

# FORT WORTH

A stylized brown longhorn head with long, curved horns, positioned below the text 'FORT WORTH'.

## **SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS For the Fiscal Year Ended September 30, 2007 CITY of FORT WORTH, TEXAS**



H 1869 CITY HALL, FT. WORTH, TEXAS.

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

For the Fiscal Year Ended  
**September 30, 2007**

**CITY OF FORT WORTH, TEXAS**

Elected Officials

2007 City Council

Mike Moncrief, Mayor

Salvador Espino  
Chuck Silcox  
Danny Scarth  
Donavan Wheatfall

Jungus Jordan  
Carter Burdette  
Kathleen Hicks  
Wendy Davis

City Manager

Charles Boswell

Assistant City Manager/CFO

Karen Montgomery

Director of Finance

Lena Ellis

Independent Auditors

Deloitte & Touche LLP

Prepared by the Department of Finance

# Introductory Section



# SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

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## **PURPOSE AND CONTENTS OF THIS REPORT**

This report was prepared to provide grantor agencies certain financial information which they may require to properly administer funds granted to the City. Financial schedules included herein present the City's grant expenditures in accordance with accounting principles generally accepted in the United States of America for State and Local government units. Individual grants presented in the financial information section of this report are those which were considered by the auditors in performing their tests in conformity with Office of Management and Budget (OMB) Circular A-133 and the State of Texas Uniform Grant Management Standards.

## **RELATIONSHIP BETWEEN THIS REPORT AND THE CITY'S BASIC FINANCIAL STATEMENTS**

All of the City's grant activity subject to the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133 and the State of Texas Uniform Grant Management Standards are accounted for or reported in the Basic Financial Statements in the Grant Special Revenue Fund, except for certain grants accounted for in the General Fund, Proprietary Funds, or other Funds. However, grants other than federal/state grants are combined with the federal/state grants under this caption and, therefore, this report cannot be related directly to the Basic Financial Statements based upon the information presented herein.

## **REPORTS**

The following reports prepared by the independent auditors are included in this document:

1. Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
2. Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal and State Award Program in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the State of Texas Uniform Grant Management Standards (“UGMS”).
3. Schedule of Findings and Questioned Costs.



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February 3, 2009

The Honorable Mayor, City Council and City Manager  
City of Fort Worth, Texas

Ladies and Gentlemen:

The Schedule of Expenditures of Federal and State Awards of the City of Fort Worth, Texas for the fiscal year ended September 30, 2007 is submitted herewith.

The report is published to provide the City Council, the various grant agencies, citizens and other interested persons, detailed information concerning financial operations of the City of Fort Worth, including compliance with certain provisions of Federal and State laws and regulations.

The data is presented fairly in all material respects and:

1. The City reports expenditures in accordance with accounting principles generally accepted in the United States of America;
2. The City has internal accounting and other accounting control systems to provide reasonable assurance that it is managing Federal and State financial assistance programs in compliance with applicable laws and regulations; and
3. The City has complied with laws and regulations that may have a material effect on its financial statements and each major Federal and State financial assistance program.

#### INDEPENDENT AUDIT

The Single Audit Act Amendments of 1996 and the Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and the State of Texas Uniform Grant Management Standards require an annual audit of the City's Federal and State financial assistance programs by an independent certified public accountant. This requirement has been complied with by the preparation of the following:

1. Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

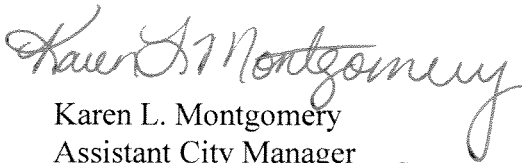


2. Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal and State Award Program in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the State of Texas Uniform Grant Management Standards (“UGMS”).

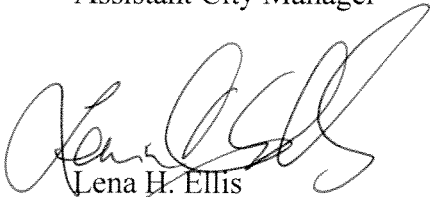
## ACKNOWLEDGEMENTS

The preparation of this report could not be accomplished without the dedicated services of the staff of the Finance Department. We express our appreciation to those staff members of both the Finance Department and Deloitte & Touche LLP, who worked many hours to ensure the accuracy of this report. In addition, we express appreciation to the Mayor, City Council and City Manager for their interest and support in planning and conducting the financial activities of the City in a responsible and responsive manner.

Respectfully submitted,



Karen L. Montgomery  
Assistant City Manager



Lena H. Ellis  
Chief Financial Officer

## **OVERVIEW OF THE CITY'S FISCAL YEAR 2007 ANNUAL AUDIT**

This report has been prepared in connection with the fiscal year 2007 annual audit of the City of Fort Worth, Texas. The primary purpose of the audit was for the auditors to form an opinion on the Basic Financial Statements of the City. The Basic Financial Statements are presented in conformity with accounting principles generally accepted in the United States of America for local government units as prescribed by the Governmental Accounting Standards Board.

## **OVERVIEW OF AUDIT REQUIREMENTS FOR FEDERAL AND STATE AWARDS**

The scope of the City's 2007 annual audit included the requirements of the Single Audit Act Amendments of 1996, the Office of Management and Budget Circular A-133 entitled "Audits of States, Local Governments and Non-Profit Organizations" and the State of Texas Uniform Grant Management Standards. These regulations establish audit requirements for State and local governments, Indian tribal governments and non-profit organizations that receive Federal and State assistance. They provide for independent audits of the entire financial operations for the City, including compliance with certain provisions of Federal and State laws and regulations. These requirements were established to ensure that audits are made on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether:

1. The basic financial statements of the government present fairly its financial position and the results of its financial operations in accordance with generally accepted accounting principles;
2. The organization has internal accounting and other control systems to provide reasonable assurance that it is managing Federal and State financial assistance programs in compliance with applicable laws and regulations; and
3. The organization has complied with laws and regulations that may have a material effect on its basic financial statements and on each major Federal and State assistance program.



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# Independent Auditor's Opinion



## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and City Council Members  
City of Fort Worth, Texas

We have audited the basic financial statements of the City of Fort Worth, Texas (the “City”) as of and for the year ended September 30, 2007 and have issued our report thereon dated February 3, 2009, which included a reference to other auditors. We did not audit the financial statements of the Employees Retirement Pension Trust Fund for the year ended September 30, 2007, (which comprises 100% of the trust funds of the City). We did not audit the financial statements of the Villas of Eastwood, a blended component unit of the Fort Worth Housing Finance Corporation, which is a blended component unit of the City of Fort Worth, for the year ended December 31, 2006, (which comprises approximately 1% of assets, fund balance and revenues of the non-major governmental funds of the City). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Fort Worth, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Employees Retirement Fund were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-II.1 through 07-II.13 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all material weaknesses. However, of the significant deficiencies described above we consider items 07-II.1 through 07-II.5 to be material weaknesses.

#### 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 grants, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-II.14 and 07-II.15.

We noted certain matters that we reported to management of the City in a separate letter dated February 3, 2009.

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the City's response and, accordingly we express no opinion on it.

This report is intended for the information of the City Council, the City management, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

February 3, 2009

## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AND STATE AWARD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council Members  
City of Fort Worth, Texas

### Compliance

We have audited the compliance of the City of Fort Worth, 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 Uniform Grants Management Standards (“UGMS”)* that are applicable to each of its major federal and state programs for the year ended September 30, 2007. The City’s major federal and state programs are identified in the summary of auditors’ 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.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas UGMS*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and/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 on the City’s compliance with those requirements.

As described in items 07-III.1 and 07-III.3 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Equipment and Real Property Management, and Reporting that are applicable to its Homeland Security Program. As described in item 07-III.6 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the Davis-Bacon Act that are applicable to its Airport Improvement Program. As described in item 07-III.12 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Reporting that are applicable to its Regional Outreach for Recycling Program. As described in item 07-III.15 the City did not comply with requirements regarding the Davis-Bacon Act that are applicable to its Highway Planning and

Construction Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2007. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 07-III.02, 07-III.4, 07-III.7, 07-III.08, 07-III.9, 07-III.10, 07-III.11, 07-III.13, 07-III.14, and 07-III.16.

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the City's response and, accordingly, we express no opinion on it.

#### Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-III.1 through 07-III.3, and 07-III.5 through 07-III.16 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-III.1, 07-III.3, 07-III.6, 07-III.12, and 07-III.15 to be material weaknesses.



The City's response to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the City's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the City as of and for the year ended September 30, 2007 and have issued our report dated February 3, 2009, which included a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City 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 and the State of Texas UGMS and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City Council, the City management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

