CITY OF DUNCANVILLE, TEXAS

FEDERAL SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2010

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The Honorable Mayor and
Members of the City Council
City of Duncanville, Texas

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 Duncanville, Texas (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2011. We conducted our audit in accordance with 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.

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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 10-01 to be a material weakness.

A *significant deficiency* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 10-02 to be a significant a significant deficiency.

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.

We noted certain matters that we reported to management of the City, in a separate letter dated March 30, 2011.

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

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 30, 2011

INDEPENDENT AUDITOR'S 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 AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of the City Council
City of Duncanville, Texas

Compliance

We have audited City of Duncanville'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 City of Duncanville's major federal programs for the year ended September 30, 2010. City of Duncanville'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 City of Duncanville's management. Our responsibility is to express an opinion on City of Duncanville's compliance based on our audit.

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 City of Duncanville'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 City of Duncanville's compliance with those requirements.

In our opinion, City of Duncanville, 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, 2010.

Internal Control over Compliance

Management of City of Duncanville, 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 City of Duncanville'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 City of Duncanville'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 basic financial statements of the City of Duncanville as of and for the year ended September 30, 2010 and have issued our report dated March 28, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 30, 2011

CITY OF DUNCANVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010

Summary of the Auditor's Results:

Financial Statements

a. An unqualified opinion was issued on the financial statements.

b. Internal control over financial reporting:

- Material weakness(es) identified? ___X__Yes _____No
- Significant deficiency(ies) identified that are not considered a material weakness? ___X__Yes _____None reported

c. Noncompliance material to financial statements noted _____Yes ___X__No

Major Programs

d. Internal control over major programs:

- Material weakness(es) identified? _____Yes ___X__No
- Significant deficiency(ies) identified that are not considered a material weakness? _____Yes ___X__No

e. An unqualified 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 ___X__No

g. Identification of major programs:

81.128 ARRA - Energy Efficiency & Conservation Block Grant

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 ___X__No

CITY OF DUNCANVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2010

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

Finding 10-01 Reconciliation of Enterprise Fund Accounts Receivable

Type of Finding: Material weakness over internal control.

Questioned Cost: Not Applicable

CRITERIA OR SPECIFIC REQUIREMENT:

The Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control – Integrated Framework" defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

CONDITION:

The enterprise fund's accounts receivable subsidiary detail was not reconciled to the general ledger by fund for several years. The City's reconciliation process historically was to reconcile in aggregate and not by fund. The City's internal control framework, as it relates to the accounts receivable reconciliation, fails to meet the "Reliability of financial reporting" objective.

CONTEXT:

During the audit, we noted that the enterprise fund's accounts receivable subsidiary detail report did not present information to the finance department that allowed for reconciliation by fund. We also noted that the posting process between the sub ledger and the general ledger was not appropriately accounting for information.

EFFECT:

The City is operating with an increased risk of material misstatement, either due to mistake of fraud, to occur, and remain undetected. A material adjustment had to be made through manually reconciling the activity included in the report.

CAUSE:

Per discussion with management, the utility department's accounting software provides an account receivable report by function (Water, Sewer, and Solid Waste), but not by rate code. Accounts receivable transactions are recorded to the general ledger by the rate code (Commercial Garbage, Sewer, Water, Penalties and fees).

The current accounts receivable report does not enable accounting to reconcile the subsidiary detail to the general ledger account due to the different categories used.

RECOMMENDATIONS:

The City should consider hiring a consultant to develop an accounts receivable aging report segregated by rate code to enable the reconciliation of the subsidiary detail to the general ledger.

MANAGEMENT RESPONSE:

Subsequent to year end the City was able to obtain the detailed information necessary to reconcile the subsidiary ledger to each. Management will continue to monitor the results of the reports to ensure that accurate information is being reflected in the fund financial information.

Finding 10-02 Credit Card Expense Controls

Type of Finding: Significant deficiency over internal control.

Questioned Cost: Not Applicable

CRITERIA OR SPECIFIC REQUIREMENT:

The Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control – Integrated Framework" defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

CONDITION:

The same individual receives the credit card statement as well as reconciles it, pays the bank, and posts to the GL. The City's internal control framework, as it relates to the credit card payment and transaction processing, fails to meet the "Reliability of financial reporting" objective.

CONTEXT:

During our testing of Credit Card procedures, we noted that the same individual receives the statement as well as reconciles it, pays the bank, and posts to the GL.

EFFECT:

The lack of segregation of duties increases the risk that a material misstatement, due to accident or fraud, will not be prevented or detected in timely manner.

CAUSE:

The above finding was caused primarily by the lack of a detailed review of the information prepared for the audit, and lack of sufficient staff resources.

RECOMMENDATIONS:

The City should consider having another person make the payment and journal entry to adequately segregate the duties related to the processing and payment of City credit cards.

MANAGEMENT RESPONSE:

Under the current budget constraints it is currently impossible to add additional staffing. The City will review the roles and responsibilities within the Finance department to reduce the segregation of duties issues that currently exist. For areas where segregation cannot be improved the appropriate level of review will be added as a mitigating control. Currently, all credit card transactions are reviewed and approved by department heads prior to being paid by Finance.

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

None were noted in current year.

EXHIBIT I-1

CITY OF DUNCANVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Federal grantor/pass-through grantor/program title	CFDA Number	Pass-Through Grantor Program Number	Federal Expenditures	ARRA Expenditures
FEDERAL EMERGENCY MANAGEMENT AGENCY				
Assistance to Firefighters Grant	97.044	EMW-2009-FO-00803	$ 131,011	
Total Federal Emergency Management Agency			131,011	
U.S. DEPARTMENT OF ENERGY				
ARRA - Energy Efficiency & Conservation Block Grant	81.128	DE-EE0002417		$ 152,765
Pass-through State of Texas				
ARRA - Energy Efficiency & Conservation Block Grant	81.128	CS0048		1,406,704
Total U.S. Department of Energy				1,559,469
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Pass-through Dallas County				
Community Development Block Grant (CDBG) - Code Enforcement	14.218	n/a	104,762	
Total U.S. Department of Housing and Urban Development			104,762	
U.S. DEPARTMENT OF JUSTICE				
Pass-through City of Dallas - Criminal Justice Division				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1444	72,948	
Total U.S. Department of Justice			72,948	
Total ARRA Federal Assistance				1,559,469
Total Non-ARRA Federal Assistance			308,721	
Total Federal Assistance			$ 308,721	$ 1,559,469

CITY OF DUNCANVILLE
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE 1. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. 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 fund liability is incurred, if measurable. However, accrued interest on long-term debt, as well as expenditures related to compensated absences are recorded only when payment is due.

Federal grant funds 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.

NOTE 2. PERIOD OF AVAILABILITY

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.

NOTE 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.

NOTE 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, 2010 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.

NOTE 5. NON-CASH ASSISTANCE

During the fiscal year ended September 30, 2010 the City did not receive any non-cash federal assistance. At September 30, 2010 the City did not have any outstanding loans due to any federal agencies.