

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*

To the Honorable Mayor
and Members of the City Council,
City of Austin, 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 the City of Austin, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 10, 2017. Our report includes a reference to other auditors who audited the financial statements of discretely presented component units, which represents 100% of the assets and net position, and 99.8% of revenues of the discretely presented component units, one of which contains an emphasis of matter paragraph related to a going concern issue (Austin Bergstrom Landhost Enterprises, Inc.), as described in our report on the City's financial statements. The financial statements of the Austin Bergstrom Landhost Enterprises, Inc. and the Austin Convention Enterprises, Inc., discretely presented component units, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Austin Bergstrom Landhost Enterprises, Inc. and Austin Convention Enterprises, Inc.

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; and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying *Schedule of Findings and Questioned Costs*, as items 2016-001 and 2016-002, that we consider to be significant deficiencies.

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 and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The City's responses were 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 result 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.

Deloitte & Touche LLP

March 10, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Austin's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. 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 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2016-003, 2016-004, 2016-005, and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying *Schedule of Findings and Questioned Costs* as items 2016-003, 2016-004, 2016-005, and 2016-006, that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Deloitte & Touche LLP

May 19, 2017



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major State Program

We have audited the City of Austin's (the "City") compliance with the types of compliance requirements described in the State of Texas *Uniform Grant Management Standards* (UGMS) that could have a direct and material effect on each of the City's major state programs for the year ended September 30, 2016. The City's major state 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 state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major state 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 UGMS. Those standards and UGMS 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 state 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 state program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major State 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 state programs for the year ended September 30, 2016.

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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with UGMS, 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 state 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 state 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 state 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 UGMS. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

May 19, 2017

CITY OF AUSTIN, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2016**

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 not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal and State Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Any audit findings disclosed that are required to be reported in accordance with Uniform Grant Management Standards?	No

Identification of major programs:

<u>Federal</u>	
97.036	FEMA Flood Public Assistance
14.239	HOME Grant
14.241	Housing Opportunity for People with AIDS (HOPWA)
10.557	Women/Infants/Children (WIC)
<u>State</u>	
2015-047635-001	OTVFH – Lactation Support Center Services – Strategic Expansion Program
608-17-2270100	Auto Theft Prevention

Dollar threshold used to distinguish between Type A and Type B programs:

Federal:	\$1,288,452
State:	\$300,000
Auditee qualified as low-risk auditee?	Federal – Yes State – Yes

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding 2016-001: Significant Deficiency—Internal Controls Over Accounting and Reporting for Service Concession Arrangements

Criteria—In accordance with accounting principles generally accepted in the United States of America (GAAP), the City is required to record the present value of lease payments made to the City by the operator under service concession arrangements. Further, the City is required to include the deferred inflows related to service concession arrangements in the Net Investment in Capital Assets calculation for enterprise funds.

Condition and Cause—During the 2016 audit, management correctly classified the arrangement for the Consolidated Rent-A-Car Center as a service concession arrangement. However, management did not properly record the present value of lease payments (\$12.6 million) due to the City as an asset and related deferred inflow in accordance with GAAP. Further, management did not properly include the deferred inflow amounts of \$146.5 million related to the service concession arrangement in the calculation of Net Investment in Capital Assets.

Effect—Improperly assessing all GAAP aspects of a transaction, like a service concession arrangement, could result in material misstatements to the City's financial statements.

Recommendation—We recommend that a detailed accounting summary memo be prepared by appropriate City personnel to outline the City's considerations and accounting treatment for such transactions and reviewed by appropriate City personnel to ensure that it meets the requirements of the accounting standards.

View of Responsible Officials—See Corrective Action Plan

Finding 2016-002: Significant Deficiency—Internal Controls Over Review Controls related to the Accounting and Financial Reporting for Regulated Operations for Austin Water

Criteria—Austin Water utilizes accounting for regulated operations under Government Accounting Standards Board Statement No. 62. As part of this specialized accounting, Austin Water determines deferred depreciation annually. The calculations supporting the deferred depreciation balances are detailed, complex and are to follow the City policies related to costs to be recovered through rates.

