Total Direct from the Department of Justice			625
Pass-through Texas Alcoholic Beverage Commission:			
Enforce Underage Drinking Laws	WF-20362-04	16.727	5
Pass-through Office of the Governor - Criminal Justice Division:			
Family Violence Intervention and Prevention 13	WF-20362-05	16.588	14
Family Violence Intervention and Prevention 14	WF-20362-06	16.588	<u>3</u>
Subtotal CFDA 16.588			17
Hispanic Outreach Counselor 13	VA-21071-04	16.575	67
Hispanic Outreach Counselor 14	VA-21071-05	16.575	5
Response Team Counselor 13	VA-19291-06	16.575	35
Response Team Counselor 14	VA-19291-07	16.575	<u>3</u>
Subtotal CFDA 16.575			110
JAG Program Cluster			
AFIS Crime Reduction Strategy 13	23519-03	16.738	42
Pass-through City of Fort Worth:			
Justice Assistance Grant 12	2012-DJ-BX-1036	16.738	2
Justice Assistance Grant 11	2011-DJ-BX-2923	16.738	175
Justice Assistance Grant 10	2010-DJ-BX-0164	16.738	134
Justice Assistance Grant 09 - ARRA	2009-SB-B9-1479	16.804	<u>164</u>
Total JAG Program Cluster			<u>517</u>
Total Department of Justice			1,274

**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2013  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>DEPARTMENT OF TRANSPORTATION</b>			
Direct Programs:			
Federal Transit - Formula Grants			
Handitran - Operating/Capital	TX-90-X961	20.507	\$ 369
Handitran - Operating/Capital	TX-90-X989	20.507	419
Handitran - Operating/Capital	TX-90-Y038	20.507	<u>1,264</u>
Total Direct from Department of Transportation			2,052
Pass-through Texas Department of Transportation:			
STEP Click it or Ticket	2011-Arlington-CIOT-00002	20.600	7
STEP Comprehensive	2011-Arlingto-S-1YG-0055	20.600	<u>171</u>
Subtotal CFDA 20.600			<u>178</u>
Highway Planning and Construction Grants			
Arlington Bikeway-Citywide	CSJ0902-48-467	20.205	17
Intelligent Transportation System Field Devices	CSJ0902-48-759	20.205	501
Center to Center Communication System	CSJ0902-48-758	20.205	<u>13</u>
			<u>531</u>
Pass-through Texas Department of Transportation - Federal Highway Administration:			
Bowman Branch Linear Park Trail	CSJ 0902-48-790	20.205	<u>795</u>
Total Highway Planning and Construction Grants			1,326
Airport Wildlife Assessment			
Terminal West Taxiway Construction	1202ARNGT	20.106	77
Terminal West Taxiway Construction	1202ARLNG	20.106	<u>2,256</u>
Subtotal CFDA 20.106			<u>2,333</u>
Pass-through North Central Texas Council of Governments:			
MAX Pilot Project	TX-37-X106-00	20.516	41
Job Access/Reverse Commute (Ride 2 Work)	n/a	20.516	79
Subtotal CFDA 20.516			<u>120</u>
Total Department of Transportation			6,009
<b>DEPARTMENT OF HOMELAND SECURITY - FEDERAL EMERGENCY MANAGEMENT AGENCY</b>			
Direct Programs:			
SAFER Assistance for Firefighters	EMW-2008-FF-00489	97.044	<u>61</u>
			61
Homeland Security Cluster			
Pass-through Texas Department of Public Safety-Division of Emergency Management:			
Homeland Security Grant Program UASI 09	2009-SS-T9-0064	97.008	(59)
Homeland Security Grant Program UASI 10	2010-SS-T0-0008	97.008	1,875
Homeland Security Grant Program UASI 11	2011-SS-00019	97.067	1,201
Homeland Security Grant Program UASI 12	2012-SS-00018	97.067	26
Homeland Security Grant Program MMRS 10	2010-SS-T0-0008	97.071	24
Homeland Security Grant Program MMRS 11	2011-SS-00019	97.067	268
Homeland Security Grant Program SHSP 10	2010-SS-T0-0008	97.073	<u>(2)</u>
Total Homeland Security Cluster			<u>3,333</u>
Emergency Management Assistance SLA-50	06-TX-EMPG-004	97.042	<u>48</u>
Total pass-through Texas Dept of Public Safety-Division of Emergency Management			3,381
Pass-through Texas Water Development Board:			
Severe Repetitive Loss Program	1200011415	97.110	<u>1,120</u>
Total Department of Homeland Security - Federal Emergency Management Agency			4,562

