

CITY OF MCKINNEY, TEXAS

FEDERAL SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2013

DRAFT

CONTENTS

	Page
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	3
Schedule of Findings and Questioned Costs	6
Summary of Prior Audit Findings	9
Schedule of Expenditures of Federal Awards	10
Notes to Schedule of Expenditures of Federal Awards	11

DRAFT



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and City Council
City of McKinney, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McKinney, 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 February 27, 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies [13-01].

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*.

City of McKinney's Response to Finding

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

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.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 27, 2014



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

The Honorable Mayor and City Council
City of McKinney, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of McKinney, Texas (the City)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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.

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.

Report on Internal Control Over Compliance

Management of City of McKinney, 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'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 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.

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.

Report on 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McKinney, Texas, 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 February 27, 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.

WEAVER AND TIDWELL, L.L.P

Dallas, Texas
February 27, 2014

DRAFT

**CITY OF MCKINNEY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

I. Summary of the Auditor's Results:

Financial Statements

- a. An unmodified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered a material weakness? Yes None reported
- c. Noncompliance material to financial statements noted Yes No

Major Programs

- d. Internal control over major programs:
- Material weakness(es) identified? Yes No
- Significant deficiency (ies) identified that are not considered a material weakness? Yes None reported
- e. An unmodified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular A-133. Yes No

g. Identification of major programs:

<u>Program/Cluster Name</u>	<u>CFDA #</u>
Airport Improvement Program	20.106
Homeland Security Grant Program	96.067

- h. The dollar threshold used to distinguish between type A and type B programs. \$300,000
- i. Auditee qualified as a low-risk auditee. Yes No

**CITY OF MCKINNEY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Finding 13-01 Funds Received and Expended by an Agent on Behalf of the City

Type: Financial reporting and disclosure finding.

Criteria: Funds received and expended by an agent on behalf of the City should be reflected in the financial statements

Condition: Capital assets purchased by the Texas Department of Transportation, acting as the agent on the project, on behalf of the Collin County Airport Development Corporation (CCADC) were overstated by the City of McKinney.

Context: Capital assets of 3% of the aggregate CCADC capital assets were overstated as of 2012 fiscal year end.

Cause: The City had not been made aware that the Texas Department of Transportation would be passing more of the project costs to the City than originally stated in the grant agreement.

Effect: Capital assets for discretely presented component units were overstated by \$2,443,872.

Recommendation: The City should implement controls and procedures to ensure that funds received and expended by an agent acting on behalf of the City are reconciled and recorded in the year the expenditures are incurred to the progress reports received from the Texas Department of Transportation.

Management Response: Historically, the City has been required to advance fund our grant projects administered by Texas Department of Transportation (TXDOT). The advanced funding has been capitalized as construction in progress at the time of payment. The documentation and reports provided by TXDOT do not identify project expenses as grant eligible or ineligible. This results in the City recording ineligible costs as grant capital additions, which were fully paid by the agent from the already capitalized advanced funding.

Going forward the City will record all advanced funding as a pre-paid expense on the balance sheet. As TXDOT provides us with pay applications for projects, the City will confirm with TXDOT as to their grant eligibility. In addition, the City will request copies of the actual vendor invoices that support the TXDOT pay applications. This will ensure that the City properly records grant revenues and the appropriate grant capital additions versus City capital additions from pre-paid.

**CITY OF MCKINNEY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**III. Findings and Questioned Costs for Federal Awards Including Audit Findings as
Described in I.f Above**

NONE

DRAFT

**CITY OF MCKINNEY, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

IV. Summary of Prior year Findings.

Finding 12-01 Recognition of a Non Cash Transaction

Condition: Capital assets deeded to McKinney Community Development Corporation (MCDC) as part of an economic agreement or settlement was not recorded.

