

SINGLE AUDIT REPORTS

**CITY OF BAYTOWN,
TEXAS**

For the Year Ended
September 30, 2017

CITY OF BAYTOWN, TEXAS

SINGLE AUDIT REPORTS

September 30, 2017

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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

February 9, 2018

To the Honorable Mayor, City Council
Members, and Finance Committee of the
City of Baytown, 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Baytown, Texas (the "City"), as of and for the year ended September 30, 2017, 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 9, 2018.

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 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. 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 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

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE, AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

February 9, 2018

To the Honorable Mayor, City Council
Members, and Finance Committee of the
City of Baytown, Texas:

Report on Compliance for Each Major Federal Program

We have audited the City of Baytown, Texas' (the "City") compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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'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 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, 2017.

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 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'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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 9, 2018 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 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CITY OF BAYTOWN, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2017

No prior year findings.

CITY OF BAYTOWN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Baytown, Texas.
2. Significant deficiencies in internal control were not 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. No significant deficiencies in internal control over major federal award programs were disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an 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:

CFDA Number	Program Title
14.228	CDBG - Non-Entitlement Grants
97.067	Homeland Security Grant Program

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The City did qualify as a low-risk auditee in the context of the Uniform Guidance.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None

C. FINDINGS – FEDERAL AWARDS

None

CITY OF BAYTOWN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Page 1 of 2)
For the Year Ended September 30, 2017

<u>Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Program or Award</u>	<u>Expenditures</u>
U.S. Department of Justice				
<i>Pass-Through Texas Criminal Justice Division</i>				
Family Violence Counseling	16.575	VA-15-V30-15214-15	\$ 290,588	\$ 125,871
Special Response Team Enhancement	16.738	2012-DJ-BX-0243	124,967	116,208
		Total this Grantor	415,555	242,079
<i>Direct Award</i>				
Bulletproof Vest Program	16.607	N/A	4,243	-
		Total this Grantor	4,243	-
<i>Direct Award</i>				
Justice Assistance Grant Program	16.738	2016-DJ-BX-0733	20,690	20,690
		Total this Grantor	20,690	20,690
		Total U.S. Department of Justice	440,488	262,769
Office of National Drug Control Policy				
<i>Direct Award</i>				
High Intensity Drug Trafficking Area Program	95.001	G15HN0005A	1,787,196	830,286
High Intensity Drug Trafficking Area Program	95.001	G16HN0005A	1,124,510	993,166
High Intensity Drug Trafficking Area Program	95.001	G17HN0005A	1,229,570	-
		Total Office of National Drug Control Policy	4,141,276	1,823,452
U.S. Department of Housing and Urban Development				
<i>Pass-through Texas General Land Office</i>				
CDBG - Ike 2.2	14.228	13-238-000-7421	16,102,898	7,367,767
		Total this Grantor	16,102,898	7,367,767
<i>Direct Award</i>				
Community Development Block Grant	14.218	B-14-MC-48-0033	682,810	214,162
Community Development Block Grant	14.218	B-15-MC-48-0033	651,748	44,543
Community Development Block Grant	14.218	B-16-MC-48-0033	660,960	525,328
		Total this Grantor	1,995,518	784,033
		Total U.S. Department of Housing and Urban Development	18,098,416	8,151,800
U.S. Department of Homeland Security				
<i>Pass-through Homeland Security Grants Division</i>				
2015 Hazmat Sustainment/Enhancement	97.067	2970701	133,152	88,658
Bay Area Regional Bomb Squad Sustainment	97.067	3177201	166,289	164,484
Baytown Type I HazMat Team Sustainment	97.067	2970702	116,570	47,595
Structural Collapse & Technical Rescue Sustainment	97.067	3156801	42,922	25,207
2017 Baytown Type I HazMat Team Sustainment	97.067	2970703	127,500	-
2017 Structural Collapse & Technical Rescue Sustainment	97.067	3156802	30,437	-
		Total this Grantor	616,870	325,944

CITY OF BAYTOWN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Page 2 of 2)
For the Year Ended September 30, 2017

Grantor/ Program Title	CFDA Number	Grant/Contract Number	Program or Award	Expenditures
Direct Award				
2015 Port Security Grant Program	97.056	EMW-2015-PU-00527-S01	\$ 48,843	\$ -
		Total this Grantor	<u>48,843</u>	<u>-</u>
Direct Award				
2016 Assistance to Firefighters Grant	97.044	EMW-2016-FO-04247	425,891	-
		Total this Grantor	<u>425,891</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>1,091,604</u>	<u>325,944</u>
U.S. Department of Transportation				
<i>Pass-through Harris County Community Services Department</i>				
Highway Planning and Construction Cluster:				
*Sidewalk Improvements Project	20.507	FTA 5307	722,000	7,624
		Total this Grantor	<u>722,000</u>	<u>7,624</u>
<i>Pass-through Texas Department of Transportation</i>				
Highway Planning and Construction Cluster:				
*Adaptive Signal Control	20.205	CSJ 0912-72-307	562,160	55,252
*Adaptive Signal Control	20.205	CSJ 0389-02-045	281,080	26,115
*Adaptive Signal Control	20.205	CSJ 0389-03-038	35,128	1,781
*Surface Transportation Program	20.205	CSJ 0912-72-359	1,252,800	-
		Total this Grantor	<u>2,131,168</u>	<u>83,148</u>
Total U.S. Department of Transportation			<u>2,853,168</u>	<u>90,772</u>
U.S. Environmental Protection Agency				
<i>Direct Award</i>				
SAAP - Garth Road	66.202	XP-00F85101	484,000	17,942
Total U.S. Environmental Protection Agency			<u>484,000</u>	<u>17,942</u>
Total Federal Awards			<u>\$ 27,108,952</u>	<u>\$ 10,672,679</u>

*Indicates clustered program under OMB Compliance Supplement.
The accompanying notes are an integral part of this schedule.

CITY OF BAYTOWN, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2017

1. REPORTING ENTITY

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

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. INDIRECT COST RATE

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