

OMB Circular A-133 Single Audit - Federal and State Awards

**City of Arlington, Texas**

September 30, 2011



**Report of Independent Certified Public Accountants on  
Internal Control Over Financial Reporting and on Compliance and Other Matters**

**Audit • Tax • Advisory**

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The Honorable Mayor, City Council and City Manager  
The City of Arlington, 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 the City of Arlington, Texas (the “City”) as of and for the year ended September 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated March 7, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Arlington Housing Authority and the Arlington Convention and Visitors Bureau, Inc., which are discretely presented component units which represent 10%, 11%, and 70% , respectively, of assets, net assets, and revenues of the aggregate discretely presented component units as described in our report on the City’s financial statements. This report does not include the results of other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Arlington Convention and Visitors Bureau, Inc., audited by other auditors were not audited in accordance with *Government Auditing Standards*.

**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 audit procedures for the purpose of expressing an opinion 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 express no such opinion.

A deficiency in internal control over financial reporting 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

### **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*.

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

GRANT THORNTON LLP

Dallas, Texas  
March 7, 2012





**Report of Independent Certified Public Accountants on Compliance Related to Major Programs (OMB Circular A-133 and State of Texas Single Audit) and on Internal Control Over Compliance**

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## Compliance

We have audited the compliance of the City of Arlington, Texas (the “City”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State of Texas Single Audit Circular that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2011. The City’s major federal and state 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 and state programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

The City’s basic financial statements include the operations of the Arlington Housing Authority which expended \$27,499,292 in federal awards which are not included in the Schedule of Expenditures of Federal and State Awards during the year ended September 30, 2011. Our audit, described below, did not include the operations of the Arlington Housing Authority because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State of Texas Single Audit Circular (SAC). Those standards, OMB Circular A-133 and SAC 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 or 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. Our audit does not provide a legal determination of the City’s compliance with those requirements.

In our opinion, the City of Arlington, Texas complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2011. However, the results of our audit procedures disclosed instances of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1, 2011-2, 2011-3, 2011-4, 2011-5, 2011-6, 2011-7, and 2011-8 that are required to be reported in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.

## Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the City's internal control over compliance. Accordingly, we express no such opinion.

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 or state program on a timely basis. A material weakness is a deficiency, or a 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 or state program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1, 2011-2, 2011-3, 2011-4, and 2011-5 that we consider to be significant deficiencies in the City's internal control over compliance.

We did not audit the City's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

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

GRANT THORNTON LLP

Dallas, Texas  
March 7, 2012





**Report of Independent Certified Public Accountants  
On Supplementary Information**

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The Honorable Mayor, City Council and City Manager  
The City of Arlington, Texas

We have audited the basic financial statements of City of Arlington, Texas (the "City") as of and for the year ended September 30, 2011 and have issued our report thereon dated March 7, 2012, which are presented in the City's Comprehensive Annual Financial Report. 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 and State Awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, and is not a required part of the basic financial statements. This schedule is the responsibility of the City's management. The schedule 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.

GRANT THORNTON LLP

Dallas, Texas  
March 7, 2012

**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2011  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>FEDERAL AWARDS</b>			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grant Entitlement Grants Cluster			
Comm Dev Block Grant - 31st year	B-05-MC-48-0008	14.218	\$ 2
Comm Dev Block Grant - 33rd year	B-07-MC-48-0008	14.218	11
Comm Dev Block Grant - 34th year	B-08-MC-48-0008	14.218	(4)
Comm Dev Block Grant - 35th year	B-09-MC-48-0008	14.218	130
Comm Dev Block Grant - 36th year	B-10-MC-48-0008	14.218	2,439
Comm Dev Block Grant - 37th year	B-11-MC-48-0008	14.218	520
Neighborhood Stabilization Program	B-08-MN-48-0001	14.218	(2)
Comm Dev Block Grant - ARRA	B-09-MY-48-0008	14.253	<u>698</u>
Total Community Development Block Grant Entitlement Grants Cluster			3,794
Emergency Shelter Grant	S-09-MC-48-0009	14.231	3
Emergency Shelter Grant	S-10-MC-48-0009	14.231	106
Emergency Shelter Grant	E-11-MC-48-0009	14.231	<u>62</u>
Total Emergency Shelter Grants Program			171
Home Investment Partnership/07	M-07-MC-48-0212	14.239	(1)
Home Investment Partnership/08	M-08-MC-48-0212	14.239	23
Home Investment Partnership/09	M-09-MC-48-0212	14.239	473
Home Investment Partnership/10	M-10-MC-48-0212	14.239	794
Home Investment Partnership/11	M-11-MC-48-0212	14.239	<u>106</u>
Total Home Investment Partnerships Program			1,395
Special Grant			
Homeless Prevention and Rapid Rehousing Program - ARRA	S-09-MY-48-0009	14.257	<u>631</u>
Total Department of Housing and Urban Development			<u>5,991</u>
DEPARTMENT OF THE INTERIOR			
Pass-Through Texas Historical Commission: Certified Local Government 03 Redirect	TX-03-18244-025	15.904	<u>2</u>
Total Department of the Interior			<u>2</u>
ENVIRONMENTAL PROTECTION AGENCY			
Direct Program:			
Brownfields Petroleum Assessment	BF-00F21601-0	66.818	127
Brownfields Petroleum Assessment	BF-00F22201-0	66.818	<u>118</u>
Subtotal 66.818			245
Pass-through Texas Water Development Board:			
Drinking Water Loan	61442	66.468	782
Clean Water Loan	72313	66.458	<u>2,391</u>
Total Environmental Protection Agency			\$ <u>3,418</u>