Current Status: The current Financial Services staff, including the CFO, has increased correspondence with legal, city and component unit management as well as Board members by attending monthly meetings and staying abreast of economic agreements and other projects resulting in cash and non-cash financial transactions. In addition, the City has assigned a Senior Accountant to review and monitor all component unit financial transactions ensuring more accurate reporting.

Finding 12-02 Funds Received and Expended by an Agent on Behalf of the City

Condition: Capital assets purchased by the Texas Department of Transportation, acting as the agent on the project, on behalf of the Collin County Airport Development Corporation (CCADC) was not recorded.

Current Status: The City recorded assets purchased by its agent, on behalf of the Collin County Airport Development Corporation during the current year. However, documentation received from the agent during the project reflected an inaccurate percentage break out between federal and local share of the expenditures which created errors in amounts reflected in previously issued financial statements.

Finding 12-03 Recording of Infrastructure

Condition: Capital assets of another governmental entity were recorded as capital assets by the City.

Current Status: The City's Senior CIP Accountant performed an audit of the capital improvements program and identified construction in progress that was recorded as City infrastructure that was state or county owned infrastructure. The Senior CIP Accountant has continued to monitor and audit all projects for proper capital asset recording. This has included coordinating with Development Services/Engineering to identify all projects that are not City owned infrastructure.

**CITY OF MCKINNEY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Direct Funding			
Brownfield Hazardous	66.818	BF-00F16601-0	\$ 62,341
Brownfield Petroleum	66.818	BF-00F16201-0	95,101
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>157,442</u>
U.S. DEPARTMENT OF JUSTICE			
Passed through the City of Plano			
Justice Assistance Program	16.738	2010-DJ-BX-1029	835
Justice Assistance Program	16.738	2011-DJ-BX-2221	-
Justice Assistance Program	16.738	2012-DJ-BX-0674	12,643
Direct Funding			
Bullet Proof Vest Reimbursement	16.607	n/a	11,089
US Marshals (USMS)	16.111	n/a	35,956
Organized Crime Task Force (OCDETF)	16.111	n/a	9,743
TOTAL DEPARTMENT OF JUSTICE			<u>70,266</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Funding			
FAA Grant - Replacement Runway	20.106	8XXAV038	2,078,151
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>2,078,151</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Funding			
Urban Area Security Initiative (UASI)	97.008	EMW-2012-SS-00018-S01	18,501
Urban Area Security Initiative (UASI)	97.067	2010-SS-0008	189,725
Urban Area Security Initiative (UASI)	97.073	2010-SS-0008	50,768
Law Enforcement Terrorism Prevention Activity (LETPA)	97.067	EMW-2011-SS-00019	166,936
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>425,930</u>
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Direct Funding			
Community Development Block Grant	14.218	B-11-MC-48-0043	256,651
Community Development Block Grant	14.218	B-12-MY-48-0043	304,936
Total CDBG - Entitlement Grants Cluster			561,587
Homebuyer Assistance	14.871	10011294	68,604
Tenant Based Rental Assist. (TBRA)	14.871	n/a	5,941
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>636,132</u>
TOTAL EXPENDITURES			<u>\$ 3,367,921</u>

**CITY OF MCKINNEY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the City of McKinney, Texas (the City). The City's reporting entity is defined in Note 1 to the City's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. Grants are generally accounted for in special revenue funds, except for the FAA grants, which are recorded in the Collin County Airport Development Corporation, a discretely presented component unit which is accounted for as an enterprising activity.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule may not agree with amounts reported in the related federal financial reports since the City used the modified accrual basis of accounting in preparing the schedule and the cash basis in preparing the federal financial reports.

4. CONTINGENCIES

The City participates in several grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at September 30, 2013 may be impaired. In the opinion of the management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

5. EXPENDITURES PREVIOUSLY OVERSTATED

The City previously overstated expenditures in the Schedule of Expenditures of Federal Awards for the FAA Grant in the amount of \$2,443,872 in years prior to September 30, 2013.