February 3, 2009



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# Financial Section



**CITY OF FORTH WORTH, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL CFDA NUMBER	COFW NUMBER	CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<b>FEDERAL ASSISTANCE:</b>					
U. S. DEPARTMENT OF AGRICULTURE					
Passed through Texas Forest Service:					
Urban Tree Planting Guide	10.664	420717	01-03-01	\$ (4,918)	
Sub-total for Program				<u>(4,918)</u>	
Passed through Texas Health and Human Services Commission:					
Summer Food Program FY06	10.559	405088	TX-220-1003 CO 7543008	856	
Summer Food Program FY07	10.559	405191	TX-220-1003 CO 7543008	528,986	
Sub-total for Program				<u>529,842</u>	
Total U. S. Department of Agriculture				<u>524,924</u>	
U. S. DEPARTMENT OF COMMERCE					
J. Guinn Elementary School Renovation	11.300	212964	08-01-04076	107,047	
Total U. S. Department of Commerce				<u>107,047</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Children's Voices, Family Choices, Community Solutions	93.104	416784	5 U79 SMS4497-04	10,303	
Children's Voices, Family Choices, Community Solutions	93.104	416785	5 U79 SMS4497-05	1,774,271	
Sub-total for Program				<u>1,784,574</u>	
Passed through Texas Department of State Health Services:					
Immunization Outreach FY07	93.268	301089	7560005286 2007 02	59,740	
Immunization Outreach FY08	93.268	301196	2008-023573	3,720	
Sub-total for Program				<u>63,460</u>	
Triple Zero FY07	93.991	301129	7560005286 2007	36,506	
Triple Zero FY08	93.991	301211	2008-024520	1,303	
Sub-total for Program				<u>37,809</u>	
Biochem Grant FY06	93.283	301082	7560005286A2006	741	
Bioterrorism Response Grant FY06	93.283	301053	7560005286 2006 03	571,645	
Bioterrorism Response Grant FY07	93.283	301219	2008-022929	24,129	
Sub-total for Program				<u>596,515</u>	
Passed Through Texas Department of Housing and Community Affairs:					
Community Services Block Grant FY06	93.569	200050	616039 ALL.616	402,896	
Community Services Block Grant FY07	93.569	200147	CO# 616039 ALL 617	771,273	
Sub-total for Program				<u>1,174,169</u>	
LIHEAP Weatherization	93.568	200033	815039	(663)	
LIHEAP Weatherization	93.568	200178	817039	70,467	
LIHEAP Weatherization	93.568	200128	816039	368,990	
Comprehensive Energy Assistance Program FY06	93.568	200049	586039-ALL 586	593,702	
Comprehensive Energy Assistance Program FY07	93.568	200148	587039-ALL 587	1,118,376	
Sub-total for Program				<u>2,150,872</u>	
Passed through North Central Texas Council of Governments:					
FY06 SSBG with NCTCOG	93.667	203171	03090C01	222,013	
Sub-total for Program				<u>222,013</u>	
Passed through Tarrant County Local Workforce Development Board:					
Early Learning Opportunities Act Grant	93.577	208068	06-CC-ELOA-001	404,828	
Sub-total for Program				<u>404,828</u>	
Passed through National Association of City and County Health Officials					
Integrating Public Health					
All-Hazards Preparedness and Public Health	93.283	458109	2006-051604	8,950	
Sub-total for Program				<u>8,950</u>	
Total U. S. Department of Health and Human Services				<u>6,443,190</u>	

**CITY OF FORTH WORTH, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL CFDA NUMBER	COFW NUMBER	CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<b>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
HOME Program FY99	14.239	206128	M-99-MC-48-0204	\$ 57,499	
HOME Program FY01	14.239	206698	M-01-MC-48-0024	373,198	
HOME Grant (PY 02-03)	14.239	206772	M-02-MC-48-0204	378,343	
HOME Grant (PY 03-04)	14.239	206846	M-03-MC-48-0204	11,027	
HOME Grant (PY 04-05)	14.239	206930	M-04-MC-48-0204	347,571	
HOME Grant (PY 05-06)	14.239	206006	M-05-MC-48-0204	1,437,447	
HOME Grant (PY 06-07)	14.239	206141	M-06-MC-48-0204	171,551	
HOME Grant (PY07-08)	14.239	206181	M-07-MC-48-0204	44,626	
Sub-total for Program				<u>2,821,262</u>	
CDBG 26th Year 2000	14.218	206132	B-00-MC-48-0010	28,024	
CDBG 27th Year 2001	14.218	206697	B-01-MC-48-0010	13,206	
CDBG 28th Year (PY 02-03)	14.218	206771	B-02-MC-48-0010	382,188	
CDBG 29th Year (PY03-04)	14.218	206845	B-03-MC-48-0010	391,606	
CDBG 30th Year (PY04-05)	14.218	206929	B-04-MC-48-0010	510,130	
CDBG 31st Year (PY05-06)	14.218	206005	B-05-MC-48-0010	86,354	\$ 11,149
CDBG 32nd Year (PY06-07)	14.218	206140	B-06-MC-48-0010	2,923,247	678,368
CDBG 33rd Year (PY07-08)	14.218	206180	B-07-MC-48-0010	986,262	213,044
Sub-total for Program				<u>5,321,017</u>	<u>902,561</u>
Section 108 Housing	14.248	R106	B-99-MC-48-0010	796,097	
Sub-total for Program				<u>796,097</u>	
Emergency Shelter Grant (PY04)	14.231	206847	S-03-MC-48-0006	1,775	
Emergency Shelter Grant (PY05)	14.231	206931	S-04-MC-48-0006	(9)	
Emergency Shelter Grant (PY06)	14.231	206007	S-05-MC-48-0006	9,189	
Emergency Shelter Grant (PY07)	14.231	206143	S-06-MC-48-0006	210,505	189,248
Emergency Shelter Grant (PY08)	14.231	206183	S-07-MC-48-0006	70,904	68,845
Sub-total for Program				<u>292,364</u>	<u>258,093</u>
Fair Housing Assistance Program	14.401	206670	FF206K001002	106	
Fair Housing Assistance Program	14.401	206882	FF206K306002	(38,734)	
Fair Housing Assistance Program	14.401	206047	FF206K056002	228,405	
Fair Housing Assistance Program	14.401	206979	FF206K046002	10,295	
Fair Housing Assistance Program	14.401	206136	FF206K066002	300,194	
Sub-total for Program				<u>500,266</u>	
Comprehensive Housing Counseling	14.169	206030a	HC-05-0898-069	19	
Comprehensive Housing Counseling	14.169	206091	HC-06-0898-073	57,037	
Sub-total for Program				<u>57,056</u>	
Lead-based Paint Hazard Control Program	14.900	206711	0194-01	(14,188)	
Lead-based Paint Hazard Control Program	14.900	206029	0305-05	703,926	
Sub-total for Program				<u>689,738</u>	
HOPWA Grant (PY04)	14.241	206848	TXH03-F002	12,263	
HOPWA Grant (PY05)	14.241	206932	TXH04-F002	14,422	
HOPWA Grant (PY07)	14.241	206144	TXH06-F002	575,492	568,735
HOPWA Grant (PY08)	14.241	206184	TXH07-F002	245,158	245,158
Sub-total for Program				<u>847,335</u>	<u>813,893</u>
Total U. S. Department of Housing and Urban Development				<u>11,325,135</u>	<u>1,974,547</u>

**CITY OF FORTH WORTH, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL CFDA NUMBER	COFW NUMBER	CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<b>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>					
EEOC-FY07	30.002	216146	7 FPSLP0063	\$ 104,200	
Total Equal Employment Opportunity Commission				<u>104,200</u>	
<b>U. S. DEPARTMENT OF JUSTICE</b>					
Office of Juvenile Justice and Delinquent Prevention	16.541	433042	2005 JL FX 0103	<u>26,990</u>	
Sub-total for Program				<u>26,990</u>	
Forensic Science Improvement Program	16.742	453059	2005-DN-BX-0088	13,696	
Coverdell Forensic Science Impr. FY07	16.742	453145	2006-DN-BX-0026	<u>31,154</u>	
Sub-total for Program				<u>44,850</u>	
Joint Urban Strike Team Increasing Community Efforts	16.595	219174	CFW Co. 33619	<u>31,208</u>	
Sub-total for Program				<u>31,208</u>	
COPS-Secure Our Schools	16.710	423031	2004CKWX0541	49,970	
COPS- Technology Grant	16.710	423150	2006CKWX0187	<u>58,280</u>	
Sub-total for Program				<u>108,250</u>	
Human Trafficking Law Enforcement	16.582	423107	2006-VT-BX-0003	<u>31,952</u>	
Sub-total for Program				<u>31,952</u>	
<b>Passed through Texas Criminal Justice Division:</b>					
Diamond Hill-FY07	16.544	202105	ED-06-J20-15046-08	<u>77,779</u>	\$ <u>77,779</u>
Sub-total for Program				<u>77,779</u>	<u>77,779</u>
Narcotic Detector Canine Program	16.579	202154	DB-04-A10-18759-01	<u>25,671</u>	
Sub-total for Program				<u>25,671</u>	
Domestic Assault Response Team-FY06	16.588	202013	WF-05-V30-13414-08	(861)	2,797
Enhanced Domestic Assault Response Team	16.588	202093	WF-06-V30-13415-09	71,639	
DART FY07	16.588	202092	WF-06-V30-13414-09	69,920	
DART FY08	16.588	202199	WF-07-V30-13414-10	5,737	
EDART FY08	16.588	202200	WF-07-V30-13415-10	<u>3,593</u>	
Sub-total for Program				<u>150,028</u>	<u>2,797</u>
<b>Passed through the Greater Dallas Crime Commission:</b>					
Project Safe Neighborhood	16.609	451016	2004 GP CX 0606	<u>8,299</u>	
Sub-total for Program				<u>8,299</u>	
Tarrant County Area Justice Assistance Grant	16.738	423010	2005-DJ-BX-0354	226,560	212,248
Tarrant County Area Justice Assistance Grant	16.738	423085	2006-DJ-BX-1180	106,273	89,203
Border Security Enhancement Operations	16.738	441165	BSOC-OP-WR-119	<u>70,686</u>	
Sub-total for Program				<u>403,519</u>	<u>301,451</u>
<b>Passed through the North Texas Crime Commission:</b>					
6 City Anti-Gang Init.:Gang Crime Reduction	16.744	462155	CO2006-MU-MU-0003	<u>13,534</u>	
Sub-total for Program				<u>13,534</u>	
<b>Passed through the Near Southeast Community Development Corporation:</b>					
Community Prosecutor Program	16.595	459152	CFW Co. 34251	66,806	
Joint Law Enforcement/Neighbor	16.595	459240	CFW Co. 36680	<u>10,467</u>	
Sub-total for Program				<u>77,273</u>	
Total U. S. Department of Justice				<u>999,353</u>	<u>382,027</u>
<b>U. S. DEPARTMENT OF TRANSPORTATION</b>					
Meacham-Noise Compatability	20.106	218954	3-48-0085-13-2004	451,831	
Alliance R/W Improvements	20.106	218870	3-48-0296-021-2003	<u>42,707</u>	