**City of Arlington, Texas**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2011  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF JUSTICE			
Direct Programs:			
ICE	Not Specified	16.729	\$ 3
IIDTA	Not Specified	95.001	17
COPS Hiring - ARRA	2009-RJ-WX-0081	16.710	2,163
COPS Technology 2006	2006-CK-WX-0358	16.710	65
COPS Technology 2010	2009-CK-WX-0055	16.710	<u>250</u>
Subtotal 16.710			<u>2,478</u>
Southern Border - ARRA	2009-SS-B9-0028	16.809	379
Weed & Seed 09	2009-WS-QX-0037	16.595	75
Weed & Seed 10	2010-WS-QX-0038	16.595	<u>51</u>
Subtotal 16.595			<u>126</u>
Total direct from Department of Justice			<u>3,003</u>
Pass-through Office of the Governor - Criminal Justice Division:			
Family Violence Intervention and Prevention 12	WF-20362-04	16.588	6
Family Violence Intervention and Prevention 11	WF-20362-03	16.588	<u>100</u>
Subtotal 16.588			<u>106</u>
Hispanic Outreach Counselor 12	VA-21071-03	16.575	6
Hispanic Outreach Counselor 11	VA-21071-02	16.575	61
Response Team Counselor 12	VA-19291-05	16.575	3
Response Team Counselor 11	VA-19291-04	16.575	<u>37</u>
Subtotal 16.575			<u>107</u>
Pass-through City of Fort Worth:			
JAG Program Cluster			
Justice Assistance Grant 07	2007-DJ-BX-1199	16.738	176
Justice Assistance Grant 09	2009-DJ-BX-1379	16.738	253
Justice Assistance Grant 10	2010-DJ-BX-0164	16.738	92
Justice Assistance Grant 09 - ARRA	2009-SB-B9-1479	16.804	<u>371</u>
Total pass-through from City of Fort Worth			<u>892</u>
Total JAG Program Cluster			<u>892</u>
Pass-through City of Dallas:			
Internet Crimes Against Children 11	2010-MC-CX-K037	16.543	6
Internet Crimes Against Children 10	Not Specified	16.543	<u>8</u>
Subtotal 16.543			<u>14</u>
Pass-through North Central Texas Council of Governments:			
Project Safe Neighborhood 09	2009-GP-BX-0008	16.609	<u>5</u>
Total pass-through Department of Justice			<u>1,124</u>
Total Department of Justice			<u>\$ 4,127</u>



**City of Arlington, Texas**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

September 30, 2011  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>DEPARTMENT OF TRANSPORTATION</b>			
Direct Programs:			
Handitran - Operating/Capital - ARRA	TX-90-X303	20.507	\$ 193
Handitran - Operating/Capital	TX-90-X961	20.507	<u>1,659</u>
Total direct from Department of Transportation			<u>1,852</u>
Pass-through Texas Department of Transportation:			
STEP Click it or Ticket	2011-Arlington-CIOT-00002	20.600	7
STEP Comprehensive	2011-Arlington-S-1YG-0055	20.600	<u>153</u>
Subtotal 20.600			<u>160</u>
I-30 Corridor On System	CSJ0902-48-546	20.205	(194)
I-30 Corridor Off System	CSJ0902-48-499	20.205	228
Center to Center Communication System	CSJ0902-48-758	20.205	26
Railroad Safety Mainline	CSJ0902-48-655	20.205	<u>12</u>
Subtotal 20.205			72
Airport Improvement Program-Terminal West Taxiway Design	1102ARLNG	20.106	248
Airport Improvement Program-Terminal Apron Construction	0802ARLNG	20.106	<u>774</u>
Subtotal 20.106			<u>1,022</u>
Pass-through North Central Texas Council of Governments:			
Job Access/Reverse Commute (Ride 2 Work)	Not Specified	20.516	<u>67</u>
Total pass-through Department of Transportation			<u>1,321</u>
Total Department of Transportation			<u>3,173</u>
<b>DEPARTMENT OF HOMELAND SECURITY - FEDERAL EMERGENCY MANAGEMENT AGENCY</b>			
Direct Programs:			
SAFER Assistance for Firefighters	EMW-2008-FF-00489	97.044	<u>209</u>
Total direct from Department of Homeland Security			<u>209</u>
Pass-through Texas Department of Public Safety-Division of Emergency Management			
Homeland Security Cluster			
Homeland Security Grant Program UASI 07	2007-GE-T7-0024	97.008	(18)
Homeland Security Grant Program UASI 08	2008-GE-T8-0034	97.008	1,876
Homeland Security Grant Program UASI 09	2009-SS-T9-0064	97.008	1,375
Homeland Security Grant Program UASI 10	2010-SS-T0-0008	97.008	835
Homeland Security Grant Program MMRS 07	2007-GE-T7-0024	97.071	10
Homeland Security Grant Program MMRS 08	2008-GE-T8-0034	97.071	51
Homeland Security Grant Program MMRS 09	2009-SS-T9-0064	97.071	82
Homeland Security Grant Program SHSP 08	2008-GE-T8-0034	97.073	76
Homeland Security Grant Program SHSP 10	2010-SS-T0-0008	97.073	<u>149</u>
Total Homeland Security Cluster			<u>4,436</u>
Emergency Management Assistance SLA-50	06-TX-EMPG-004	97.042	44
Homeland Security Grant Program BZPP 09	2009-BF-T9-0003	97.078	<u>93</u>
Total pass-through Department of Homeland Security			<u>4,573</u>
Total Department of Homeland Security - Federal Emergency Management Agency			<u>\$ 4,782</u>