Condition and Cause—During the 2016 audit, we noted an error in the calculation for deferred depreciation related to contributions. There was a prior year uncorrected audit adjustment related to contributions used in the calculation and the City did not properly adjust the current year calculation to correct this error. Thus, the error was carried forward to the 2016 deferred depreciation calculation.

Effect—Improperly applying the City's policies and/or capturing all audit adjustments into the deferred depreciation calculation could have a material effect on the City's financial statements.

Recommendation—Develop a detailed and precise review procedure to ensure that all amounts within the deferred depreciation schedule agrees to the underlying City records or to prior year audited balances.

View of Responsible Officials—See Corrective Action Plan

III. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS

Finding 2016-003: Reporting—Significant Deficiency in Controls over Compliance and Noncompliance

Federal Program: HOME Loan CFDA 14.239—Home Investments Partnership Program

FAIN: M-15-MC-48-0500

Year: 2015

Federal Agency: U.S Department of Housing and Urban Development

Pass-Through Entity: Not Applicable

Criteria—Matching regulations require that the City contribute or match no less than 25 cents for each dollar of HOME funds spent on affordable housing. The City must report the annual match amount as well as the carry forward balance for any excess match in the Consolidated Annual Performance and Evaluation Report (“CAPER”).

Condition and Cause—The City of Austin did not have the appropriate procedures or control structure in place to ensure the match was properly reported on the CAPER for fiscal year 2016. While the total cumulative carryforward amount of the match at the end of fiscal year 2016 agrees to the City’s records, the amount reported as the beginning carryforward match amount was overstated and the current year match amount was understated.

Questioned Cost—None

Perspective—A match amount of \$294,420 that was incurred in fiscal year 2016 was improperly reflected in the beginning carryforward match rather than being reported as new match in 2016. Thus, the beginning carryforward balance from fiscal year 2015 was overstated and the current year match was understated by \$294,420 both on the CAPER and on the Match Summary Report.

Effect—Inaccurate reporting of matching amounts could result in inability to properly calculate carryforward amounts and demonstrate compliance with matching requirements to the grantor.

Recommendation—Implement policies and procedures that require review and approval of the CAPER, specifically the matching information and calculations, to ensure the CAPER is accurate.

View of Responsible Officials—See Correction Action Plan

Finding 2016-004: Subrecipient Monitoring—Significant Deficiency in Controls over Compliance and Noncompliance

Federal Program: HOME Loan CFDA 14.239—Home Investments Partnership Program

FAIN: E-15-MC-48-0500

Year: 2015

Federal Agency: U.S Department of Housing and Urban Development

Pass-Through Entity: Not Applicable

Criteria—In accordance with Uniform Grant Guidance, management is responsible for the preparation of subrecipient contracts to ensure specified components are included and clearly identified within the contract.

Condition and Cause—The City of Austin did not have the appropriate procedures or control structure in place to ensure that the required components are included in the subrecipient contracts.

Perspective—The contracts with both of the City's subrecipients for this program excluded the following:

- Subrecipients' responsibilities to be in compliance with pass through requirements
- FAIN
- Federal Award Data of the award to the City
- Subaward period of performance
- Amount of Federal funds obligated to the subrecipient by this action and the total amount obligated to the subrecipient including this action

Further, both contracts referred to OMB Circular A-133 instead of the UGG standards.

Questioned Costs—None

Effect—Subrecipients may not follow the grant guidelines as they may not be aware of all of the details associated with the federal funds. This could impact their compliance with major programs.

Recommendation—Work with the City's legal department to create a checklist or cover page for all subrecipient contracts and establish a review process to ensure that all required elements are included in the contracts.

View of Responsible Officials—See Correction Action Plan

Finding 2016-005: Allowable Costs—Significant Deficiency in Controls over Compliance and Noncompliance

Federal Program: Federal Emergency Management Agency (FEMA) Flood Public Assistance CFDA 97.036

FAIN: PA-06-TX-4223

Year(s): 2016

Federal Agency: U.S. Department of Homeland Security

Pass-Through Entity: Texas Department of Public Safety

Criteria—Except where otherwise noted by statutes, costs must be adequately documented in order to be allowable under Federal awards.