**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2013  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF ENERGY			
Pass-through Texas Railroad Commission: Texas Alternative Fuel Fleet Pilot Program	DE-EE0002564	81.086	\$ <u>21</u>
Total Department of Energy			21
DEPARTMENT OF COMMERCE - National Institute of Standards and Technology			
Pass-through Texas State Library and Archives Commission: Broadband Tech Opportunity ARRA	461-11001	11.557	<u>164</u>
Total Department of Commerce - National Institute of Standards and Technology			164
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Direct Programs:			
National Leadership Grants	LG-50-12-0612-12	45.312	47
Pass-through Texas State Library and Archives Commission:			
Library Impact 13	475-13002	45.310	9
Library Special Projects (Links) 13	478-13001	45.310	47
Library Cooperation 13	479-13001	45.310	43
Texttreasures 13	723-13001	45.310	8
Subtotal CFDA 45.310			<u>107</u>
Total Institute of Museum and Library Services			154
National Endowment of the Arts Arts Education in American Communities - Poetry	12-5900-7130	45.024	<u>2</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$23,146</u></b>



**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2013  
(Amounts in thousands)

<u>State Grantor/Program Title</u>	<u>Grant I.D. Number</u>		<u>State Expenditures</u>
<b>STATE AWARDS</b>			
TEXAS DEPARTMENT OF TRANSPORTATION:			
Rountine Airport Maintenance Program 13	AM2013ARLNG	N/A	\$ 50
Handitran Operating	51302F7042	N/A	<u>244</u>
			294
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS:			
Homeless Housing and Services Program BMIR Admin 2013	65130001607	N/A	116
Homeless Housing and Services Program Housing Trust 2013	66130001657	N/A	170
Homeless Housing and Services Program BMIR Admin 2012	65120001379	N/A	<u>2</u>
			288
TEXAS DEPARTMENT OF PUBLIC SAFETY:			
Tarrant County Auto Theft Task Force 2013	SA-T01-10065-13	N/A	146
Tarrant County Auto Theft Task Force 2014	SA-T01-10065-14	N/A	<u>12</u>
			158
TOTAL EXPENDITURES OF STATE AWARDS			<u>740</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			<u>\$23,886</u>

**City of Arlington, Texas**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2013

**(1) Basis of Accounting**

The Schedule of Expenditures of Federal and State Awards (the "Schedule") is prepared on the modified accrual basis of accounting.

**(2) Reporting Entity**

The City of Arlington, Texas (the "City"), for purposes of the Schedule of Expenditures of Federal and State Awards, includes all the funds of the primary government as defined by the Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining whether Certain Organizations Are Component Units- an amendment of GASB Statement No. 14*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. This report does not include the results of testing of compliance applicable to each major program or of internal control over compliance in accordance with OMB Circular A-133 for the Housing Authority of the City of Arlington, Texas, which was audited by other auditors and is reported on separately.

**(3) Relationship To Federal Financial Reports**

Grant expenditures reports as of September 30, 2013, 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 the year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

**(4) Subrecipients**

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Community Development Block Grant (CFDA #14.218)	\$525,170
Emergency Shelter Grant (CDFA #14.231)	186,007
Home Investment Partnership (CFDA #14.239)	<u>51,024</u>
	<u>\$762,201</u>

**City of Arlington, Texas**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS -  
CONTINUED**

September 30, 2013

**(5) Outstanding Loans**

In prior years, the City has provided loans through its various Community Development Block Grant programs (CFDA #14.218). The outstanding balance of the loans receivable at September 30, 2013 was \$140,006. There were no new loans receivable in the current year.

The City has an outstanding loan commitment under the Drinking Water State Revolving Loan Fund from the Texas Water Development Board, as a pass through agency for the Environmental Protection Agency (CFDA #66.468). As of September 30, 2013, the outstanding loan payable balance was: TWDB Series 2008 \$25,870,000.

The City has an outstanding loan commitment under the Clean Water State Revolving Loan Fund from the Texas Water Development Board, as a pass through agency for the Environmental Protection Agency (CFDA #66.458). As of September 30, 2013, the outstanding loan payable balance was: TWDB Series 2010 \$11,805,000.

**(6) Federal and State Awards Reconciliation (in thousands)**

Intergovernmental revenues per statement of revenues, expenditures, and changes in fund balances - governmental funds	\$19,483
Plus Texas Water Development Board Loan	4,623
Less intergovernmental awards from sources other than federal and state awards	<u>(220)</u>
 Total expenditures per schedule of expenditures of federal and state awards	 <u>\$23,886</u>

**(7) Relationship of Expenditures**

The negative expenditures primarily represent a reallocation of grant expenditures between grant program years or reimbursements of grant expenditures by the General Fund resulting from grant budget overruns in the fiscal year after the year of expenditure recognition.