**City of Arlington, Texas**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2011  
(Amounts in thousands)

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Award Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
DEPARTMENT OF ENERGY			
Direct Programs:			
Energy Efficiency and Conservation Block Grant ARRA	DE-EE0000959	81.128	\$ <u>1,065</u>
Pass-through Texas Department of Housing and Community Affairs:			
Weatherization Assistance Program ARRA	16090000746	81.042	* <u>1,280</u>
Total Department of Energy			<u>2,345</u>
DEPARTMENT OF AGRICULTURE FOREST SERVICE			
Pass-through Texas Forest Service:			
Urban Forestry Partnership Grant Program	10-03-01	10.664	<u>10</u>
Total Department of Agriculture Forest Service			<u>10</u>
DEPARTMENT OF COMMERCE - National Institute of Standards and Technology			
Pass-through Texas State Library and Archives Commission:			
Broadband Technology Opportunity ARRA	461-11001	11.557	<u>105</u>
Total Department of Commerce - National Institute of Standards and Technology			<u>105</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Pass-through Texas State Library and Archives Commission:			
Library Special Projects (Links)	478-11006	45.310	57
Library Cooperation	479-11006	45.310	<u>74</u>
Total Institute of Museum and Library Services			<u>131</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>24,084</u>

**City of Arlington, Texas**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2011  
(Amounts in thousands)

	<u>Grant ID. Number</u>	<u>State Expenditures</u>
<b>STATE AWARDS</b>		
TEXAS DEPARTMENT OF TRANSPORTATION:		
Routine Airport Maintenance Program 11	AM2011ARLNG	\$ 50
Handitran Operating	51002F7043	(244)
Handitran Operating	51002F7043	<u>487</u>
		293
TEXAS STATE LIBRARY AND ARCHIVES COMMISSION:		
Lone Star Libraries Grant 11	442-11581	<u>74</u>
		74
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS		
Homeless Housing and Services Program	63100000772	<u>815</u>
		815
CRIMINAL JUSTICE DIVISION		
Gang Initiative	CO-24285-01	150
Crime Reduction Strategy 11	SF-11-A10-23519-01	<u>71</u>
		221
TEXAS DEPARTMENT OF PUBLIC SAFETY		
Tarrant County Auto Theft Task Force 12	SA-T01-10065-12	13
Tarrant County Auto Theft Task Force 11	SA-T01-10065-11	<u>143</u>
		156
TOTAL EXPENDITURES OF STATE AWARDS		<u>1,559</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS		<u>\$25,643</u>



**City of Arlington, Texas**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2011

**(1) Basis of Accounting**

The Schedule of Expenditures of Federal and State Awards (the "Schedule") is prepared on the modified accrual basis of accounting.

**(2) Reporting Entity**

The City of Arlington, Texas (the "City"), for purposes of the Schedule of Expenditures of Federal and State Awards includes all the funds of the primary government as defined by the Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining whether Certain Organizations Are Component Units- an amendment of GASB Statement No. 14*. This report does not include the results of testing of compliance applicable to each major program or of internal control over compliance in accordance with OMB Circular A-133 for the Housing Authority of the City of Arlington, Texas, which was audited by other auditors and is reported on separately.

**(3) Relationship To Federal Financial Reports**

Grant expenditures reports as of September 30, 2011, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

**(4) Subrecipients**

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Community Development Block Grant (CFDA #14.218)	\$ 526,828
Homeless Prevention and Rapid Re-housing (CFDA #14.257)	582,225
Emergency Shelter Grant Program (CFDA #14.231)	139,439
Home Investment Partnership (CFDA #14.239)	<u>27,302</u>
	<u>\$1,275,794</u>

**City of Arlington, Texas**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS -  
CONTINUED**

September 30, 2011

**(5) Outstanding Loans**

In prior years, the City has provided loans through its various Community Development Block Grant programs (CFDA #14.218). The outstanding balance of the loans receivable at September 30, 2011 was \$288,029. There were no new loans receivable in the current year.