Condition and Cause—The City's Parks and Recreation Department did not accumulate and maintain adequate documentation for the number of equipment usage hours charged to the project.

Questioned Cost—\$946

Perspective—7 out of 12 selections for equipment usage charges were not adequately supported by documentation. 4 out of the 7 questioned transactions, representing \$885 of the total questioned costs, had some supporting documentation (vehicle inspection forms noting mileage and that the vehicle was assigned to the project on the correct date), but the support did not include the number of hours that the equipment was used for the project. The remaining 3 questioned transactions, representing \$61 of the total questioned costs had support containing the hours the equipment was used on the project, but the support did not agree to the hours that were charged to the project. The Parks and Recreation Department spent a total of \$79,491 on equipment usage and \$3,162 was subjected to testing. Based on the statistically valid sample tested, likely questioned costs for equipment usage is \$22,846.

Effect—Failure to maintain adequate supporting documentation for all costs charged to Federal programs could require amounts to be refunded to the granting agency and affect future funding opportunities.

Recommendation—Ensure that equipment usage time is documented for these federally funded projects and implement a review procedure to ensure that only properly supported equipment usage hours are charged to the project.

View of Responsible Officials—See Correction Action Plan

Finding 2016-006: Reporting—Significant Deficiency in Controls over Compliance and Noncompliance

Federal Program: Housing Opportunities for People with AIDS (HOPWA) CFDA 14.241

FAIN: TXH14F004, TXH15F004

Year(s): 2014 and 2015

Federal Agency: U.S. Department of Housing and Urban Development

Pass-Through Entity: Not Applicable

Criteria—The City must report total expenditures by program year for the HOPWA program in Part 3 of the Consolidated Annual Performance and Evaluation Report (“CAPER”). This amount should be the total amount of HOPWA funds expended during the program year (October 1, 2015 through September 30, 2016) for all active HOPWA grant years.

Condition and Cause—The City only reported expenditures of HOPWA funds associated with the 2015 grant year rather than expenditures of HOPWA funds associated with both active grant years (2014 and 2015). The City did not fully understand the requirement for reporting expenditures in the CAPER.

Questioned Cost—None

Perspective—The amount of expenditures reported on the CAPER totaled \$956,352 for the program year; however, the expenditures for the fiscal year per the Schedule of Expenditures of Federal Awards for the fiscal year ended September 30, 2016 was \$1,226,435. The City is currently working with the U.S. Department of Housing and Urban Development to amend the CAPER and resubmit it with the corrected amount.

Effect—Inaccurate reporting of program year expenditure amounts could result in inaccurate information either at the City or at the U.S. Department of Housing and Urban Development about the amount of funds remaining that are available to be spent in future years.

Recommendation—Implement policies and procedures that require review and approval of the CAPER, specifically the current year expenditure amounts, to ensure the CAPER is accurate.

View of Responsible Officials—See Correction Action Plan



CITY OF AUSTIN, TEXAS

CORRECTIVE ACTION PLAN YEAR ENDED SEPTEMBER 30, 2016

Finding 2016-001: Significant Deficiency—Internal Controls Over Accounting and Reporting for Service Concession Arrangements

Contact Person—Diana Thomas, Controller

Management Response—Concur. Development of the consolidated rent-a-car (CONRAC) facility at ABIA was completed during FY16. Management's review of the transaction appropriately determined that the CONRAC facility represented significant consideration received by the City in exchange for giving the operator the right to operate the facility and receive compensation from third parties, or a service concession arrangement (SCA). The facility asset and the related deferred gain were recorded in compliance with GAAP for SCAs. Depreciation of the facility and amortization of the deferred gain were also recorded. However, management's review did not classify future rental payments as installments payments; consequently, the City's treatment of the transaction failed to meet the requirement to record an asset equal to the discounted value of future installment payments. In addition, management did not adjust the balance of Net Investment in Capital Assets, a classification of net position, appropriately for the SCA. Management will devote more attention to review of GAAP requirements for these or similar complex accounting transaction in the future.