**CITY OF FORTH WORTH, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL		CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
	CFDA NUMBER	COFW NUMBER			
Alliance R/W Extension	20.106	218871	3-48-0296-022-2003	\$ 909,219	
Alliance -Update 150 Noise Study	20.106	218872	3-48-0296-23-2004	(64,889)	
Alliance N/E T/W Access to Fedex	20.106	218934	3-48-296-25-2004	30,869	
Alliance-Wind Cones/Signs/POFZ	20.106	218034	3-48-0296-28-2005	100,806	
Alliance-Runway Extension	20.106	218035	3-48-0296-27-2005	2,582,267	
Alliance R/W Extension Project 16R&16L	20.106	218935	3-48-0296-24-2004	62,227	
Alliance Runway Extension Phase VII	20.106	218086	3-48-0296-30-2006	10,000,000	
Alliance -POFZ Runway Precision Obstacle Free Zone	20.106	218087	3-48-0296-31-2006	387,860	
Alliance - Runway Ext. - Ph VIII	20.106	218187	3-48-0296-33-2007	8,295,175	
Meacham - Phase IV-B	20.106	218974	3-48-0085-14-2005	877,531	
Sub-total for Program				<u>23,675,603</u>	
Passed through Texas Department of Transportation:					
Spinks- Eastside Drainage Ditch	20.106	302753	0202FWSPK	114,929	*
Permanent ATCT -Spinks	20.106	302859	03CTSPIN	267,726	
Runway 16/34 Repair and Apron Expansion	20.106	302985	0502 MEACH	361,020	*
Airport Systems Plan	20.106	302989	0502FWTRH	206,407	*
Spinks-Wildcat Way No. & Eastside T/W	20.106	302070	0602SPINK	154,300	*
Spinks - R.A.M.P.	20.106	302133	0702SPINK	31,812	
Meacham - R.A.M.P.	20.106	302134	M702MECHM	50,000	
Alliance - R.A.M.P.	20.106	302135	M702ALNCE	19,750	
Spinks-Airfield Upgrades-Phase II	20.106	302001	0502SPINK	31,827	*
Meacham - Repair Runway 16/34	20.106	302185	7XXAV074 0702MEACH	809,100	
Sub-total for Program				<u>2,046,871</u>	
Comprehensive STEP-2007	20.600	302131	587XXF6013	415,579	
Commercial Vehicle STEP	20.600	302132	587XXF6064	63,714	
Click It Or Ticket	20.600	302193	587XXF6176	25,114	
Sub-total for Program				<u>504,407</u>	
Traffic Signal System	20.205	302296	95XXF6009	233,065	
Signage and Information System	20.205	302825	0902-48-508	10,708	
State Highway 121 Tollway	20.205	302943	0902-48-585	6,547,583	
Magnolia Village I Pedestrian/Street Improvement	20.205	302054	0902-48-536	50,853	
Trinity River Trail System	20.205	302878	0902-48-557&581	29,550	
Berry Street Construction	20.205	302879	0902-48-558, 490, 410	1,074,375	
South of Seventh Project	20.205	302898	0902-48-562	37,204	
Peach St Rr Safety Improvement Project	20.205	302157	02-7XXF6018	21,739	
Urban Village (Central Cluster)	20.205	456167	0902-48-681	113,788	
Urban Village (Southeast Cluster)	20.205	456168	0902-48-682	200,000	
Urban Village (Southwest Cluster)	20.205	456169	0902-48-683	118,634	
Ninth St. Pedestrian & Streetscape Development	20.205	302891	0902-48-495	33,263	
Hulen Street from IH20 to Banwick and Overton Ridge	20.205	GC13	0902-48-907, 327	56,265	
Sub-total for Program				<u>8,527,027</u>	
Passed through Texas Parks and Wildlife:					
Regional Park Grant	20.219	306836	53-00009	2,870	
TPWD Rec Trail Fund Prgm-Heritage Trace	20.219	306920	771-07042	64,499	
Sub-total for Program				<u>67,369</u>	
Passed through North Central Texas Council of Governments:					
RTC - NCTCOG / Vehicle Purchases	20.205	203179	35402	146,406	
Sub-total for Program				<u>146,406</u>	
Passed through the Governor's Office of Emergency Management and the Texas Department of Public Safety:					
Hazardous Materials Emergency Preparedness	20.703	450198	07-DEM-LEPC-12	10,895	
Sub-total for Program				<u>10,895</u>	
Total U.S. Department of Transportation				<u>34,978,578</u>	

\* Includes expenditures processed by Texas Department of Transportation.

**CITY OF FORTH WORTH, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL CFDA NUMBER	COFW NUMBER	CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<b>ENVIRONMENTAL PROTECTION AGENCY</b>					
Brownfields Cleanup Revolving Loan Fund	66.818	214680	BL-98690701	\$ 114,457	
Brownfields Study	66.818	214894	BF-97676101-0	80,726	
Sub-total for Program				<u>195,183</u>	
Passed through Texas Water Development Board:					
Clean Water State Revolving Fund-tier 3	66.458	P272	132700-project 71722	4,457,427	
Sub-total for Program				<u>4,457,427</u>	
Drinking Water State Revolving Fund-tier 3	66.468	P262	Project -61152	23,108,557	
Sub-total for Program				<u>23,108,557</u>	
Passed through Texas Commission for Environmental Quality (TCEQ):					
Local Air Pollution Monitoring Sites	66.034	412957	582-5-55866	-	
Local Air Pollution Monitoring Sites-PM2.5 Monitoring	66.034	412120	582-7-72658	25,867	
Sub-total for Program				<u>25,867</u>	
Whole Air Monitoring	66.500	412958	582-5-55879	(70)	
Sub-total for Program				<u>(70)</u>	
Air Pollution Control FY05-07	66.605	412044	582-6-72617	88,533	
(EPA) SECTION 105	66.605	412208	582-8-72685	7,325	
Sub-total for Program				<u>95,858</u>	
Total Environmental Protection Agency				<u>27,882,822</u>	
<b>INSTITUTE OF MUSEUM SERVICES</b>					
Interlibrary Loan Service FY07	45.310	308106	771-07042	294,781	
Interlibrary Loan Service FY08	45.310	308192	771-08005	24,240	
Sub-total for Program				<u>319,021</u>	
Total Institute of Museum Services				<u>319,021</u>	
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>					
Passed through Texas Department of Safety:					
Passed through the Texas Association of Regional Councils:					
Metropolitan Medical Response Team	97.004	444981	2004 GR-06887	232,381	
Sub-total for Program				<u>232,381</u>	
Passed through Texas Governor's Division of Emergency Management:					
Texas Homeland Security FY05-UASI	97.008	442172	06-SR-27000-01	151,058	
Texas Homeland Security FY05-UASI	97.008	442071A	2005 HSGP-27000	3,162,987	
Sub-total for Program				<u>3,314,045</u>	
Texas Homeland Security FY05-MMRS	97.071	442173	2006 SR-27000-01	19,372	
Texas Homeland Security FY05-MMRS	97.071	442071B	2005 HSGP-27000	196,827	
Sub-total for Program				<u>216,199</u>	
Texas Homeland Security FY05-LETPP	97.074	442071C	2005 HSGP-27000	275,654	
Sub-total for Program				<u>275,654</u>	
BufferZone Protection Program (BZPP)	97.078	450099	2005BZPP-27000	126,327	
BufferZone Protection Program (BZPP)	97.078	450100	2005BZPP-27000	20,800	
Sub-total for Program				<u>147,127</u>	
Emergency Management Performance Grant FY07	97.042	450213	CSC# 18700	129,671	
Sub-total for Program				<u>129,671</u>	
Hurricane Katrina Disaster Relief	97.036	446055	3216-EM-TX	10,061	
Sub-total for Program				<u>10,061</u>	



**CITY OF FORTH WORTH, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL CFDA NUMBER	COFW NUMBER	CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
Passed through Texas Commission on Environmental Quality					
BioWatch Monitoring Activities	97.091	412119	582-7-72674	\$ 381,876	
Sub-total for Program				<u>381,876</u>	
Total Department of Homeland Security				<u>4,707,014</u>	
<b>U. S. DEPARTMENT OF ENERGY</b>					
Passed through Texas Department of Housing and Community Affairs:					
DOE Weatherization	81.042	200032	565039	(275)	
DOE Weatherization	81.042	200127	566039	216,151	
DOE Weatherization	81.042	200177	567039	61,748	
Systems Benefit Fund Program	81.042	200815	301008	26,048	
Total U. S. Department of Energy				<u>303,672</u>	
<b>U. S. DEPARTMENT OF EDUCATION</b>					
Passed through Texas Education Agency and Fort Worth ISD:					
Fort Worth ISD 21st Century Learning Program	84.287	449977	City Contract 30851	80,417	
Total U.S. Department of Education				<u>80,417</u>	
<b>U. S. SMALL BUSINESS ADMINISTRATION</b>					
Women's Business Center Year 3	59.037	432659	SBAHQ-98-W-0010	10	
Women's Business Center Year 4	59.037	432726	SBAHQ-98-W-0010	(2)	
Total U. S. Small Business Administration				<u>8</u>	
<b>EXECUTIVE OFFICE OF THE PRESIDENT</b>					
North Texas High Intensity Drug Trafficking Area	07.XXX	GG01	15PNT501-CS #31555	115,019	
Total Executive Office of the President				<u>115,019</u>	
<b>Total Expenditures of Federal Awards</b>				<u>\$ 87,890,400</u>	<u>\$ 2,356,574</u>
<b>STATE ASSISTANCE:</b>					
<b>TEXAS DEPARTMENT OF CRIMINAL JUSTICE</b>					
Computer Crime Fraud Expansion	N/A	202094	SF-07-A10-15862-06	\$ 46,724	
Cold Case Investigations	N/A	202095	SF-07-A10-17221-03	48,066	
Cold Case FY08	N/A	202202	SF-08-A10-17221-04	6,709	
Total Texas Department of Criminal Justice				<u>101,499</u>	
<b>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</b>					
Diabetes-Community Diabetes Services	N/A	301108	7560005286 2007 03	64,206	
Physical Activity Promoters	N/A	301197	7560005286 2007 04	13,400	
Total Texas Department of State Health Services				<u>77,606</u>	
<b>TEXAS WATER DEVELOPMENT BOARD</b>					
Water Reuse Priority & Implementation	N/A	426027	2005-483-548	65,166	
Total Texas Water Development Board				<u>65,166</u>	
<b>TEXAS DEPARTMENT OF TRANSPORTATION</b>					
Hulen Street from IH20 to Banwick and Overton Ridge	20.205	GC13	0902-48-907, 327	3,395	
Fire Station #8	N/A	C132	CSJ 8648-02-011	6,548	
Total Texas Department of Transportation				<u>9,943</u>	