The City has an outstanding loan commitment under the Drinking Water State Revolving Loan Fund from the Texas Water Development Board, as a pass through agency for the Environmental Protection Agency (CFDA #66.468). As of September 30, 2011, the outstanding loan payable balance was: TWDB Series 2008 \$27,455,000.

The City has an outstanding loan commitment under the Clean Water State Revolving Loan Fund from the Texas Water Development Board, as a pass through agency for the Environmental Protection Agency (CFDA #66.458). As of September 30, 2011, the outstanding loan payable balance was: TWDB Series 2010 \$13,195,000.

**(6) Federal and State Awards Reconciliation (in thousands)**

Intergovernmental revenues per statement of revenues, expenditures, changes in fund balances – governmental funds	\$23,016
Plus: Texas Water Development Board Loan	3,173
Less: Intergovernmental awards from sources other than federal and state awards	<u>(546)</u>
Total expenditures per schedule of expenditures of federal and state awards	<u>\$25,643</u>

**(7) Relationship of Expenditures**

The negative expenditures primarily represent a reallocation of grant expenditures between grant program years or reimbursements of grant expenditures by the General Fund resulting from grant budget overruns in the fiscal year after the year of expenditure recognition.

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2011

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

*Federal and State Awards*

Internal controls over major program:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes



**City of Arlington, Texas**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION I - SUMMARY OF AUDITOR'S RESULTS - Continued**

Identification of major programs:

<u>CFDA/Grant Number/State Identification Number</u>	<u>Name of Federal and State Program or Cluster</u>
<b>Major Federal Programs:</b>	
81.128	Energy Efficiency and Conservation Block Grant – ARRA
81.042	Weatherization Assistance Program-ARRA
16.738, 16.804	Justice Assistance Grant (JAG) Program Cluster
16.710	Public Safety Partnership and Community Policing Grants (COPS) - ARRA
97.008, 97.071, 97.073	Homeland Security Cluster
11.557	Broadband Technology Opportunities- ARRA
66.458	Clean Water Loan
14.218, 14.253	Community Development Block Grant Entitlement Grants Cluster-ARRA
16.809	Southern Border-ARRA
20.106	Airport Improvement Program
14.257	Homelessness Prevention and Rapid Rehousing Program-ARRA
<b>Major State Program:</b>	
63100000772	Homeless Housing and Services Program
51002F7043	Handitrans Operating
Dollar threshold used to distinguish between type A and type B programs:	\$722,530 for federal programs \$300,000 for state programs
Auditee qualified as low-risk auditee-Federal?	No
Auditee qualified as low-risk auditee-State?	Yes

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2011

**SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

The audit disclosed no findings required to be reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS**

<b>Finding #:</b>	2011-1
<b>CFDA Titles:</b>	Edward Byrne Memorial Justice Assistance Formula Program (JAG Program Cluster)
<b>CFDA Numbers:</b>	16.738/16.804
<b>Federal Award Numbers:</b>	2007-DJ-BX-1199/2009-DJ-BX-1379/2010-DJ-BX-0164/ 2009-SB-B9-1479
<b>Federal Award Year:</b>	2011
<b>Federal Agencies:</b>	U.S. Department of Justice
<b>Pass-through Entity:</b>	City of Fort Worth, Texas
<b>Compliance Requirement:</b>	Cash Management
<b>Type of Finding:</b>	Significant Deficiency and Noncompliance
<b>Criteria:</b>	Per OMB Circular A-133, <i>Compliance Supplement</i> , "when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government".
<b>Condition:</b>	For three (3) of thirty-five (35) expenditures (10 of which were non-payroll transactions, which represent 100% of the non-payroll population) selected for testing, the City requested reimbursement prior to payment of expenditure with City funds.
<b>Questioned Costs:</b>	None
<b>Effect:</b>	The City is not in compliance with cash management requirements which could result in the City being denied future grant funding.

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Cause: Management considered seven and twelve days reasonable, as management considered that there would be some time delay between when the City's reimbursement request was sent to the City of Fort Worth, and when the City of Fort Worth requested funds from the granting agency.

Recommendation: We recommend that the City have controls in place to ensure that reimbursement requests are not submitted prior to actual payment disbursement to vendors.

**Views of Responsible Officials and Planned Corrective Action:**

The Police Department has requested that Finance schedule all vendors associated with grants for immediate payment to eliminate the timing variance of the actual payment and general ledger posting.