Estimated Completion—Implemented in March 2017. No further action needed.

Finding 2016-002: Significant Deficiency—Internal Controls Over Review Controls related to the Accounting and Financial Reporting for Regulated Operations for Austin Water

Contact Person—Diana Thomas, Controller

Management Response—Concur. This issue arose from a prior period adjustment that was not updated appropriately in the complex series of schedules used in this calculation. Although many hours were spent reviewing the detailed calculation, this prior period adjustment was missed in the review. Management is putting into place a process to ensure that all adjustments are posted to the schedules at the end of the fiscal year and a review procedure that will assist in identifying mistakes of this nature in the future.

Estimated Completion—September 29, 2017

Finding 2016-003: Reporting—Significant Deficiency in Controls over Compliance and Noncompliance

Contact Person—Rosie Truelove, Neighborhood Housing and Community Development

Management Response—Concur. NHCD acknowledges the auditor comments following the testing done on items selected from the Match Summary Report. With the approval from HUD, in 2016 NHCD changed the methodology for calculating the HOME Match from Fee Waivers to now using projects funded from the Housing Trust Fund and General Obligation Bond proceeds. As part of this change, previous projects were identified and included in the HOME Match in order to accumulate excess match to carry forward. The \$294,420 project only affected the beginning balance and it should be noted all 2016 contributions as well as the ending match balance are accurate on both the CAPER and the Match Summary Report.

Steps taken by NHCD to improve the process:

1. NHCD accounting staff will prepare the HOME Match using only projects funded from the Housing Trust Fund and General Obligation Bond proceeds.
2. NHCD financial manager will review and approve the HOME Match and CAPER, including all projects, calculations and source documentation.

Estimated Completion—Implemented. No further action required.

2016-004: Significant Deficiency in Controls over Compliance and Noncompliance for Subrecipient Monitoring

Contact Person—Rosie Truelove, Neighborhood Housing and Community Development

Management Response—Concur. NHCD-AHFC will make the appropriate contract amendments to incorporate UGG standards. In addition, NHCD-AHFC will work with City's legal department to implement the recommendation.

Estimated Completion—In process of amending all 2017 contracts. Estimated completion date June 30, 2017

2016-005: Allowable Costs—Significant Deficiency in Controls over Compliance and Noncompliance

Contact Person—Kim McNeeley, Assistant Director

Management Response—Concur. PARD commits to establishing protocols and controls that maintain adequate documentation to properly support expenses charged to federal projects. Specifically, PARD will implement a review procedure that supports equipment usage hours. Once a disaster is declared, PARD will assign Task Order number(s). Staff will use these numbers to record and track the use of equipment on department approved equipment usage forms. Site Supervisor's will review and approve on equipment usage forms to ensure appropriate task order numbers are used. Upon project completion, equipment usage forms will be reviewed and verified by the Grants Coordinator to ensure task order numbers are used to identify usage hours in any required corresponding summary sheets. These staff verified forms and summary sheets will support reimbursement for equipment usage. The equipment use review procedure will be incorporated into a department Standard Operating Procedure (SOP) for storm related events. PARD will provide trainings on this SOP.

Estimated Completion—September 30, 2017

Finding 2016-006: Reporting—Significant Deficiency in Controls over Compliance and Noncompliance

Contact Person—Stephanie Hayden, Interim Director, Austin Public Health

Management Response—Concur. The Austin Public Health, HIV Resources Administration Unit (HRAU) staff will collect additional FY14 performance and expenditure data from project sponsors which will be used to revise the FY15 CAPER. The FY15 CAPER expenditure data will then match the HOPWA SEFA report. A revised FY15 CAPER will be resubmitted to HUD by June 30, 2017. HRAU staff will closely collaborate with the Department's Accounting Unit in preparing future CAPERs and ensure that annual expenditures reported matches the HOPWA SEFA report. Additionally, HRAU staff will continue working with HUD's technical assistance contractors to ensure that the CAPER is accurately completed and HRAU staff will attend HUD HOPWA Training in August of 2017.