**CITY OF FORTH WORTH, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED SEPTEMBER 30, 2007**

GRANT AGENCY/PROJECT TITLE	FEDERAL CFDA NUMBER	COFW NUMBER	CONTRACT NUMBER	EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<b>TEXAS COMMISSION ON ENVIRONMENTAL QUALITY</b>					
Air Pollution Control Service-FY07	N/A	412040	582-6-74392	\$ 260,753	
Ozone Monitoring Station	N/A	412207	582-8-72691	4,942	
Ozone Monitoring Station	N/A	412959	582-5-55868	46,075	
Sub-total for Program				<u>311,770</u>	
Passed through North Central Texas Council of Governments:					
Real Time Illegal Dumping Surveillance System	N/A	203078	06-04-G10	47,953	
Regional Outreach For Recycling	N/A	203076	06-04-G05	135,000	
Sub-total for Program				<u>182,953</u>	
Total Texas Commission on Environmental Quality				<u>494,723</u>	
<b>TEXAS COMPTROLLER OF PUBLIC ACCOUNTS</b>					
Tobacco Grant FY07	N/A	443104	Letter of Agreement	27,175	
Passed through University of North Texas Health Science Center:					
Guinn School Renovation	N/A	452046	City Contract #32474	230,863	
Total Texas Comptroller of Public Accounts				<u>258,038</u>	
<b>TEXAS STATE LIBRARY AND ARCHIVES COMMISSION</b>					
Loan Star Libraries Grant	N/A	308161	442-07176	70,247	
Total Texas State Library and Archives Commission				<u>70,247</u>	
<b>TEXAS HISTORICAL COMMISSION</b>					
Heritage Tourism Partnership	N/A	408080	808-6-0035	2,500	
Total Texas Historical Commission				<u>2,500</u>	
<b>Total Expenditures of State Awards</b>				<u>\$ 1,079,722</u>	<u>\$ -</u>
<b>Total Expenditures of Federal and State Awards</b>				<u>\$ 88,970,122</u>	<u>\$ 2,356,574</u>



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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED SEPTEMBER 30, 2007**

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**1. GENERAL**

The accompanying Schedule of Expenditures of Federal and State Awards (the “Schedule”) presents the activity of all applicable federal and state awards of the City of Fort Worth (the “City”) for the year ended September 30, 2007.

For the purposes of the Schedule, federal and state awards include all grants, contracts and similar agreements entered into directly between the City and agencies and departments of the federal and State of Texas government and all sub-awards to the City pursuant to federal and state grants, contracts and similar agreements. Major program categories are identified in accordance with the provisions of OMB Circular A-133 and the State of Texas Uniform Grant Management Standards.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AND STATE AWARDS**

Expenditures for direct costs and employee benefits are recognized as incurred using the modified accrual basis of accounting (accrual basis for proprietary funds) to the extent grants are approved and applicable government cost principles specified by each grant, contract, and agreement. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The City does not recover indirect costs unless expressly allowed by each award.

Additionally, amounts reported as expenditures in the Schedule may not agree with the amounts in the related financial reports filed with the grantor agencies because of accruals that would not be included until the next report filed with the agency.

**3. COMMITMENTS AND CONTINGENCIES**

The City participates in several federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at September 30, 2007 may be impaired. Accruals have been recorded in the financial statements for grant contingencies that in the opinion of management are probable and can be reasonably estimated, including \$2,394,151 related to Hurricane Katrina expenditures, pending an audit of that grant program.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED SEPTEMBER 30, 2007**

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In the opinion of City management potential HUD audit findings are estimated to be \$1,317,740 and an escrow account has been established for that purpose.

**4. OUTSTANDING LOAN BALANCES**

In 1980, the City of Fort Worth received a grant in the original amount of \$1,000,000 from the Federal Economic Development Administration for a Revolving Loan Fund under grant number 08-39-02250 (CFDA 11.307). These funds were combined with \$500,000 in Community Development Block Grant (CDBG) funds to initially capitalize the program. The City of Fort Worth contracted with the Fort Worth Economic Development Corporation (FWEDC), a nonprofit organization, to administer the program. The FWEDC is not a component unit of the City. Until fiscal year 2005, the principal and interest payments received from loans have been recycled back into the program by the FWEDC to produce additional loans. In fiscal year 2007 the City of Fort Worth received \$66,101 in program income related to this program.

The City of Fort Worth has an outstanding HUD Section 108 loan payable granted under the Housing and Community Development Act of 1974 for Loan Guarantee Assistance (CFDA 14.248) for the following projects and with the following outstanding loan balances as of September 30, 2007:

- Mercado Project, Commitment No. B-97-MC-48-0010 \$ 2,650,000
- Evans Avenue and Rosedale Street Business and Cultural District Project, Commitment No. B-99-MC-48-0010 \$ 6,799,000

The City of Fort Worth has an outstanding loan payable under the Clean Water State Revolving Fund from the Texas Water Development Board, as a pass through agency for the Environmental Protection Agency (CFDA 66.458). As of September 30, 2007 the outstanding loan balances were:

- TWDB Series 2005 \$ 7,190,000
- TWDB Series 2005A \$11,035,000

The City of Fort Worth has an outstanding loan payable 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, 2007 the outstanding loan balance was:

- TWDB Series 2005B \$50,655,000

# Independent Auditor's Finding



# CITY OF FORT WORTH, TEXAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS SEPTEMBER 30, 2007

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### Part I—Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified  
not considered to be material weaknesses? Yes

Noncompliance material to financial  
statements noted? Yes

#### Federal and State Awards

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified  
not considered to be material  
weakness(es)? Yes

Type of auditors' report issued on  
compliance for major programs: Unqualified, except for:

- Homeland Security Program, qualified for Equipment and Real Property Management, and Reporting
- Airport Improvement Program, qualified for Davis-Bacon Act
- Regional Outreach for Recycling, qualified for Reporting
- Highway Planning and Construction, qualified for Davis-Bacon Act

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

Identification of major programs:

#### Federal:

14.218	Community Development Block Grant
14.239	Home Investment Partnership Program
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
97.004/97.067	Homeland Security Program Cluster (including 97.008/97.071/97.074)

State:

Air Pollution Control  
Guinn School Renovation  
Regional Outreach for Recycling

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

Federal: \$2,600,000

State: \$300,000

Auditee qualified as low-risk auditee? No

## **Part II—Findings Related to the Financial Statements**

### ***07-II.1 Material Weakness: Accounting for Capital Assets (updated from fiscal years 2004-2006)***

Criteria – Proper accounting for capital assets requires the maintenance of an accurate, detailed listing of all expenditures that meet the City’s criteria for capitalization – those that are long-lived and meet the City’s capitalization threshold.

Condition and Cause - Numerous difficulties were encountered over the past several years in accounting for the City’s capital assets. While we noted strong progress in this area this year, the current accounting for fixed assets has the following remaining issues:

- The City’s Fixed Asset Tracking System (“FATS”) became unstable for continued use and all data was exported into an Excel database. While much simpler to use, this method does not have the typical automated controls that are built into most fixed asset modules of accounting systems. The year-end reconciliation process was manual and City staff failed to identify certain errors in the data in a timely manner.
- Some completed and in-use projects in both the General Governmental capital assets and the Water Department capital assets were improperly classified as construction-in-progress (“CIP”). The City does not have clearly written policies or consistently applied practices to determine the appropriate date to reclassify assets from CIP to completed assets. As a result, depreciation expense and accumulated depreciation for these assets were understated. Further, certain operational expenditures were improperly capitalized to CIP.
- We noted instances of payroll expenditures improperly capitalized into completed projects.
- There is inconsistency regarding the timing of when contributions from developers are added to City records and in the documentation required to support these assets.
- A periodic physical inventory of capital assets is not performed to ensure the accuracy of data in the City’s fixed asset records.
- The City does not have consistent or documented policies regarding accounting for capital assets or the related reconciliation processes.
- The City does not maintain a complete detail of federally funded capital assets that is periodically compared to actual asset counts.

Context – Capital assets represent the City’s single largest asset.



Effect – Errors in accounting for capital assets could have a material effect on the City’s financial statements. The City’s system of accounting for capital assets (both electronic and manual) is not sufficiently designed or implemented to prevent or detect material errors in capital assets without a significant effort made at year-end to correct the errors.

Recommendation – The following recommendations should be considered by City management.

- Ensure that the City's capital asset system includes a comprehensive inventory of infrastructure assets including roads, bridges, sidewalks and alleyways, storm water drainage structures and retention facilities. Consider the implementation of a more sophisticated, automated system of accounting for capital assets. Such a system should contain all appropriate systemic controls to insure proper accounting and reconciliation of capital assets.
- Develop a City policy that defines when CIP projects are considered complete and should be transferred to completed assets. Develop a City policy that defines the date on which developer contributions should be added to capital assets. In addition develop other policies on accounting for capital assets in general and the related reconciliation processes. Ensure that such policies are implemented and enforced.
- Implement controls over the application of overhead and direct labor charges to CIP projects and develop procedures that require the review and approval of these charges for accuracy and propriety.
- Conduct an inventory of all City assets not less than biannually to ensure that the data in the system is accurate. The City should conduct such an inventory on all City departments. After the initial inventory is performed to ensure the integrity of the data, the City can then implement a policy to count the assets of each department on a rotation basis.
- On an overall basis, improve communication between departments, install additional controls around the recording of capital asset additions and deletions, require timely and complete reconciliation of detailed capital asset records to the general ledger, provide additional training to capital asset accountants regarding the City’s systems and the required accounting, require timely and rigorous review of the recordkeeping performed by capital asset accountants, and document all procedures to be followed in accounting for capital assets in a policies manual.