Contact Department/Person: Steve Evans, Management Services Director, Police Department  
Anticipated Completion Date: Effective Immediately

**Finding #:** 2011-2  
**CFDA Titles:** Public Safety Partnership and Community Policing Grants (COPS) - ARRA  
**CFDA Numbers:** 16.710  
**Federal Award Numbers:** 2009-RJ-WX-0081/2006-CK-WX-0358/2009-CK-WX-0055  
**Federal Award Year:** 2009  
**Federal Agencies:** U.S. Department of Justice  
**Pass-through Entity:** N/A  
**Compliance Requirement:** Equipment and Real Property Management  
**Type of Finding:** Significant Deficiency and Noncompliance



City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Criteria: Per OMB Circular A-133, *Compliance Supplement*, "Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained..."

Condition: Fire and Police Department staff provided inventory listings of assets acquired with grant funds. However, there was no evidence that physical observations had been conducted to verify the existence and condition of those assets.

Questioned Costs: None

Effect: The absence of a documented physical inventory observation of equipment occurring at least once every two years could result in lost, damaged or destructed equipment going undetected in a timely manner. Lack of documented physical inventory of equipment could also result in the City not identifying equipment for reutilization, upgrades, repairs, or disposal in a timely manner.

Cause: Transition of staff within the Fire Department resulted in staff not realizing that physical inventories were required at least once every two years.

Recommendation: We recommend that the City revise its equipment and real property management policies and procedures to include the performance of a physical inventory of equipment at least once every two years, which includes adequate documentation of the results of the physical inventory. We also recommend that the City provide adequate training to all personnel responsible for equipment management in regard to this requirement to enforce procedures and ensure compliance with this requirement.

**City of Arlington, Texas**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Views of Responsible Officials and Planned Corrective Action:**

The Fire and Police Departments have been inventorying the equipment associated with the COPS Technology grants annually but were not aware of the requirement for signed documentation that is required for proof of that inventory. The Fire and Police Departments will continue the annual inventory schedule and will be incorporating a document that will be signed by two parties acknowledging the inventory. That document will be kept with the grant files and will be available for audit reviews.

Contact Department/person: Rhonda Shipp, Communications Manager, Fire Department

Anticipated Completion Date: Corrective action already in place

**Finding #:** 2011-3

**CFDA Titles:** Energy Efficiency and Conservation Block Grant (EECBG)-ARRA

**CFDA Numbers:** 81.128

**Federal Award Numbers:** B-07-MC-48-0008

**Federal Award Year:** 2009

**Federal Agencies:** Department of Energy

**Pass-through Entity:** N/A

**Compliance requirement:** Cash Management

**Type of Finding:** Significant Deficiency and Noncompliance

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Criteria or Specific Requirement:**

The Department of Energy's *Guidance for State Energy Program and Energy Efficiency and Conservation Block Grant Recipients on Payment Procedures* states that "State Grantees should not draw down funds on ASAP unless they anticipate disbursing the funds (e.g., payments to sub-grantees or sub-recipients) within 3 working days of draw down. Non-State Grantees (for EECBG) should also minimize the time elapsing between draw down and disbursement of funds, and that time period should not exceed 30 calendar days. Grantees and sub-grantees shall promptly, but at least quarterly, remit to the federal agency interest earned on advances drawn in excess of disbursement needs..."

Condition:

It was noted that for five out of eleven cash draws, judgmentally, selected for testing, the cash draws were requested more than 30 days prior to actual disbursement of funds by the City. The number of days between the draw down request and the City's actual disbursement of funds, or subsequent correction to erroneous cash draws, ranged from 63 to 188 days.

Questioned Costs:

None

Effect:

The City is not in compliance with cash management requirements which could result in the City's non-compliance with interest earnings requirements, without being detected and/or could result in the City being denied future grant funding.

Cause:

Management indicated that the City chose to request grant funds within 60 days of the anticipated expenditure and that subsequently, contractual delays resulted in projects not being completed as anticipated. As a result, actual expenditures were delayed beyond the initial 60-day projection.

Recommendation:

We recommend that the City ensure controls are in place to ensure that cash draws are either based on actual disbursements or that disbursements are made within 30 calendar days of the request of funds, as required by the grant.



City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Views of Responsible Officials and Planned Corrective Action:**

A new grant administrator for EECBG was assigned as of January 1, 2011. The current administrator reconciled amounts drawn down and expenses and eliminated all cash on hand March 31, 2011. Since then she has requested draws only after an invoice has been approved for payment or (for non-invoice items like salary) expenses show in the City's financial system. The administrator is the only person requesting draws. Draw requests are reviewed by the Senior Financial Accountant before submission.

Contact Department/person: Carol Griffith, Operations Analyst, Public Works

Anticipated Completion Date: Corrective action already in place

**Finding #:** 2011-4

**CFDA Titles:** Homeland Security Grant Cluster

**CFDA Numbers:** 97.008/97.071/97.073

**Federal Award Years:** 2007-GE-T7-0024/2008-GE-T8-0034/2009-SS-T9-0064/  
2010-SS-T0-0008

**Federal Award Years:** 2007-2010

**Federal Agencies:** Department of Homeland Security

**Pass-through Entity:** Texas Department of Public Safety - Division of Emergency Management

**Compliance Requirement:** Equipment and Real Property Management

**Type of Finding:** Significant Deficiency and Noncompliance

**Criteria:** Per OMB Circular A-133, *Compliance Supplement*, "Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained..."