Estimated Completion—September 29, 2017



CITY OF AUSTIN, TEXAS

STATUS OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2016

Finding 2015-001: Significant Deficiency—Internal Controls Over Accounting and Reporting for Capital Assets

Criteria—The City is required to account for all capital assets in accordance with generally accepted accounting principles, which direct that donated capital assets be recorded at fair value at the time of donation.

Condition and Cause—During the 2015 audit, management determined that certain Austin Water Utility capital assets contributed by developers through service extension requests were recorded twice, once during the service extension request process and once during the developer contributions process. In the past, the process to record contributed assets resulting from projects with service extension requests were not coordinated properly to ensure they were only recorded once. These errors related to prior years, but were corrected by management in the current year.

Further, management also discovered that certain Austin Water Utility capital assets acquired during limited annexations of municipal utility districts had not been recorded. These capital assets should have been recorded in prior years, but were corrected by management in the current year. Controls were not in place to ensure that capital assets obtained through annexation were recorded at the appropriate point in the annexation process.

Effect—Improperly recording capital asset transactions could result in material misstatements to the City's financial statements.

Recommendation—Develop procedures for service extension requests and limited and full annexations to ensure that capital assets are properly recorded.

Status—Controller's Office—Implemented. The Controller's Office introduced procedures for the timely identification of assets annexed by the City. The Controller's Office receive notices of all limited purpose annexations directly from City's Annexation & Extraterritorial Jurisdiction Planning team. The Controller's Office requests a conveyance schedule for annexed assets and record additions to properly report remaining value and service lives upon conveyance.

Status—Austin Water Utility—Implemented. Austin Water and the Controller's Office have cooperatively coordinated the unitization of assets acquired through Service Extension Reimbursement (SER) requirements. A comparison of SER contributed assets to existing City asset schedules will minimize the risk that these assets are improperly duplicated.

Finding 2015-002: Significant Deficiency—Internal Controls Over Financial Reporting

Criteria—The City is responsible for establishing controls to ensure that the Comprehensive Annual Financial Report (CAFR) is free of material misstatement. The controls should include various levels of supervisory review to ensure that the balances in the CAFR are supported by accurate records, accounting support and reconciliations.

Condition and Cause—During the 2015 audit, errors were noted in certain financial statement areas. A summary of these areas is below:

- Statement of Cash Flows: Debt refunding transactions were improperly classified in the Statement of Cash Flows as these transactions were not properly reviewed to ensure that the amounts paid to the escrow agent and the refunding amount issued were accurately stated. These amounts were corrected by management in the final CAFR.
- Housing Loans: Certain housing loans were not properly recorded in the general ledger. Controls were not in place to ensure that all housing loans issued were properly reflected in the financial statements.
- Functional Expenses in the General Fund: Certain expenses related to General City Responsibility were not allocated consistently to the functions of the City's General Fund due to a change in the current year for how these amounts were budgeted. Controls were not in place to ensure these costs were consistently allocated despite budgetary changes. Management performed analysis and corrected this allocation in the final CAFR.

Effect—Without proper internal controls for financial reporting, material misstatements in the financial statements could occur.

Recommendation—Develop preparation and review procedures for the statement of cash flows to ensure debt transactions are appropriately classified. Implement a reconciliation of all housing loans issued in the current year to those recorded in the sub ledger to ensure all housing loans have been properly recorded. Review the allocation of General City Responsibility expenses to the functions of the General Fund and complete variance analysis between amounts reported in the current year and prior year CAFR to identify unexpected variances.

Status—Controller's Office—Implemented. The Controller's Office continuously communicates with the Budget Office to increase awareness and understanding of changes and the impact of changes on the financial statements. In addition, Controller's Office added a tab to the General Fund TB to identify variances that need to be researched further.

Status—Controller's Office—Implemented. The Controller's Office instituted a control to verify "Bonds issued for advanced refundings of debt" and "Cash paid for bond refunding escrow" tied correctly to Official Statements.

Status—Neighborhood Housing and Community Development—Implemented. NHCD developed a reconciliation of their Nortridge system against the U.S. Department of Housing and Urban Development's list of funded loan projects to ensure that all loans are recorded in the Nortridge system and the City's financial statements. NHCD will perform this reconciliation on a regular basis.

