

CITY OF HILLSBORO, TEXAS

SINGLE AUDIT REPORT

SEPTEMBER 30, 2016

CITY OF HILLSBORO, TEXAS

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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*

To the Honorable Mayor
and City Council of the
City of Hillsboro, 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, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hillsboro, Texas' basic financial statements, and have issued our report thereon dated May 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hillsboro, Texas' 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 of Hillsboro, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hillsboro, Texas' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hillsboro, Texas' 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
May 11, 2017



PATILLO, BROWN & HILL, L.L.P.
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Honorable Mayor,
City Council and City Manager
Hillsboro, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Hillsboro, Texas' 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 of Hillsboro, Texas' major federal programs for the year ended September 30, 2016. The City of Hillsboro, Texas' 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 of Hillsboro, Texas' 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 of Hillsboro, Texas' 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 of Hillsboro, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Hillsboro, Texas, 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, 2016.

Report on Internal Control Over Compliance

Management of the City of Hillsboro, Texas, 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 of Hillsboro, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 of Hillsboro, Texas' 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 have not been identified.

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hillsboro, Texas' basic financial statements. We issued our report thereon dated May 11, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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* (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 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
May 11, 2017

CITY OF HILLSBORO, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Passed Through To Subrecipients</u>
FEDERAL AWARDS				
<u>United States Environmental Protection Agency</u>				
Direct Program:				
Congressionally Mandated Projects	66.202	XP-96606601	\$ 363,780	\$ -
Total Direct Program			<u>363,780</u>	<u>-</u>
Total United States Environmental Protection Agency			<u>363,780</u>	<u>-</u>
<u>United States Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
Community Development Block Grant	14.228	7214252	<u>513,847</u>	<u>-</u>
Total Passed through the Texas Department of Agriculture			<u>513,847</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>513,847</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 877,627</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

CITY OF HILLSBORO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal programs of the City of Hillsboro, Texas. The City's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the basic financial statements. The information in this schedule is presented in accordance with the 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). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. INDIRECT COSTS

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

CITY OF HILLSBORO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
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Identification of major programs:

CFDA Numbers: 66.202	Name of Federal Program: Congressionally Mandated Projects
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Dollar threshold used to distinguish between type A and type B programs	\$750,000
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Auditee qualified as low-risk auditee?	No
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Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Federal Award Findings and Questioned Costs

None

CITY OF HILLSBORO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Findings Relating to the Audit of Federal Awards

Finding 2015-1

Information on the Federal Program: CFDA 66.202 – Congressional Mandated Projects, Environmental Protection Agency. *Pass-Through Entity:* United States Environmental Protection Agency – Office of the Chief Financial Officer. *Award Number:* XP-96606601. *Compliance Requirements:* Reporting. *Type of Finding:* Material Noncompliance.

Criteria: Program requirements state that the U.S. Environmental Protection Agency agrees to cost-share 55% of all approved budget period costs incurred. Reimbursements to the City are based on the submission of the completed Standard Form 271 – Outlay Report and Request for Reimbursement for Construction Programs.

Condition: For the year ended September 30, 2015, during the review of reimbursement requests along with supporting documentation, it was noted that the City requested less than 55% which entitled to according to program requirements.

Questioned Costs: \$0.

Context: Of the \$146,494 that should have been requested for reimbursement, only \$90,471 was requested by the City.

Effect or Potential Effect: As a result, an amendment of \$56,023 was made to a reimbursement request in an untimely manner.

Cause: Program staff miscalculated the 55% amount for reimbursement.

Repeat Finding: None.

Recommendation: The entity program staff and management should ensure that reporting controls are set in place in order for errors to be prevented, or detected and corrected in a timely basis.

Responsible Official's Response and Corrective Action Planned: This error was made by a staff member who incorrectly calculated reimbursement. This was brought to the staff's attention and management will perform a quality control review over future report submissions to ensure that proper amounts are requested. In addition, the Reimbursement Request #11 has been revised and re-submitted to the U.S. Environmental Protection Agency on April 5, 2016.

Planned Implementation Date of Corrective Action: April 28, 2016

Person Responsible for Corrective Action: Finance Director.

Current Status: This matter has been resolved.