Views of Responsible Officials - See Corrective Action Plan.

#### ***07-II.2 Material Weakness: Year-End Accrual of Accounts Payable (updated from fiscal year 2006)***

Criteria – At year-end an accrual of accounts payable should be recorded for expenditures related to the fiscal year that have not yet been paid before the end of the year.

Condition – The City’s process for accrual of accounts payable in the prior year was not sufficient and required follow-up work on the part of City staff. In the current year the City focused more attention on the process, yet it was still not refined into a process that produced fully accurate results.

Context – The City’s process to identify accounts payable is a manual process that includes a review of all disbursements greater than \$25,000 that were processed in the 60 days subsequent to year end. At our request a second review was also performed of the disbursements in December, which resulted in an approximate \$1 million additional accrual by the City.

Effect – Insufficient accrual processes at year-end could result in material misstatement of expenditures for the year.

Cause – The process is very manual and is subject to judgment.

Recommendation – Provide training and supervision to all personnel performing the identification process of year-end accounts payable. Institute additional quality control procedures to ensure the process is appropriately performed. Seek ways to automate or further refine the City’s process for determining year-end accruals.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.3 Material Weakness: Financial Accounting and Reporting Process (updated from fiscal years 2004-2006)***

Criteria – The City’s charter and sound fiscal management require that an annual set of audited financial statements be issued in accordance with Generally Accepted Accounting Principles (“GAAP”).

Condition – Due to a number of issues, the City’s audited financial statements for fiscal years 2004, 2005 and 2006 were not issued until 22, 19 and 21 months after year end, respectively. The City’s 2007 audited financial statements were also delayed and were issued 16 months after year end. In previous fiscal years we noted several weaknesses in internal controls including errors in daily bookkeeping, improper or untimely reconciliation of subsidiary ledgers to the general ledger, lack of proper documentation of policies and procedures, and a lack of appropriately trained personnel. Improvement in the process has been made each year, but deficiencies remain. For the fiscal 2007 process, the City engaged an outside consultant to augment and manage the City staff in preparation of the City’s financial statements in accordance with Generally Accepted Accounting Principles. While improvement was made in the City’s overall year-end accounting process (including reconciliations of detailed ledgers to the general ledger), it was still not functioning appropriately during fiscal 2007, and we consider this to be a material weakness in internal controls that were in place during the year. In addition, the City was not in compliance with the filing deadlines stipulated in OMB Circular A-133 for the Single Audit report. This deadline is 9 months after the fiscal year end.

Context - The City operates in a very complex environment. The financial accounting and reporting for a city the size of Fort Worth requires a focused investment by City management into the design of controls, staffing of financial personnel, creation and maintenance of accounting systems, and supervision and review of the accounting function. The current state of governmental affairs, combined with the ever-increasing complexity of governmental accounting standards as prescribed by the Governmental Accounting Standards Board creates an environment requiring continuous and focused attention by City management on the accounting and reporting function.

Effect – A significant delay in the process of year-end closing and reporting could have several negative consequences. It may hinder the City’s ability to obtain the necessary credit ratings to issue debt that is needed for capital projects, it may create questions in the views of ratings agencies and current bondholders, it may result in questions and a lack of confidence by granting agencies, and it creates an environment in which accounting and reporting errors are more likely.

Cause – The delay in the closing and reporting process resulted from many things such as inappropriate staffing within the finance department, out-of-date electronic and manual systems of processing and reviewing financial data, and inadequate accounting and reporting policies.

Recommendation - Invest in upgrading the financial accounting and reporting function for the City. This includes the following:

- Assessing the need of additional or better qualified and more highly trained personnel

- Cross-training personnel so that procedures are consistent
- Reorganizing duties and internal structure within the accounting function
- Revising the supervisory structure of the accounting functions
- Assessing and possibly upgrading the computer systems used in the accounting function
- Implementing supervisory reviews of processes and supervision of all accounting functions
- Developing, documenting, and implementing policies and procedures and additional training on and communication of those policies and procedures
- Emphasizing to all departments the importance of frequent and full communication between other city departments and the Finance Department of any information that may impact the City's financial accounting and reporting.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.4 Material Weakness: Cash Reconciliation and Reporting Process (updated from fiscal years 2004-2006)***

Criteria – Appropriate controls over cash require complete and timely reconciliations of all bank accounts.

Condition – Reconciliations of bank accounts to the City's general ledger were not performed on a timely basis throughout the year. Timely reconciliations and timely research and resolution of reconciling items are important controls over cash and deposits. Additionally, certain cash account reconciliations are not maintained and monitored by the Finance Department.

Context - Internal controls can be classified into two main types: preventive and detective. Preventive controls are designed to prevent material errors from occurring in the accounting process. Detective controls are designed to be a second layer of controls and to detect errors that have slipped through the preventive controls. The cash reconciliation process is a detective control designed to help identify errors in entries related to cash receipts or disbursements.

Effect and Cause - As a result of the failure of this detective control for the City, bookkeeping errors involving cash entries went undetected by City personnel in prior years. These same errors were not noted in fiscal 2007, but the reconciliation process was still not performed on a timely basis. Additionally, other departments were able to open bank accounts in the City's name and maintain reconciliations on such accounts without notifying the Finance Department. As a result, such accounts were not monitored by the Finance Department and the related balance and activity was not properly reflected in the City's general ledger.

Recommendation - Cash reconciliations should be prepared in a timely manner each month and all unreconciled differences should be immediately researched and resolved. Any bookkeeping errors that are identified should be researched, thoroughly reviewed, and immediately corrected. The source of any errors detected should be identified and additional controls put in place to prevent those errors from re-occurrence in the future. The reconciliation should be prepared by appropriately trained personnel and should be reviewed by knowledgeable supervisors. The reconciliation procedures should be thoroughly documented and continually reviewed to ensure that they remain appropriate as City finances and systems change over time. All cash accounts should be properly reported to and monitored by the Finance Department so that activity and balances are properly reflected in the City's financial statements.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.5 Material Weakness: Reporting Component Units (updated from fiscal year 2005 and 2006)***

Criteria – Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units* provides guidance on the reporting of related organizations in the City’s basic financial statements.

Condition - The City has not accurately reported some of the financial activities of component units. There is no consistent process in place to review activities of component units to determine whether their activities are properly accounted for in the City’s general ledger.

Context – There are a number of potential components for the City that require assessment each year regarding their classification as component units and their financial activities.

Effect – Improper accounting for component units presents a misleading picture of the reporting entity.

Cause – There is no formal process for monitoring the status and financial activities of component units. Arrangements between the City and related organizations are frequently made by various departments within the City without proper communication of these relationships to the Finance Department.

Recommendation - The financial activities of these related entities should be monitored to insure that proper accounting for their financial activities are recorded in the City’s financial statements.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.6 Significant Deficiency: Controls over Wire Transfers (updated from fiscal years 2005 and 2006)***

Criteria - All wire transfers should be adequately supported with appropriate documentation of the reason for the wire transfer and be approved by a supervisor prior to issuance, in accordance with City policy.

Condition - We noted two instances in which approvals for wire transfers were not documented.

Context and Effect – Wire transfers typically involve large amounts of cash and are subject to the risk of misappropriation of assets. Controls over wire transfers are important and must be maintained at all times.

Cause – During fiscal 2007, the City’s finance department continued to experience short staffing. Routine procedures may be followed but might be incomplete if staffing is not adequate.

Recommendation - Enforce City policy by requiring all wire transfers be appropriately approved and documented prior to issuance.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.7 Significant Deficiency: Computer System Access Controls (updated from fiscal year 2006)***

Criteria – Access controls are key controls to the City’s financial systems in order to protect financial data from improper accounting and reporting. The City is currently reestablishing and documenting policies and procedures related to controls.

Condition and Cause – The following deficiencies were noted during the review of General Computer Controls over the City’s financial system and the water billing system :

*Policies and Procedures:* Formal security policies, procedures and standards have not been updated by management. A draft report is currently under review, but has not been approved by City management as of the date of the audit.

*Strong Password Enforcement:* The City’s systems are not configured to force users to use a strong password across all the systems. Although the users are required to access the systems through Windows login that forces users to use relatively strong passwords (with the exception of complexity requirement), the password requirements for other systems that include MARS, BuySpeed, DataWarehouse, Sunguard etc., were noted to be generally weak.

*User Access Reviews:* User access to the IT systems and the data center is not reviewed on a periodic basis to identify and correct any inappropriate access.

*User Access Termination:* Based on limited testing, two instances of terminated employees with access to the IT systems were noted. It was also noted that the City considers it to be the responsibility of the department heads to log a helpdesk ticket when a user is terminated or transferred. In such instances, a control requiring periodic user access review would allow management to detect and correct any inappropriate access.

*Configuration Reviews:* The key configuration data sets and user roles are not reviewed on a periodic basis. This includes the appropriateness of access controls to datasets that are not protected by the security mechanisms (RACF protected dataset), direct access to data (direct database update access or command line access) and definition of key user roles within the applications.

Context - Management is ultimately responsible for ensuring that all systems are secure and that unauthorized users do not have access to sensitive data. As such, access should be reviewed periodically and security strengthened to minimize such risks.

Effect- Unauthorized access to an entity’s information systems can potentially allow damage to the data which can lead to the integrity of the system or information maintained in the system being compromised.

Recommendation - The following should be considered:

- Formal security policies, procedures and standards should be implemented by management. Periodic reviews or monitoring controls should be established to ensure that the established policies are appropriately implemented on all the systems and remain pertinent.
- System access of all personnel and key security configuration should be reviewed on a regular basis to ensure it is appropriate at all times.
- Appropriate security monitoring controls should be established and implemented based on a comprehensive security risk assessment.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.8 Significant Deficiency: Accuracy of and Supporting Documentation for Journal Entries (updated from fiscal years 2005 and 2006)***

Criteria – Controls over journal entries are critical to the proper control over the City’s accounting and financial reporting.