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended September 30, 2013

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

***Federal and State Awards***

Internal controls over major program:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes



**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION I - SUMMARY OF AUDITOR'S RESULTS - Continued**

Identification of major programs:

<u>CFDA/Grant Number/State Identification Number</u>	<u>Name of Federal and State Program or Cluster</u>
<b>Major Federal Programs:</b>	
11.557	Broadband Technology Opportunities Program (BTOP) - ARRA
16.710	Public Safety Partnership and Community Policing Grants (COPS)
16.738, 16.804	Justice Assistance Grant (JAG) Program Cluster - ARRA
20.205	Highway Planning and Construction
20.507	Federal Transit - Formula Grants – Handitran - Operating/Capital
97.008, 97.067, 97.071, 97.073	Homeland Security Cluster
97.110	Severe Repetitive Loss Program
<b>Major State Program:</b>	
51302F7042	Handitran Operating
Dollar threshold used to distinguish between type A and type B programs:	\$694,380 for federal programs \$300,000 for state programs
Auditee qualified as low-risk auditee-Federal?	Yes
Auditee qualified as low-risk auditee-State?	Yes

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

The audit disclosed no findings required to be reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS**

**Finding #:** 2013-01

**CFDA Title:** Homeland Security Cluster

**CFDA Numbers:** 97.008/97.067/97.071/97.073

**Federal Award Numbers:** 2009-SS-T9-0064/2010-SS-T0-0008/2011-SS-00019

**Federal Agency:** Department of Homeland Security

**Pass-through Entity:** Texas Department of Public Safety – Division of Emergency Management

**Compliance Requirement:** Cash Management

**Type of Finding:** Significant Deficiency and Non-Compliance

**Criteria:** When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

**Condition:** For three (3) of forty (40) non-payroll expenditures judgmentally selected for testing, the City requested reimbursement prior to payment of expenditure with City funds.

**Questioned Costs:** None

**Effect:** The City is not in compliance with cash management requirements which could result in the City being denied future grant funding.

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Cause:** The reviewer/approver does not verify the date payment was issued to the vendor. In some cases the payment is scheduled out. The expense will show on the general ledger reports but there will be an Accounts Payable until the check is issued by the system according to the pay date set. Payment terms are set at the vendor level, not for individual invoices. Departments have been instructed to check in the system for the actual payment date. These must have been missed by the preparer.

**Recommendation:** We recommend that the City implement City-wide policies and procedures for all grant programs related to cash management and implement controls to ensure that reimbursement requests are not submitted prior to actual payment disbursement to vendors.

**Views of Responsible Officials and Planned Corrective Action:** Due to the new state documentation requirements, effective December 1, 2013, for requesting reimbursements, the ability to get reimbursed prior to a check being cut to the vendor will no longer be an issue. The state is requiring an accounting system print out that includes vendor name, invoice number, check number, date and amount paid, a copy of the cancelled check, or another form of official documentation that has these specific pieces of information on it. Prior to this guideline, the check number was not required by the state. The City will not be able to provide a check number if a check has not been issued, and without a check number, we will not be able to submit for a reimbursement.

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**Year ended September 30, 2013**

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

**Finding #:** 2012-1

**CFDA Title:** Homeland Security Cluster

**CFDA Numbers:** 97.008/97.053/97.067/97.071/97.073

**Federal Award Numbers:** 2008-GE-T8-0034/2009-SS-T9-0064/2010-SS-T0-0008/2011-SS-00019

**Federal Agency:** Department of Homeland Security

**Pass-through Entity:** Texas Department of Public Safety

**Compliance Requirement:** Equipment and Real Property Management

**Type of Finding:** Significant Deficiency and Non-Compliance

**Criteria:** Per the A-102 Common Rule (§.32) equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

**Condition:** The City's Emergency Management Division provided inventory listings of assets acquired with grant funds. However, there was no evidence that physical observations had been conducted for all assets listed to verify the existence and condition of those assets.

**Questioned Costs:** None

**Effect:** The absence of documented physical inventories at least once every two years could result in lost, damaged or destructed inventory going undetected in a timely manner. Lack of documented physical inventory observations could also result in the City not identifying equipment for reutilization, upgrades, repairs, or disposal in a timely manner.