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Condition: The Emergency Management Division provided inventory listings of assets acquired with grant funds. However, there was no evidence that physical observations had been conducted to verify the existence and condition of those assets.

Questioned Costs: None

Effect: The absence of documented physical inventories at least once every two years could result in lost, damaged or destructed equipment going undetected in a timely manner. Lack of documented physical inventory observations could also result in the City not identifying equipment for reutilization, upgrades, repairs, or disposal in a timely manner.

Cause: Since grant guidelines do not specifically state that inventory observations have to be documented, management indicated that their interpretation of the requirements was that inventories had to be conducted at least once every two years, but not necessarily documented.

Recommendation: We recommend that the City revise its equipment and real property management policies and procedures to include the performance of a physical inventory of equipment at least once every two years, which includes adequate documentation of the results of the physical inventory. We also recommend that the City provide adequate training to all personnel responsible for equipment management in regard to this requirement to enforce procedures and ensure compliance with this requirement.

**Views of Responsible Officials and Planned Corrective Action:**

The Arlington Fire Department's (AFD) Office of Emergency Management (OEM) will retain documentation of all completed inventories of HSGP grant funded equipment as directed. Going forward, the OEM will meet grant guidance by maintaining comprehensive inventory control records for each physical inventory conducted on a minimum bi-annual basis.

Additionally, OEM will coordinate an annual physical inventory to ensure all grant funded equipment is accounted for. This annual physical inventory will exceed the grant guidance recommendation of a physical inventory every two years. OEM has created an inventory control plan that includes directions for the annual physical inventory as well as AFD management review of the inventory's findings.

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Contact Department/person: Irish Hancock, Emergency Management Administrator, Fire Department

Anticipated Completion Date: Corrective action already in place

**Finding #:** 2011-5

**CFDA Titles:** Clean Water Loan

**CFDA Numbers:** 66.458

**Federal Award Numbers:** L090035

**Federal Award Year:** 2010

**Federal Agencies:** U. S. Environmental Protection Agency

**Pass-through Entity:** Texas Water Development Board

**Compliance Requirement:** Reporting

**Type of Finding:** Significant Deficiency and Noncompliance

**Criteria:** Rule 375.92 of the Texas Administrative Code (Title 31, Part 10) states that applicants shall submit outlay reports, in a form determined by the executive administrator, as follows: (1) at loan closing for incurred costs; (2) for financial assistance for planning, acquisition and design, quarterly; and (3) for financial assistance for construction, monthly.

**Condition:** City construction for the Reclaimed Water Systems Expansion project began in May 2010. The City did not submit monthly required reports to the Texas Water Development Board (TWDB) as required. The TWDB submitted a letter to the City, dated December 10, 2010, regarding non-compliance with TWDB's monthly reporting requirements. Within that letter, TWDB emphasized monthly reporting requirements, even if funds are not being requested.

The City began submitting reports: however, they did not submit them for each month, as required.

**Questioned Costs:** None



City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Effect: Failure to submit required reports results in noncompliance with reporting requirements and could affect the City's ability to receive funding.

Cause: Since the period of fund availability did not begin until November 2010, management did not deem it necessary to submit outlay reports for costs incurred as of the beginning of construction. Management also indicated that there was a TWDB policy change to require monthly reporting, even if funds were not being requested.

Recommendation: We recommend that the City have controls in place to ensure required reports are submitted on a monthly basis, even if funds are not being requested. We recommend that the City designate an individual responsible for completing monthly reports and ensure they are aware of the reporting requirements.

**Views of Responsible Officials and Planned Corrective Action:**

The Water Utilities department does not have any record of receiving the December 10, 2010 notification from the TWDB.

The Water Utilities department did receive the letter, dated November 11, 2011, from the TWDB notifying the City of the failure to provide monthly outlay reports. The department quickly addressed the issue and submitted outlay reports for all months missing. Since November 2011, the department has submitted the monthly outlay reports on time and according to the TWDB requirements.

In order to ensure continued compliance with the TWDB, the department has created several processes. First, a staff member has been designated with the responsibility to ensure compliance. The staff member has created a monthly recurring appointment for the 9<sup>th</sup> of each month to begin preparation of that month's outlay report. His manager has also setup a monthly recurring appointment for the 15<sup>th</sup> of each month to review the status of that month's report.