Condition and Cause – In certain instances the supporting documentation required to be attached to journal entries was missing or incomplete. In addition, we noted several year-end closing journal entries that were duplicative or incorrectly prepared, requiring further adjustment.

Context - Journal entries may significantly adjust the general ledger. Proper preparation and documentation of journal entries is crucial to proper accounting

Effect – Improper journal entries can cause significant errors in the financial statements. Budgetary controls help to mitigate the risk, but stronger controls should exist around journal entries to help prevent misappropriation of assets or misstatement of financial statements.

Recommendation – Reinforce the need for careful review of each journal entry including a verification of complete documentation supporting each journal entry to be filed with the entry itself.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.9 Significant Deficiency: Grant Management (updated from fiscal years 2005 and 2006)***

Criteria – As part of the single audit reporting, the City is required to annually prepare a Schedule of Expenditures of Federal and State Awards that lists all expenditures related to Federal and state award programs for that year.

Condition – In prior years, the City faced difficulty in accumulating the list of all grants for inclusion in the Schedule of Expenditure of Federal and State Awards used in the single audit. In 2006 and 2007, the City assigned one person to oversee this area and made progress, but still exhibited certain difficulties in preparing a complete schedule.

Context - Most grants are accounted for in specific special revenue funds and are easily identified at year-end. However, we noted certain grants that were recorded in other funds. The Finance Department was not aware of these grants and significant amount of research was required to determine the activity for these grants. In addition, non-cash grants such as equipment, loans or loan guarantees were not originally identified by management as grants.

Effect – An improperly prepared Schedule of Expenditures of Federal and State Awards (SEFA) misstates the reporting to the granting agencies. Further, errors in revenue recognition can occur when related expenditures are not properly reported.

Cause – Large numbers of grants accounted for in multiple funds create a difficult process in accumulating the data for the schedule. Nonstandard grants require research that was not properly performed by grant accounting personnel. City personnel were unfamiliar with SEFA reporting requirements and do not have a sufficient understanding of proper accounting for these transactions.

Recommendation - Develop standard policies for reporting grants. Educate personnel in all departments on the requirements related to proper accounting and reporting for grants. This information should also include guidance on the nature of grants, both monetary and non-monetary. Use standard funds for accounting for such grants and perform periodic reviews of all departments to ensure grants are properly accounted for and complied with.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.10 Significant Deficiency: Documentation of Policies and Procedures Related to Accounting and Reporting (updated from fiscal year 2006)***

Criteria – Policies and procedures related to control activities should be adequately documented in order to provide a consistent framework for the application of accounting and reporting.

Condition – There is currently a general lack of documented policies and procedures related to accounting and reporting.

Context – Current governmental accounting and reporting requirements are very complex and require thoughtful and consistent policies and procedures that are well-documented in order to ensure consistent application.

Effect – The lack of formal policies and procedures contributes to inconsistent application of accounting and reporting methodologies and creates an environment in which changes in personnel can result in errors in the accounting function.

Cause – A rapidly changing public sector environment, combined with an outdated system has created many situations in which consistent application of procedures is difficult and often absent. Recommendation – We recognize that the City is working on a project to provide appropriate documentation of all accounting and reporting policies and procedures. We recommend swift completion and implementation of this project. Consider a periodic update to the study to ensure that all policies and procedures remain appropriate in the changing municipal financial environment. Ensure that documented policies and procedures cover all aspects of the City's financial operations, including both manual and IT-driven procedures.

Views of Responsible Officials - See Corrective Action Plan.

***07-II.11 Significant Deficiency - Change Management of Computer Controls (updated from fiscal year 2006)***

Criteria – As changes are made to the City's systems (programs, databases, operating systems and networks), those changes should be fully tested and authorized by management to ensure integrity of data during the change process.

Condition – The City has designed and implemented a Change Management Policy, but the current processes do not require that all changes are processed through the change management policy. Some of the specific cases noted were as follows:

*Emergency Changes:* The programmers are given access to make changes directly in the production environment using special access (emergency access) to correct problems that are to be fixed on an urgent basis. When programmers are given such access, the access is left open for a period of 24 hours during regular weekdays and possibly up to 48 hours or more on the weekends before the access is disabled. Any change made by the programmer using such special access is not logged and reviewed for appropriateness and it is possible for a programmer to make unauthorized changes using this special access privilege.

*Migrating Changes:* In the Water Services IT department, where there is not an adequate number of personnel, the Administrators implement changes in the production environment and also perform

programming duties. In such cases, if unauthorized changes are made, they would not be detected by management.

Context – The City’s IT department regularly reviews changes submitted through the change control process, but does not prevent IT personnel from making changes outside of the City’s policy.

Effect – Any potential unauthorized changes may lead to material changes going undetected in the system.

Cause – The current processes and system configurations do not prevent a programmer or IT administrator from implementing a change that has not been approved by management. There is a lack of clear segregation of duties due to lack of technical knowledge or availability of adequate personnel.

Recommendation – Management should implement adequate preventive controls that restrict the same person or programmer from implementing a change to the system without adequate testing or approval. In cases where it is not feasible to have adequate segregation of IT functions, management should consider implementing monitoring controls, such as a review of the log of changes or a peer review of all changes performed.

Views of Responsible Officials - See Corrective Action Plan.

#### ***07-II.12 Significant Deficiency: Recording Debt Transactions***

Criteria – Accounting for debt transactions requires attention to detail and a thorough understanding of debt and the related accounting standards.

Condition and Cause – We noted numerous errors in the City’s initial accounting for the current year’s debt transactions. Although not material, these errors included inappropriate breakout and accounting for debt-associated costs, incomplete accounting for the current year’s defeasance transactions, and incomplete accounting for the current year’s new debt issuances. Certain information related to some transactions was not provided to the City’s Finance Department by other departments involved in the transactions.

Context – Debt transactions can be quite complicated. Different accounting is required at the fund level and at the Government-Wide level. Debt transactions are also rarely similar to one another so that a full understanding of each individual transaction is necessary for proper accounting.

Effect – Improper accounting results in an improper reflection of the City’s debt activity and balances for the year in the City’s financial statements.

Recommendation – Consider each debt transaction to be unique and focus attention on the specific details provided by the bond closing documents. Require all departments to fully inform the Finance Department of any activity related to debt during the year. Implement procedures that require appropriate review of all debt-related journal entries by someone with a strong understanding of the debt transactions and the related accounting requirements.

Views of Responsible Officials – See Corrective Action Plan.

#### ***07-II.13 Significant Deficiency: Court System Accounts Receivable and Escrow Liabilities (updated from fiscal year 2006)***

Criteria – The activities of the City’s municipal courts system generates both accounts receivable and escrow liabilities. These amounts should be appropriately calculated, recorded, and reserved, as necessary.



Condition – Based upon a review by internal audit, certain deficiencies were noted in the calculation and recording of court costs payable to the state of Texas. In addition, an estimate of the accrual of accounts receivable for fines and fees assessed but not yet collected is not recorded by the City.

Context – The City implemented a new court system in calendar year 2006. With this implementation certain errors were produced in the records and not all aspects of the new system have been utilized. A formal review of the system began in and is expected to be completed in fiscal 2009.

Effect – Improper use of the courts system could result in errors in processing of court fines and fees and improper assessment of the amounts due to or due from the City related to citizens or other parties.

Cause – As with any new system, the proper implementation is key to its success. Additional adjustments to the system appear necessary in order to provide a system that appropriately calculates and records financial transactions related to the municipal court.

Recommendation – Continue and complete the review of the system implementation to ensure that it is appropriately installed and operating effectively. Consider utilizing all aspects of the system to enable the City to estimate uncollected fines and fees that might be recorded as accounts receivable at year end and to estimate an appropriate allowance for doubtful accounts.

Views of Responsible Officials – See Corrective Action Plan.

#### ***07-II.14 Material Non-Compliance Finding: Timely Filing of Single Audit Reports***

Criteria – The Single Audit Act of 1996 requires single audit reports to be filed within nine months after year end.

Condition – The City’s single audit reports were not completed within the time required.

Context and Cause – The completion of the CAFR and the related single audits for each of the last four years have not been completed within the required timeframe because of certain difficulties.

Effect – Lack of timely filings can cause grantors to question continued funding of those grant programs.

Recommendation – Implement procedures to create an environment in which the year-end CAFR and audit process may be completed on a timely basis.

Views of Responsible Officials – See Corrective Action Plan.

#### ***07-II.15 Material Non-Compliance Finding: Deposit Collateralization***

Criteria – Texas Government Code Section 2257 requires the City to maintain FDIC insurance coverage and financial institution collateralization at least equal to the amount of the City’s deposits at all times.

Condition – The City has a collateralization agreement with its primary depository institution, but does not have such agreements at other financial institution in which the City maintains accounts. At the end of fiscal 2007, the collateralization was not sufficient to cover the City’s deposit balance.

Context – On September 30, 2008, the City’s deposits were under-collateralized by approximately \$900 thousand.

Effect - Lack of adequate collateralization violates the requirements of the Texas Government Code but also places the City's deposits at risk if the financial institution had liquidity difficulties on that day.

Cause – City personnel believed that the collateralization agreement at the primary depository institution would also cover all financial institutions in which the City maintains deposits. However, this is not the case and deposits at those other financial institutions were under-collateralized at year-end and possibly at other times during the year.

Recommendation – Institute better monitoring procedures to anticipate when deposit fluctuations may require additional collateralization. If deposits at financial institutions other than the primary depository are expected to be in excess of FDIC coverage, obtain collateralization agreements for those accounts.

Views of Responsible Officials – See Corrective Action Plan.