**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

<b>Cause:</b>	Management indicated in the prior fiscal year that their interpretation of the requirements was that inventories had to be conducted at least once every two years, but not necessarily documented. As a result, management implemented procedures to ensure that physical observation inventories are taken annually; however, the observations were not completed for all inventories purchased with grant funds and included in the inventory listing. In addition, the equipment listing did not include adequate documentation to determine the status of the inventory observations.
<b>Recommendation:</b>	We recommend that the City schedule adequate time to complete the performance of a physical inventory of all equipment at least once every two years, which would include an inventory list of fixed assets acquired with grant funds and adequate documentation of the results of the physical inventory.
<b>Prior Year Views of Responsible Officials and Planned Corrective Action:</b>	The original inventory finding in the 2011 Single Audit was communicated to management in February 2012. The Office of Emergency Management (OEM) responded immediately with the development of an inventory program fully in compliance with Federal guidelines. The OEM Inventory Control Plan, updated for compliance on February 16, 2012, includes an annual inventory and retention of all inventory documentation. Implementation of the Inventory Control Plan was delayed to accommodate emergency response to the April 2012 tornado. The Inventory Control Plan inventories were started in September 2012, and were partially complete at the time of the 2012 Single Audit in October 2012. Management anticipates full compliance for fiscal year 2013.
<b>Status of Corrective Prior Year Corrective Action:</b>	Corrective action implemented November 2012

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Finding #:** 2012-2

**CFDA Title:** Homeland Security Cluster

**CFDA Numbers:** 97.008/97.053/97.067/97.071/97.073

**Federal Award Numbers:** 2008-GE-T8-0034/2009-SS-T9-0064/2010-SS-T0-0008/2011-SS-00019

**Federal Agency:** Department of Homeland Security

**Pass-through Entity:** Texas Department of Public Safety

**Compliance Requirement:** Procurement, Suspension and Debarment

**Type of Finding:** Control Deficiency

**Criteria:** Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

**Condition:** For three out of 19 procurement transactions tested, the City could not provide documentation indicating that they verified that the entity was not suspended or debarred. Although audit testing indicated that the City's contracted vendors were not debarred or suspended, there was no evidence that City staff verified suspension and debarment prior to procuring services from these vendors.

**Questioned Costs:** None

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Effect:** There is the potential that the City may be contracting with individuals or subcontractors that are suspended or debarred, thus causing the City to be ineligible to receive federally reimbursed funds due to a lack of adherence to policies surrounding suspension and debarment.

**Cause:** According to the City's Financial Management and Resources management, the requirement to document the review for suspension and debarment was established with State Administrative Agency (SAA) Information Bulletin 12-03, dated June 29, 2012. As the expenditures in question were made prior to this date, management believes it only had a requirement to have a policy in place to check for suspension and debarment, but not a requirement to document that review.

**Recommendation:** We recommend that the City include a clause in all vendor contracts for vendors to certify that they are not suspended or debarred. The City should designate a specific individual to perform EPLS verification and include the documentation of the search results in the vendor's file and provide adequate training to all purchasing personnel in regard to this requirement to enforce procedures and ensure compliance with this requirement.

**Prior Year Views of Responsible Officials and Planned Corrective Action:**

Prior to the Texas Department of Public Safety State Administrative Agency (SAA) Information Bulletin No. 12-003 of June 29, 2012, management was not aware that grant guidelines required that the City maintain documentation of a negative result of a search of the Excluded Parties Listing Systems database for vendor debarment status. Management had procedures in place that included checking the database for all new vendors; however, the requirement did not specify retention of a negative response. SAA Information Bulletin No. 12-003 clarified Federal guidance for vendor debarment status verification, including requiring written policy and procedures. In response, management issued OEM Grant Memo 2012-004.1 requiring retention of negative search results for all vendors receiving grant funding through the Department of Homeland Security. With the implementation of OEM Grant Memo 2012-004.1, all OEM grants will be in compliance with Federal debarment guidelines for fiscal year 2013.

**Status of Corrective Prior Year Corrective Action:**

Corrective action implemented October 2012

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Finding #:** 2012-3

**CFDA Title:** Public Safety Partnership and Community Policing Grants (COPS) - ARRA

**CFDA Number:** 16.710

**Federal Award Numbers:** 2009-CX-WX-0018/2011-RJ-WX-0081

**Federal Award Years:** 2009, 2011

**Federal Agency:** U.S. Department of Justice

**Pass-through Entity:** N/A

**Compliance Requirement:** Equipment and Real Property Management

**Type of Finding:** Significant Deficiency and Non-Compliance

**Criteria:** Per A-102 Common Rule (§\_32), equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

**Condition:** The City's Fire Department staff provided inventory listings of assets acquired with grant funds, however, the Department has not established property records that contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including the date of disposal and sales price or method used to determine current fair market value. In addition, there was no evidence that physical observations had been conducted to verify the existence and condition of those assets.