Finding 2015-003: Significant Deficiency—Preparation of the Schedule of Expenditures of Federal and State Awards

Criteria—In accordance with OMB A-133 and the State of Texas Uniform Grant Management Standards, management is responsible for the preparation of the Schedule of Expenditures of Federal and State Awards ("Schedule"). This includes identifying all expenditures by grant for any given fiscal year.

Condition and Cause—During the 2015 audit, expenditures related to funding for multiple federal and state grant programs were reflected in the 2015 Schedule that related to expenditures or program income in prior years. This error resulted when the respective department failed to identify and record expenditures as grant-funded in a timely manner and failed to communicate the expenditure to the Controller’s Office for proper reporting in the Schedule.

Effect—Federal and state programs may be inaccurately reported in the Schedule. This could impact the assessment of major programs in any given year and could potentially affect compliance of the period of availability requirements for grants. Our testing procedures identified that the current year Schedule is overstated by approximately \$252,228.

Recommendation—Continue to work with departments through various means (communications, trainings and policy revisions) to ensure that accurate data related to grants is communicated to the Controller’s Office on a timely basis.

Status—Controller’s Office—Implemented. The Controller’s Office met with each department to discuss findings and give updates on new requirements per UGG. In addition, the departments continues to provide quarterly reconciliation of their grants that are reviewed by the accountant senior.

Status—Parks and Recreation Department—Implemented. PARD will work with the Public Works Department to outline grant capital project expectations in Public Works’ Project Charters. PARD will also ensure that all eligible costs are billed to the grantor and reflected in the schedule in the year they are incurred. In addition, PARD has implemented quarterly review meetings on grant funded construction projects that include the Public Works Department and the Capital Contracting Office, implemented quarterly reconciliation of department grants, and implemented changes to project charter requirements.

Finding 2015-004: Section 108 Loan CFDA 14.248—Department of Housing and Urban Development and Community Development Block Grant (CDBG) CFDA 14.218- Department of Housing and Urban Development

Special Test: Davis Bacon—Significant Deficiency in Controls over Compliance and Noncompliance

Criteria—The Housing and Community Development Act of 1974, Statutory Provision, Section 100 requires that all laborers and mechanics employed by contractors and subcontractors in the performance of construction work financed in whole or in part with assistance received under this title shall be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act.

Condition and Cause—During our testing of the Family Business Loan project (Section 108 Loan), which is managed by the Economic Development Department, we noted that a contractor failed to submit weekly timesheet certifications for the weeks in which services were provided during fiscal year 2015. The City made multiple attempts to request the submissions; however, the vendor did not respond.

During our testing of the Department of Housing (CDBG grant), we noted that three contractors did not submit their weekly timesheet certifications in a timely manner and the review of the weekly timesheet certifications did not occur on a timely basis. There were changes in the City’s processes to obtain weekly timesheet certifications and the transition to the new process was not properly managed to continue to ensure compliance.

Perspective—For the Department of Housing (Section 108 Loan), the only vendor subject to Davis Bacon requirements was tested and no weekly timesheet certifications were submitted to the City of Austin despite multiple requests to the vendor from the Economic Development Department.

For the Department of Housing (CDBG grant), the vendors were facing difficulties submitting timesheets with the new online software and submitted hard copy timesheet certifications but the Housing Department disposed of the hard copy support. Per review of the online system it appears weekly timesheets were not obtained for up to a year and not reviewed in excess of a year.

Questioned Cost—None

Effect—Failure to obtain and/or monitor certified payrolls provided by the primary contractor and any subcontractors for compliance with Davis-Bacon Act is a violation of the Department of Labor regulations and may impact future grant funding.

Recommendation—Continue to work with the vendors to obtain evidence of compliance with Davis Bacon. Ensure that controls are in place to properly monitor Davis-Bacon compliance and that the controls are properly documented and maintained.

