

CITY OF SUGAR LAND, TEXAS
FEDERAL SINGLE AUDIT REPORT
For the Year Ended September 30, 2014

CITY OF SUGAR LAND, TEXAS
TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors 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
Report of Independent Auditors on Compliance for each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by <i>OMB Circular A-133</i>	3
Schedule of Findings and Questioned Costs	6
Schedule of Expenditures of Federal Awards	8
Notes to Schedule of Expenditures of Federal Awards	9

REPORT OF INDEPENDENT AUDITORS 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
Members of City Council
City of Sugar Land, 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 Sugar Land, Texas (the “City”), as of and for the year ended September 30, 2014, 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 3, 2015.

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.

To the Honorable Mayor and
Members of City Council
City of Sugar Land, Texas

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*.

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 purposes.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
February 3, 2015

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

To the Honorable Mayor and
Members of City Council
City of Sugar Land, Texas

Report on Compliance for Each Major Federal Program

We have audited City of Sugar Land, 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 District's major federal programs for the year ended September 30, 2014. 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 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.

To the Honorable Mayor and
Members of City Council
City of Sugar Land, Texas

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, 2014.

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 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 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 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.

To the Honorable Mayor and
Members of City Council
City of Sugar Land, Texas

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the aggregate 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated February 3, 2015, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming our 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 other 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 taken as a whole.

Whitley Penn LLP

Houston, Texas
February 3, 2015

CITY OF SUGAR LAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended September 30, 2014

I. 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 that are not considered to be material weaknesses?	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 that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133?	No
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
Highway Planning and Construction	20.205
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	No

CITY OF SUGAR LAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended September 30, 2014

II. Financial Statement Findings

None noted

III. Federal Award Findings and Questioned Costs

None noted

IV. Status of Prior Year Findings and Questioned Costs

Finding #2013-001 – Grant Management
Status: Resolved

CITY OF SUGAR LAND, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended September 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct:			
<i>Community Development Block Grants/Entitlement Grants</i>	14.218	B-13-MC-48-0041	\$ 185,258
Total U.S. Department of Housing and Urban Development			<u>185,258</u>
U.S. Department of Justice			
Direct:			
<i>Bulletproof Vest</i>	16.607	2012BUBX12062006	3,548
Total U.S. Department of Justice			<u>3,548</u>
U.S. Department of Transportation			
Passed-through the Texas Department of Transportation (TXDOT)			
- Airport Grants:			
<i>Airport Improvement Program - Ramp Grant</i>	20.106	M1412SGRN	50,000
Total Passed-through the Texas Department of Transportation (TXDOT)			<u>50,000</u>
- Airport Grants			
			<u>50,000</u>
Highway Planning and Construction Cluster:			
Passed-through the Texas Department of Transportation (TXDOT)			
- Street Grants:			
<i>Highway Planning and Construction - University Boulevard-North Bridge</i>	20.205	0912-34-146	2,792,395
Total Passed-through the Texas Department of Transportation (TXDOT)			<u>2,792,395</u>
- Street Grants			
			<u>2,792,395</u>
Highway Safety Cluster:			
Passed-through the Texas Department of Transportation (TXDOT)			
- Public Safety:			
<i>State and Community Highway Safety - 3 Year Step Grant</i>	20.600	2014-Sugarlan-S-1YG-0064	71,036
Total Passed-through the Texas Department of Transportation (TXDOT)			<u>71,036</u>
- Public Safety			
			<u>71,036</u>
Total U.S. Department of Transportation			<u>2,913,431</u>
U.S. Department of Homeland Security			
Passed-through the Texas Department of Public Safety:			
<i>Emergency Management Performance Grant</i>	97.042	14TX-EMPG-0526	42,149
Total U.S. Department of Homeland Security			<u>42,149</u>
Total Expenditures of Federal Awards			<u>\$ 3,144,386</u>

CITY OF SUGAR LAND, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of Accounting

The City accounts for awards under federal programs in the General and Special Revenue governmental funds as well as in the Airport enterprise fund.

In the Governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

The Airport enterprise fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statement of net assets. Federal grants in enterprise funds are reported as non-operating income in the case of operating grants and as contributions in the case of capital grants.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

Note 3 - Federal Awards Excluded From Testing

Certain federal awards which benefit the City have been excluded from testing under the compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. Specifically, the Airport Improvement Program and the Highway Planning and Construction Program (CFDA numbers 20.106 and 20.205, respectively) grants from the U.S. Department of Transportation which are passed through and entirely administered by the Texas Department of Transportation (TXDOT). The City is a beneficiary of these capital grants and recognizes the resulting capital assets, but is not responsible for compliance with procurement and other requirements as the grants are administered by TXDOT.