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Questioned Costs:	None
Effect:	The absence of documented physical inventories at least once every two years could result in lost, damaged or destructed inventory going undetected in a timely manner. Lack of documented physical inventory observations could also result in the City not identifying equipment for reutilization, upgrades, repairs, or disposal in a timely manner.
Cause:	The City's Fire Department staff was not aware of all information and documentation required for proof of inventory.
Recommendation:	We recommend the City have controls in place to ensure that physical inventories are conducted and properly documented at least once every two years and that an inventory record is maintained that includes the information required by federal regulations.
Prior Year Views of Responsible Officials and Planned Corrective Action:	Management responsible for the COPS grants put an Inventory Management Plan in place after the initial inventory finding in the 2011 Single Audit was communicated in February 2012. The new procedures require annual inventory, verified and signed by two parties, be retained for audit review. Inventories were not complete as of the end of fiscal year 2012; however, management is in the process of completing all inventories and anticipates full compliance with Federal guidelines for fiscal year 2013.
Status of Corrective Prior Year Corrective Action:	Corrective action implemented August 2013

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Finding #:** 2012-4

**CFDA Title:** Energy Efficiency and Conservation Block Grant (EECBG) - ARRA

**CFDA Number:** 81.128

**Federal Award Number:** DE-EE0000959

**Federal Award Year:** 2011

**Federal Agency:** Department of Energy

**Pass-through Entity:** N/A

**Compliance Requirement:** Cash Management

**Type of Finding:** Control Deficiency and Non-Compliance

**Criteria:** The Department of Energy's *Guidance for State Energy Program and Energy Efficiency and Conservation Block Grant Recipients on Payment Procedures* states that "State Grantees should not draw down funds on ASAP unless they anticipate disbursing the funds (e.g., payments to sub-grantees or sub-recipients) within 3 working days of draw down. Non-State Grantees (for EECBG) should also minimize the time elapsing between draw down and disbursement of funds, and that time period should not exceed 30 calendar days. Grantees and sub-grantees shall promptly, but at least quarterly, remit to the federal agency interest earned on advances drawn in excess of disbursement needs..."

**Condition:** It was noted that the City requested reimbursement for construction expenditures to include amounts for retainage that were not disbursed within the 30 calendar day requirement. The City requested reimbursement for the entire costs of construction to include retainage, but did not disburse the amounts for retainage until over 30 calendar days after the reimbursement request.

**Questioned Costs:** None

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Effects:** The City is not in compliance with Department of Energy (DOE) and federal cash management requirements which could result in the City's non-compliance with interest earnings requirements, without being detected and/or could result in the City being denied future grant funding.

**Cause:** Reimbursement requests were based on amounts recorded as expenditures (which included retainage amount) in the general ledger instead of amounts actually disbursed (excluded retainage).

**Recommendation:** We recommend the City ensure controls are in place to ensure that cash draws are either based on actual disbursements or that disbursements are made within 30 calendar days of the request of funds, as required by the grant.

**Prior Year Views of Responsible Officials and Planned Corrective Action:**

Management respectfully disagrees with finding 2012-004.

Public Works and Transportation standard operating procedures emphasize that staff administering grant funds should be familiar with the terms and conditions of the particular grant to ensure funding is correctly handled. In this case, grant administrators worked directly with U.S. Department of Energy (DOE) personnel to ensure compliance with agency requirements. Management requested reimbursement for 100% of contractor invoices, and withheld 10% retainage from payment pending completion and final inspection of the project. Documented communication with DOE personnel indicated that retainage was not disallowed by ARRA/EECBG guidance and over the life of the grant, at no time was the City in possession of an excess of grant funds relative to expenditures.

Nevertheless, the Public Works and Transportation Department is committed to compliance with all Federal grant guidelines and will no longer request grant reimbursement for 100% of construction invoices.

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2013

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Status of Corrective Prior  
Year Corrective Action:

The City provides grant management training annually to departments throughout the City. The City's policy is to request funds after payment has been disbursed, not when the expenditure is posted to general ledger. The EECBG grant ended last fiscal year so this is not currently an issue for that grant. Effective December 1, 2013 the grantor agency requirements for the Homeland Security grants changed to include requiring a check number and proof of payment. Therefore this will no longer be an issue for those grants. The City will continue to provide training annually that includes the policy on cash management.