Contact Department/person: Brad Franklin, Utilities Engineering Manager, Water Department

Date of Corrective Action: Corrective action already in place



City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Finding #:** 2011-6

**CFDA Titles:** Weatherization Assistance Program-ARRA

**CFDA Numbers:** 81.042

**Federal Award Numbers:** 16090000746

**Federal Award Year:** 2011

**Federal Agencies:** Department of Energy

**Pass-through Entity:** Texas Department of Housing and Community Affairs

**Compliance Requirement:** Cash Management

**Type of Finding:** Control Deficiency and Noncompliance

**Criteria:** Section 6 of the City's contract with the Texas Department of Housing and Community Affairs states that the subrecipients request for advances shall be limited to the minimum amount needed to perform contractual obligations and timed to be in accordance with actual, immediate cash requirements of the subrecipient in carrying out the purpose of the contract. The timing and amount of cash advances shall be as close as administratively feasible, not to exceed a 30-day projection of the actual disbursements by the subrecipient to direct program costs and the proportionate share of any allowable indirect costs.

**Condition:** The City made 12 monthly cash draws. Five of the 12 cash draws were included in our testing. Although amounts requested by the City represented the actual, immediate cash requirements needed to pay for approved invoices on work already performed, the City made cash draws over 30 days prior to the actual disbursements for a portion of two of the five cash draws selected for testing. A \$95,912.72 cash draw included 16 expenditures totaling \$76,548.29 that were 43 days prior to the actual disbursement, while a \$195,733.05 cash draw included five expenditures totaling \$13,632.42 that ranged between 47 and 63 days prior to the actual disbursement.

**Questioned Costs:** None

**Effect:** The City is not in compliance with cash management requirements which could result in the City's noncompliance with interest earnings requirements, without being detected and/or could result in the City being denied future grant funding.

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Cause: Requests for reimbursements were based on the City's projection of work that had been completed and was expected to be paid within 30 days.

Recommendation: We recommend that the City have controls in place to ensure that draw downs are either based on actual disbursements or disbursements that will be made within 30 calendar days of the draw down request, as required by the grant.

**Views of Responsible Officials and Planned Corrective Action**

Management respectfully disagrees with this finding.

The City's contract with the Texas Department of Housing and Community Affairs in Section 6, B, Method of Payment/Cash Balances, limits advances to the minimum amount needed to perform contractual obligations and timed to be in accordance with actual, immediate cash requirements of the subrecipient. With regard to the subject finding, the "Condition" noted above acknowledges that the amount requested by the City represented the actual, immediate cash requirements needed to pay for approved invoices on work already performed, in full compliance with the contract.

The contract requires the timing and amount of cash advances to be as close as administratively feasible, not to exceed a 30 day **projection** of the actual disbursements by the subrecipient. By definition, a projection is a prediction or an estimate. Draws from the funding agency represent actual invoices from the preceding month and the amount of the subrecipient's **projected** disbursements within the 30 days following the draw.

The contract addresses the timing of draws; the contract does not address the timing of payments. The subject finding is based upon the timing of the payment, which is not stipulated by the contract.

Both Management and its funding agency deem its performance to be in compliance with the requirements of the Weatherization Assistance Program contract and that this should not rise to the level of a finding.

The Weatherization Assistance Payments program contract ended February 28, 2012. The City is closing out the grant in compliance with the contract and state close out procedure guidance.

Contact Department/Person: David Zappasodi, Assistant Director of Community Services, Community Development and Planning

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS – Continued**

<b>Finding #:</b>	2011-7
<b>CFDA Titles:</b>	Public Safety Partnership and Community Policing Grants (COPS) - ARRA
<b>CFDA Numbers:</b>	16.710
<b>Federal Award Numbers:</b>	2009-RJ-WX-0081/2006-CK-WX-0358/2009-CK-WX-0055
<b>Federal Award Year:</b>	2009
<b>Federal Agencies:</b>	U.S. Department of Justice
<b>Pass-through Entity:</b>	N/A
<b>Compliance requirement:</b>	Allowable Costs
<b>Type of Finding:</b>	Control Deficiency and Noncompliance
<b>Criteria or Specific Requirement:</b>	Funding under the COPS Hiring Recovery Program grant requires that grant funds be used for the payment of approved full-time entry-level salaries and fringe benefits.
<b>Condition:</b>	It was noted that two of 25 payroll transactions judgmentally selected for testing included language pay costs, which are unallowable costs. Upon further review of the remaining payroll charges, it was noted that total language pay charged to the grant totaled \$969.
<b>Questioned Costs:</b>	\$969
<b>Effect:</b>	Requesting reimbursement for unallowable costs results in noncompliance and questioned costs and could result in the granting agency's denial of future grant funding.



City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

**Cause:** Three officers funded by the COPS grant requested, tested, and were granted language pay for skills being utilized in their current assignments during the period of 11/10 – 9/11. The officers were eligible for the incentive pay under City policy but the expense is not allowable under the grants final funding document. The language pay expense should have been transferred out of the grant account to the general fund account of the officer's assignment.

**Recommendation:** We recommend that the City ensure controls are in place to ensure unallowable costs are not charged to the grant.

**Views of Responsible Officials and Planned Corrective Action:**

Staff will review all expenditures and transfer any unallowable costs out of the grant to the general fund account of the officer's assignment prior to preparing quarterly reports and requesting reimbursement.