Status—Economic Development Department—Implemented. EDD made multiple efforts to collect evidence of Davis-Bacon compliance. The contractor did not comply with the request. After noncompliance EDD reported the Davis Bacon violation to the Department of Labor Relations for enforcement action. EDD followed-up with Labor Relations who confirmed receipt of the enforcement report. EDD is waiting on a response for next steps.

Status—Neighborhood Housing and Community Development—Implemented. NHCD acknowledges the gaps in record keeping that occurred during the implementation of LCP tracker software.

- Contractors have been provided extensive technical assistance on site and at their offices. All contractors on the Master Home Repair Contract have been trained.
- NHCD has implemented an internal weekly procedure to verify the payroll contracts' submission and that the prevailing wage determined by the Department of Labor are paid by the Contractors/Sub recipients.
- NHCD will not give additional assignments to contractors under the current Master Home Repair Contract, who do not adhere to the requirements of payroll data entry in LCP tracker.

Finding 2015-005: Section 108 Loan CFDA 14.248—Department of Housing and Urban Development

Cash Management-Significant Deficiency in Controls over Compliance and Noncompliance (Award B-01-MC-48-0500A, CFDA14.248)

Criteria—In accordance with OMB Circular A-133, an entity receiving Federal cash draws must comply with cash management procedures established by grantor.

Condition and Cause—The contract agreements for the Section 108 program instruct that all unspent loan funds are to be maintained in an FDIC insured custodian account, up to the maximum insured amount. Any funds in excess of the insured amount are to be continuously invested in Government Obligations through a custodian account which may include any obligations guaranteed by the United States government. The City of Austin has now established custodian accounts to monitor such cash; however, at the beginning of the fiscal year, the City held \$119,846 in a City of Austin account not originally set up as a custodian account for these funds. In August of 2015, the City of Austin transferred the funds into an account set up as a custodian account for these funds.

Perspective—\$119,846 was not originally in the required custodial bank account.

Questioned Cost—None

Effect—Failure to manage cash in accordance with the cash management compliance requirements and requirements of the grantor could result in potential misuse of funds.

Recommendation—Implement policies and procedures along with appropriately designed, implemented, and effective controls to ensure cash on hand related to loan funding is appropriately handled.

Status—Neighborhood Housing and Community Development—Implemented. NHCD took immediate action in August 2015 and moved the funds to the custodian bank. The bank confirmed receipt of the funds, which resolved the issue.

Finding 2015-006: Section 108 Loan CFDA 14.248—Department of Housing and Urban Development

Reporting—Significant Deficiency in Controls over Compliance and Noncompliance (Award B-05-MC-48-0500A, CFDA 14.248)

Criteria—Monthly reports of the balance in the Guaranteed Loans Fund account should be submitted to the Department of Housing and Urban and Development on a monthly basis, no later than the date set forth by the grantor.

Condition and Cause—The City of Austin did not have the appropriate procedures or control structure in place to ensure that these monthly reports were submitted to the grantor on a monthly basis. The City of Austin started submitting the Guaranteed Loans Fund report in July of 2015

Perspective—Nine out of twelve monthly reports were not submitted to the grantor.

Questioned Cost—None

Effect—Grantor cannot monitor the balance in the Guaranteed Loan Fund account without submission of the monthly reports.

Recommendation—Implement policies and procedures as well as the appropriate control structure to ensure submission of the monthly reports to the grantors.

Status—Economic Development Department—Implemented. EDD took immediate action in July 2015 and provided the monthly statements to the grantor. EDD implemented procedures to ensure the monthly submission of these statements.

Finding 2015-007: HOME Grant CFDA 14.239—Department of Housing and Urban Development

Matching and Reporting-Significant Deficiency in Controls over Compliance and Noncompliance (All related awards, CFDA 14.239)

Criteria—Matching regulations require that the City contribute or match no less than 25 cents for each dollar of HOME funds spent on affordable housing.

Condition and Cause—Annually, the City of Austin must calculate funds spent of affordable housing. They must meet matching requirements and disclose the matching amounts and carry forwards annually by reporting on the CAPER. However, the City of Austin did not have the appropriate procedures or control structure in place to ensure the match was properly calculated and reported. The data used to calculate the match included incomplete permits and homes that were not affordable. The City of Austin Improperly calculated and reported the match and carryforward on the CAPER.