### **Part III – Findings and Questioned Costs Related to Federal and State Awards**

#### ***07-III.1 Material Weakness in Controls and Material Non-Compliance Finding: Homeland Security Equipment and Real Property Management***

Program – CFDA 97.004/97.067 Homeland Security Grant Program, from the Department of Homeland Security, 2007

Criteria – Equipment purchased with Federal funds should be specifically identified and tracked. 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 in accordance with 44 CFR 13.32(d)

Condition – Equipment purchased with Federal funds was not specifically identified and tracked.

Questioned Costs – None

Context - 14 out of 19 equipment purchases selected for testing were not properly coded in the City's general ledger and thus, not specifically identified or tracked. The 14 equipment purchases totaled \$997,039.

Effect - Equipment purchased with Federal funds may not be properly identified or tracked.

Cause - Equipment purchases were not recorded in the appropriate account.

Recommendation - Review all equipment purchases to ensure that they are properly recorded and specifically identified and tracked.

Views of Responsible Officials – See Corrective Action Plan

#### ***07-III.2 Significant Control Deficiency and Non-Compliance Finding: Homeland Security/Community Development Block Grant/ Airport Improvement Program/ Highway Planning and Construction Suspension and Debarment***

Programs:

- CFDA 97.004/97.067 Homeland Security Grant Program, from the Department of Homeland Security, 2007

- CFDA 14.218 Community Development Block Grant, from the Department of Housing and Urban Development, 2007
- CFDA 20.106 Airport Improvement Grant, from the Department of Transportation, 2007
- CFDA 20.205 Highway Planning and Construction, from the Department of Transportation, 2007

Criteria – The grant recipient must verify that vendors with expected contracts of \$25,000 or greater are not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that vendor.

Condition – There was no documentation in vendor files indicating that the City verified that vendors were not suspended or debarred.

Questioned Costs – None

Context - There was no documentation for review of compliance with suspension and debarment for any vendors selected for testing.

Effect - The City may contract with vendors who are federally suspended or debarred, ultimately leading to the disallowance of reimbursement of expenditures.

Cause – The procurement department was unaware of review requirements related to suspension and debarment.

Recommendation - Review all vendors to ensure that they are not suspended or debarred and document the procedure and the conclusion in the vendor files.

Views of Responsible Officials – See Corrective Action Plan

***07-III.3 Material Weakness in Controls and Material Non-Compliance Finding: Homeland Security Reporting***

Program – CFDA 97.004/97.067 Homeland Security Grant Program, from the Department of Homeland Security, 2007

Criteria – Quarterly progress reports must be submitted 30 days after the end of the quarter. Reports should undergo a supervisory review prior to submission.

Condition – Submitted reports were past due and incomplete, and reports were not reviewed prior to submission.

Questioned Costs – None

Context - 2 out of 2 quarterly reports selected for testing were submitted late and were incomplete, and there was no evidence that the reports had been reviewed.

Effect - Late reporting could potentially result in reduced future grant funding. Failure to properly review reports prior to submission may result in erroneous or improper reports being submitted to grantors for reimbursement.

Cause - Change in grant management caused delays in report submission.

Recommendation - Review and submit complete reports in a timely manner.

Views of Responsible Officials – See Corrective Action Plan

***07-III.4 Non-Compliance Finding: Community Development Block Grant Earmarking***

Program – CFDA 14.218 Community Development Block Grant (“CDBG”), from the Department of Housing and Urban Development (“HUD”), 2007

Criteria – Earmarking requirements within the CDBG program stipulate the amount of CDBG funds obligated during the program year for public services must not exceed 15% of the grant amount received for that year plus 15% of the program income it received during the preceding program year.

Condition and Context – In its annual report to HUD (CO4PR26) for the twelve months ended May 31, 2007, line 36 indicates that the percent of funds obligated for public service activities was 17.29%. The City provided an explanation for the variance from the 15% maximum in the report to HUD.

Questioned Costs – None

Effect - The City disclosed not meeting the 15% cap for public service activities and provided its explanation, but HUD has not indicated if the explanation is acceptable.

Cause - As a result of the HUD Financial Management Review of 2003, CDBG Program Income had to be reclassified as HOME recapture funds in the current year, thereby impacting CDBG Program Income and the effect of the reclassification impacted the current year public service calculation.

Recommendation - City personnel should request HUD’s position on the cap variance to ensure timely resolution of any action that HUD requires.

Views of Responsible Officials – See Corrective Action Plan

***07-III.5 Significant Control Deficiency: Air Pollution Control Services Allowable Costs***

Program – State Grant No. 582-6-74392 Air Pollution Control Services, from the Texas Commission on Environmental Quality, 2007

Criteria – OMB Circular A-87 requires that costs charged by a local government to a grant must be allowable by requirements set forth in OMB guidance, along with requirements specified in a particular grant agreement. As such, grant management personnel should be aware of which costs are allowable.

Condition and Context – Although no question costs were noted in our testing, based upon our inquiries grant management personnel were unaware of which costs were specifically allowable or unallowable.

Questioned Costs – None

Effect - Costs that are unallowable may be charged to the grant. In such a case, TCEQ may reject expenditures that are submitted for reimbursement and the City will not be reimbursed for these expenditures.

Cause – There appears to be a lack of appropriate controls over allowable costs.

Recommendation - Grant management personnel should read and review grant contracts and OMB guidance to understand which costs are allowable. Grant management personnel should develop an awareness of allowable costs.

Views of Responsible Officials – See Corrective Action Plan

***07-III.6 Material Weakness in Controls and Material Non-Compliance Finding: Airport Improvement Program Davis-Bacon Act***

Program – CFDA 20.106 Airport Improvement Program, from the Department of Transportation, 2007

Criteria – The requirements of the Davis-Bacon Act are applicable to construction work for airport development projects financed with grants under this program (49 USC 47112).

Condition and Context – Compliance with Davis-Bacon requirements was not monitored for construction projects funded with federal grants passed through the Texas Department of Transportation (“TxDOT”).

Questioned Costs - None

Effect – The City did not comply with Davis-Bacon monitoring requirements for construction projects.

Cause - The pass-through federal grants from TxDOT have not been included in the program manager responsibilities that an external contractor conducts on direct grants from the Federal Aviation Administration; therefore, Davis-Bacon compliance was not monitored on these TxDOT grants.

Recommendation - City Aviation Department staff should communicate with program managers that oversee or coordinate projects for TxDOT pass-through grants to make sure compliance with all requirements are met.

Views of Responsible Officials – See Corrective Action Plan

***07-III.7 Significant Control Deficiency and Non-Compliance Finding: Community Development Block Grant Subrecipient Monitoring***

Program – CFDA 14.218 Community Development Block Grant (“CDBG”), from the Department of Housing and Urban Development (“HUD”), 2007

Criteria – The City’s contract with subrecipients for CDBG grants includes a clause requiring agencies that expend \$500,000 or more in federal funds to have an independent compliance audit prepared in accordance with 24CFR Sections 570.502-507.503 and to provide such audit reports to the City annually.

Condition and Context –The following subrecipient files did not include the independent compliance audit reports at the time of our review: Cook Children’s Hospital, YWCA, Meals on Wheels, Boys and Girls Clubs and Mental Health Association. At our request, the City’s internal audit department obtained the A-133 audit reports.

Questioned Costs - None

Effect - Without the A-133 audit report, the City does not know whether the subrecipient takes timely and appropriate corrective action on all audit findings. Furthermore, in cases of continued inability or unwillingness of a subrecipient to have the required audits, the City is required to take appropriate action using sanctions, in accordance with OMB Circular A-133. Additionally, without Internal Audit’s annual

financial review, subrecipients may not be aware of questioned costs that occur in any one year which could lead to the required return of grant funds to HUD.

Cause - As a result of a HUD Monitoring Report in 2006, the City's Internal Audit Department planned to receive the subrecipient audit reports. The Department conducts a risk analysis annually of all subrecipients to determine which ones will be contacted for the financial review that Internal Audit performs and only then is the required A-133 audit reports requested. Starting in 2007, Internal Audit no longer performed its financial reviews of all subrecipients, as in prior years.

Recommendation - The Internal Audit Department or grants department should request A-133 audit reports annually for all subrecipients of CDBG funds. All subrecipients should be reviewed annually for financial compliance with the contracts and CDBG requirements.

Views of Responsible Officials – See Corrective Action Plan

### ***07-III.8 Significant Control Deficiency and Non-Compliance Finding: Homeland Security Procurement***

Program – CFDA 97.004/97.067 Homeland Security Grant Program, from the Department of Homeland Security, 2007

Criteria – Grantees and subgrantees must conduct procurements in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals (44 CFR 13.36(c)(2)).

Condition – The City changed the vendor for two vehicle purchases from an out-of-state vendor to an in-state vendor to comply with a Texas State Law (Texas Local Government Code Sec. 2155.444) that requires goods to be purchased within Texas if the cost and quality are equal.

Questioned Costs - None

Context - Two selections out of fourteen procurement selections were found to have switched from the original out-of-state vendor to in-state vendors.

Effect - Vendors that are selected using geographical preferences may not be the most cost-effective selection.

Cause - Management was unaware of the Federal law related to geographical preference, and was trying to comply with State law.

Recommendation - Identify purchases funded by federal grants, and ensure that these purchases are not subject to geographical preferences.

Views of Responsible Officials – See Corrective Action Plan

### ***07-III.9 Significant Control Deficiency and Non-Compliance Finding: Highway Planning and Construction Allowable Costs***

Program – CFDA 20.205 Highway Planning and Construction, from the Department of Transportation, 2007

Criteria – A duplicate wire transfer was made for moving expenses. Under OMB budgetary guidance and Pub. L. No. 107-300, Federal agencies are required to review Federal awards and, as applicable, provide an estimate of improper payments. Improper payments mean any payment that should not have been made or

that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements, and includes any payment to an ineligible recipient.

Condition and Context – The City issued duplicate wire transfers to a contractor on March 9, 2007 and March 28, 2007 for \$56,626 for an installment of approved moving expenses.

Questioned Costs - None

Effect - Neither department verified whether the second wire was a duplicate against the Mayor & Council Communication (M&C) that was approved for this expenditure. This error was brought to the attention of City staff by the payee and there does not seem to be a process within the City that would have caught this situation. The payee did refund the overpayment on May 15, 2007.