Contact Department/Person: Steve Evans, Management Services Director, Arlington Police Department  
Anticipated Completion Date: Corrective action already in place

**Finding #:** 2011-8  
**CFDA Titles:** Broadband Technology Opportunities (BTOP) - ARRA  
**CFDA Numbers:** 11.557  
**Federal Award Numbers:** 48-42-B10534  
**Federal Award Year:** 2011  
**Federal Agencies:** U.S. Department of Commerce  
**Pass-through Entity:** Texas State Library and Archives Commission  
**Compliance Requirement:** Cash Management  
**Type of Finding:** Control Deficiency and Noncompliance



City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Criteria: Section IV.E. of the BTOP grant states that the Grantee is restricted to one of two methods for requesting funds from the Grantor. The Grantee may request reimbursement of actual expenditures for the Grantee's normal billing cycle, or advance payment for estimated expenditures to be incurred for the upcoming 30 days. Only Grantees providing documentation to demonstrate lack of sufficient working capital and the ability to minimize the time elapsing between transfer of funds from Grantor and disbursement of grant funds will be allowed to request advance payments.

Condition: For two of three payroll transactions judgmentally selected for testing, the City requested reimbursement for 100% of an employee's payroll expense for the pay period, when fewer hours were documented on the employee's timesheets as allocated to the program. The payroll transactions tested represented 100% of payroll costs.

It was also noted for one of two reimbursement requests selected for testing, the City requested reimbursement for expenditures prior to the City's actual payment to the vendor. This represents 100% of the population of reimbursement requests.

Questioned Costs: None

Effect: The City is not in compliance with cash management requirements which could result in the City's noncompliance with interest earnings requirements, without being detected and/or could result in the City being denied future grant funding.

Cause: An employee did not detail the timesheet correctly. Time worked on another grant project was included in the hours reported for the BTOP grant. These hours should have been reported separately. The error was discovered during a subsequent discussion about the form and was corrected on a subsequent reimbursement request.

Recommendation: We recommend the City have controls in place to ensure that reimbursement requests are based on actual disbursements.

**Views of Responsible Officials and Planned Corrective Action:**

The timesheet format has been expanded to allow the employee to include all grant related hours on a single sheet. The file location and instructions have been reviewed with the supervisor and the employee. The employee will update the spreadsheet daily. The employee's supervisor will review for timeliness and accuracy. The report preparer will review the timesheet monthly to ensure data is available and correct at the time any future reimbursement requests and reports are complete and filed.

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS - Continued**

Prior to submitting request for reimbursement, the preparer will verify the date of actual invoices, verify that a payment has been issued, and include check number and date issued in all reports.

Contact Department/Person: Lee Shqeir

Date of Corrective Action: Corrective action already in place

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

For a complete description of the prior year audit findings, please refer to the OMB Circular A-133 Single Audit – Federal and State Awards report for the period ending September 30, 2010.

***Finding 10-01      Material Weakness in Internal Controls and Material Non-Compliance – Railroad Safety Mainline – Davis-Bacon Act***

Program: Retail Safety Mainline received from the U.S. Department of Transportation – CFDA 20.205

Finding: The only contract for this program did not contain the required Davis-Bacon Act contract clause and the contractor has not been required to provide payroll wage submissions. According to the City Traffic Engineer, Union Pacific Railroad (UPR) required that only UPR crews would do work along and within its tracts due to the nature of the task and type of specialization required. Because of this unique, sole-source arrangement where UPR is acting as contractor with its own regular work force, the City Traffic Engineer's judgment led him to believe that this is not a typical Davis-Bacon case, and therefore he did not require weekly payroll submittal by UPR. He believed that this requirement would have substantially increased the project cost. In addition, this contract was entered into in October of 2009, prior to the City's intensified efforts to ensure that Davis-Bacon provisions are included in all applicable contracts.

Recommendation: The City should require that contractors submit proof of wages for employees on grant funded projects on a weekly basis in accordance with the Davis-Bacon Act requirements and a signed "Statement of Compliance." In addition, all contracts subject to Davis-Bacon should contain the appropriate Davis-Bacon contract terms.

Status: On any future grant project involving the railroad company, whether force account or non-force account, full compliance with the Davis-Bacon Act, including weekly payroll submitted, by the railroad company must be required unless a waiver is granted by the funding source.

City of Arlington, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2011

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS - Continued**

***Finding 10-02                      Significant Deficiency in Internal Controls and Non-Compliance – ARRA  
Energy Efficiency and Conservation Block Grant – Reporting***

**Program:** ARRA Energy Efficiency and Conservation Block Grant received from the Department of Energy – CFDA 81.128

**Finding:** One quarterly progress report for this program was filed ten days late. The procedures for the City's reporting requirements were not performed timely because of a change in assigned personnel.

**Recommendation:** The City should review procedures that are in place and renew efforts to provide for timely reporting on all grants.

**Status:** All EECBG reporting dates have been entered on the outlook calendar of the Operations Analyst, with sufficient warning to prevent late reports.