

*SINGLE AUDIT REPORTS*

**CITY OF NASSAU BAY, TEXAS**

For the Year Ended  
September 30, 2011

# CITY OF NASSAU BAY, TEXAS

## SINGLE AUDIT REPORTS

For the Year Ended September 30, 2011

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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**

March 13, 2012

To the Honorable Mayor and  
City Council Members of the  
City of Nassau Bay, Texas:

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 of Nassau Bay, Texas (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 13, 2012. We conducted our audit in accordance with generally accepted auditing standards 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness, 2009-1.

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**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*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

March 13, 2012

To the Honorable Mayor and  
City Council Members of the  
City of Nassau Bay, Texas

**Compliance**

We have audited the City of Nassau Bay, Texas' (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

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, 2011.

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**Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Schedule of Expenditures of Federal Awards**

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, 2011, and have issued our report thereon dated March 13, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BELT HARRIS PECHACEK, LLLP*

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Houston, Texas

**CITY OF NASSAU BAY, TEXAS**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*

For the Year Ended September 30, 2011

No prior findings.

**CITY OF NASSAU BAY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2011

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Nassau Bay, Texas.
2. A material weakness in internal control was identified 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 unqualified 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:

a. Economic Adjustment Assistance	<u>CFDA Number</u> 11.307
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8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City did not classify as a low-risk auditee in the context of OMB Circular A-133.

**CITY OF NASSAU BAY, TEXAS**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued*  
For the Year Ended September 30, 2011

**B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT**

*Material Weaknesses:*

**2009-1. CAPITAL ASSET POLICIES**

**Finding**

The City does not have formal policies in place to actively monitor the addition, tracking, and disposal of capital assets. The finance department used expense disbursements to monitor for capital additions. Capital assets were not being tagged or inventoried by management or evaluated for impairment. The method of capital asset disposal was left largely up to department heads, as was alerting finance to disposal of assets.

The combination of the absence of these policies and procedures could result in a lack of accuracy in capital asset valuation and failure to uncover loss, impairment, theft, or misappropriation of City assets.

**Recommendation**

The City should develop and implement procedures to track the purchase, movement between departments, retirement, sale, and disposal of capital assets. The City should also inventory capital assets at least annually to verify they are still in use and serviceable. Additionally, the City should consider tagging assets with a unique number in order to facilitate tracking of capital assets

**Management's Response**

The City has adopted a policy as of year-end and is transitioning to a new capital asset software. The policy (adopted in September 2011) and software have not been integrated. The City is expecting the new policy and software to be completely integrated for the fiscal year 2012.

**C. FINDINGS – FEDERAL AWARDS**

**None**

**CITY OF NASSAU BAY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2011

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
<b>DEPARTMENT OF HOMELAND SECURITY</b>			
<i>Pass-through Texas Department of Public Safety's Division of Emergency Management</i>			
Texas Department of Public Safety-Hazard Mitigation Grant	97.036	DR-1791-222	\$ 113,152
<b>TOTAL DEPARTMENT OF HOMELAND SECURITY</b>			<u>\$ 113,152</u>
 <b>DEPARTMENT OF COMMERCE</b>			
<i>Direct Award</i>			
Economic Adjustment Assistance	11.307	08-79-04381	\$ 423,487
<b>TOTAL DEPARTMENT OF COMMERCE</b>			<u>\$ 423,487</u>
<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<u><u>\$ 536,639</u></u>

# **CITY OF NASSAU BAY, TEXAS**

## ***NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

**For the Year Ended September 30, 2011**

### **1. REPORTING ENTITY**

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

### **2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.