Questioned Cost—None

Perspective—Errors in the fee waivers claimed as matching expenditures were identified during the initial sample of 25 items selected for testing. The Housing Department completed an analysis of the matching expenditures and provided a revised population, from which an additional sample of 60 fee waivers were selected. The results of the second test was that 1 out of 60 items selected represented a home in the development that was 20% affordable; however, the calculation considered the home 100% affordable, thus overstating the matching calculation. Further, 1 out of 60 items selected represented a home in a development that was 60% affordable; however, the calculation considered the home 40% affordable, thus understating the matching calculation. Additionally, for 2 out of the 60 items selected, the Housing Department did not document the type of permit that was waived on the fee application; therefore, there was not sufficient audit evidence to recalculate the fee waived using the fee schedule.

Effect—Inaccurate calculation of the waived fees that qualify as matching expenditures for this program may cause the City to be able to assess whether it has met the matching requirement, potentially resulting in noncompliance with grant requirements.

Recommendation—Implement policies and procedures that require review and approval of the information and matching calculation to ensure match is calculated and reported accurately.

Status—Neighborhood Housing and Community Development—Implemented. NHCD acknowledges the auditor comments on the HOME Match calculation report.

- Only Fee waiver transactions labeled as “Paid in full” will be used henceforth for the HOME Match calculation report. This will exclude transactions pending approval and/or canceled.
- Program staff plan to standardize reporting and undertake periodic review to ensure accuracy of data used for calculating HOME match.
- For the purpose of HOME match calculation, only fee waivers provided during the fiscal year are taken into consideration, even though the development may have been certified in a previous fiscal year.
- Standardized reporting and periodic review process completed August 2016.

Finding 2015-008: Airport Improvement Program (ABIA FAA) CFDA 20.106 – Department of Transportation

Special Test: Davis Bacon—Significant Deficiency in Controls over Compliance (Award 3-48-0359-058-2013, CFDA 20.106)

Criteria—The Housing and Community Development Act of 1974, Statutory Provision, Section 100 requires that all laborers and mechanics employed by contractors and subcontractors in the performance of construction work financed in whole or in part with assistance received under this title shall be paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act.

Condition and Cause—We noted that effective internal controls were not implemented to review that all required weekly timesheet certifications have been obtained. Further, there is not consistent evidence of review on supporting documentation by employees.

Perspective—Weekly timesheet certifications were obtained, but consistent evidence was not available to support that they were reviewed for project CLMC466. Further, there was no consistent evidence of review by the department personnel in the selected files. The lack of monitoring to ensure accurate and complete submission of weekly timesheet certifications appears to be a deficiency in internal controls; however, in the 26 weeks that were tested, all weekly timesheet certifications had not been properly obtained.

Questioned Costs—None

Effect—Failure to obtain and/or monitor certified payrolls provided by the primary and any subcontractors for compliance with the Davis-Bacon Act is a violation of the Department of Labor regulations and may impact future grant funding.

Recommendation—Implement policies and procedures to appropriately monitor Davis-Bacon compliance in all federally-funded construction contracts on an ongoing basis for appropriate certified payroll from any contractors prior to payment when practicable or as soon as possible thereafter.

Status—Capital Contracting Office—Implemented. The Capital Contracting Office's Wage Compliance procedures were revised October 1, 2016 in response to the audit recommendations. Procedures include Internal Controls for the standardization of the payroll review process. The new internal process controls ensure that weekly payrolls on federally-funded projects are reviewed within 4 weeks of receipt.

Wage representatives have conducted wage compliance meetings ("Post-PreConstruction Conference meetings") with the project team (project manager, sponsor, contractor and subcontractors) to review requirements, and promote understanding and compliance.

Wage representatives have attended at least 1 Progress Meeting per month on all federally-funded projects. At these meetings (hosted by the project manager), the wage representatives discuss Davis-Bacon wage requirements. Wage representatives have provided Quarterly Progress Reports to the project sponsors and project managers detailing wage compliance activities and results.