Cause - Program Management staff prepared and approved both wire requests and the Treasury Department executed the wire transactions without determining that the second wire request was a duplicate.

Recommendation - Treasury staff should only process wire requests with original signatures and/or verify that the approved M&C has not been exceeded before processing a wire transfer.

Views of Responsible Officials – See Corrective Action Plan

***07-III.10 Significant Control Deficiency and Non-Compliance Finding: Airport Improvement Program Allowable Costs***

Program – CFDA 20.106 Airport Improvement Program, from the Department of Transportation, 2007

Criteria – All expenditures of federal funds must be for costs in accordance with the grant requirements and must be supported by adequate documentation.

Condition and Context -

1. We noted 6 out of 75 Airport Improvement Program invoices selected for testing, totaling \$9,893, without adequate supporting documentation.
2. As a result of moving a major road to accommodate construction at Alliance Airport, telecommunication cables had to be moved and the City was required to pay this cost to the various companies who controlled these cables. Each company required an advance payment for the relocation of their cable lines which the City paid in order to complete the relocation, but the contract with each company stipulated that there would be an accounting of the actual costs upon completion of the work and any additional amounts would be billed or there would be a refund if actual costs were below the advanced amount. Four telecommunications companies were paid advances totaling \$558,113 from February to April 2007. Through early January 2009, only one of the four companies had provided a settle up of final actual costs (representing 27% of the total costs). To date, the other companies have not submitted their accounting of the actual costs for the relocation project. From the current documentation it is not possible to determine whether any of these costs are not allowable under the grant requirements.

Questioned Costs - \$9,893

Effect – Disallowed costs may require a refund to the granting agency.

Cause – Incomplete knowledge of grant requirements result in inappropriate documentation of grant expenditures.

Recommendation – Verify that grant expenses are allowable and are adequately documented according to the grant agreement or request an amendment, in order to maintain compliance with the grant terms.

Views of Responsible Officials – See Corrective Action Plan

***07-III.11 Significant Control Deficiency and Non-Compliance Finding: HOME Subrecipient Monitoring***

Program – CFDA 14.239 HOME Investment Partnerships Program, from the Department of Housing and Urban Development, 2007

Criteria – Pass-through agencies are required to monitor subrecipients through various procedures including the assurance that appropriate audits are performed for subrecipients use of federal funds.

Condition and Cause – We noted instances in which subrecipient files did not contain appropriate documentation of audits performed in accordance with OMB Circular A-133 or documentation that such audits were not required. We also noted missing documentation of appropriate monitoring procedures by the City.

Questioned Costs - None

Context – 3 subrecipient files out of 7 tested lacked monthly status reports, and annual performance reviews by the City. 1 of 7 files also lacked an audit report performed in accordance with OMB Circular A-133. 1 out of 7 lacked documentation that an A-133 audit was not necessary.

Effect – The absence of proper monitoring of subrecipients might result in an inappropriate expenditure of federal funds going undetected.

Recommendation – Perform annual performance and financial reviews of these entities and require the entities to submit the monthly reports. If monthly reports are not considered necessary, then the contract language should be amended accordingly and documentation should be included in the City's files.

Views of Responsible Officials – See Corrective Action Plan

***07-III.12 Material Weakness in Controls and Material Non-Compliance Finding: Regional Outreach for Recycling Reporting***

Program – State Program Regional Outreach for Recycling, from the North Central Texas Council of Governments, 2007

Criteria – Quarterly reports must be submitted 5 days after the end of the quarter.

Condition – Quarterly reports were submitted past the due date established in the grant agreement.

Questioned Costs - None



Context - All 3 quarterly reports submitted during the fiscal year were submitted late.

Effect - Late reporting could potentially result in reduced future grant funding.

Cause - Reports were submitted late due to delays in the time it takes for the City to enter the appropriate journal entries and obtain accurate numbers for the quarterly reports.

Recommendation – Develop a plan to produce the information in a manner that will allow timely reporting.

Views of Responsible Officials – See Corrective Action Plan

***07-III.13 Significant Control Deficiency and Non-Compliance Finding: Highway Planning and Construction Allowable Costs***

Program – CFDA 20.205 Highway Planning and Construction, from the Department of Transportation, 2007

Criteria – Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section C. Basic Guidelines, stipulates that allowable costs must be necessary and reasonable, and that they be adequately documented.

Condition and Context – The City hired a land contractor to provide project management services for the SH 121 Highway project on March 5, 2002.

1. 2 invoices out of 75 selected for testing were paid without adequate supporting documentation.
2. The contract with the land contractor states they will use a 3.04 multiplier to their hourly labor rates to bill the City for its services. Invoices for 6 out of 6 months selected for testing included a total amount of \$39,809 attributable to the 3.04 multiplier.

Questioned Costs - \$85,589

Effect – Improper costs paid with federal funds are not allowable.

Cause - The City uses a contractor to manage the land acquisitions and relocations for the SH 121 Highway project.

1. The land contractor used subcontractors in carrying out its responsibilities and passed along the charges from these subcontractors on its invoices to the City. On one invoice (CFW-10.06), the contractor billed \$10,000 in excess of the supporting invoice from the subcontractor, and on another invoice (CFW-08.07), the subcontractor's invoice and supporting documentation for \$36,500 could not be located at the City.
2. There was no documentation that supported the conclusion that use of a 3.04 multiplier applied against standards wage rates is a reasonable cost.

Recommendation – Only invoices with adequate support and documentation should be processed for payment. If there is missing information, City staff should request the information and inform the contractor that payment will be delayed until the information is provided. In addition, only reasonable costs should be reimbursed with federal funds. Any costs that are unusual should be supported with documentation to support the conclusion that these costs are reasonable.

Views of Responsible Officials – See Corrective Action Plan

***07-III.14 Significant Control Deficiency and Non-Compliance Finding: CDBG Equipment and Real Property Management***

Program – CFDA 14.218 Community Development Block Grant, from the Department of Housing and Urban Development, 2007

Criteria – Equipment purchased with Federal funds should be specifically identified and tracked. 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 in accordance with 44 CFR 13.32(d)

Condition – Equipment purchased with Federal funds was not specifically identified and tracked.

Questioned Costs – None

Context - 1 out of 57 equipment purchases selected for testing were not properly coded in the City's general ledger and thus, not specifically identified or tracked. The equipment purchase was for an asset in progress totaling \$19,218.

Effect - Equipment purchased with Federal funds may not be properly identified or tracked.

Cause - Equipment purchases were not recorded in the appropriate account.

Recommendation - Review all equipment purchases to ensure that they are properly recorded and specifically identified and tracked.

Views of Responsible Officials – See Corrective Action Plan

***07-III.15 Material Weakness in Controls and Material Non-Compliance Finding: Highway Planning and Construction Davis-Bacon Act***

Program – CFDA 20.205 Highway Planning and Construction, from the Department of Transportation, 2007

Criteria – The requirements of the Davis-Bacon Act are applicable to construction work for airport development projects financed with grants under this program (49 USC 47112).

Condition and Context – Compliance with Davis-Bacon requirements was not monitored for construction projects funded with federal grants passed through the Texas Department of Transportation (“TxDOT”).

Questioned Costs - None

Effect – The City did not comply with Davis-Bacon monitoring requirements for construction projects.

Cause - The pass-through federal grants from TxDOT have not been included in the program manager responsibilities that an external contractor conducts on direct grants from the Federal Aviation Administration; therefore, Davis-Bacon compliance was not monitored on these TxDOT grants.

Recommendation - City Aviation Department staff should communicate with program managers that oversee or coordinate projects for TxDOT pass-through grants to make sure compliance with all requirements are met.

Views of Responsible Officials – See Corrective Action Plan

***07-III.16 Significant Control Deficiency and Non-Compliance Finding: Highway Planning and Construction Program Income***

Program – CFDA 20.205 Highway Planning and Construction, from the Department of Transportation, 2007

Criteria – State and local governments may only use income earned on federally-funded projects within the project itself.

Condition and Context – Rental income of \$26,766 was received during the project but documentation could not be provided for the basis for the income (rental agreements) or whether such income was used solely within the project.

Questioned Costs - None

Effect – Program income should be used to reduce the amount of federal funding. Improper use of program income could result in federal funding greater than what is necessary.

Cause - The rental income was not anticipated at the beginning of the project and was not considered in the project budget.

Recommendation – Retain documentation of all rental agreements and maintain further documentation that such income is used solely within the project for which the federal funds were designed.

Views of Responsible Officials – See Corrective Action Plan

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***07-II.1 Material Weakness: Accounting for Capital Assets (updated from fiscal years 2004-2006)***

Views of Responsible Officials – Concur. The City of Fort Worth has delayed implementation of revisions to Administrative Regulation C-8. The Financial Accountability Committee (FAC), a committee of departmental fiscal personnel and Financial Management Services Department (FMS) staff formed in October 2008, has taken up the issues of capital asset tracking, additions, and retirements. The committee's charge is to develop a comprehensive policy that provides consistent treatment, where appropriate, across all departments. Policies will also address training needs and frequency. This committee has not finalized any policies or procedures related to capital assets to date. However, the City is using the committee to determine what changes to existing or new policies and procedures are needed in this area. A written policy is anticipated to be completed by the end of Fiscal Year 2009. However, review and enhancement will be ongoing. An ERP (Enterprise Resource Planning) financial system will be identified and implemented to include a fixed asset/capital asset tracking system. The new ERP system is anticipated to begin implementation in Fiscal Year 2012.

Contact Person: Lena Ellis, Director of Financial Management Services, 817-392-8517

***07-II.2 Material Weakness: Year-End Accrual of Accounts Payable (updated from fiscal year 2006)***

Views of Responsible Officials – Concur. The City continues to struggle with properly identifying invoices to accrue for year-end accounting and reporting purposes because this is currently a very manual process. The accrual process will be addressed upon the implementation of a new financial system, which is scheduled for fiscal year 2012 or thereafter. Until that time, Financial Management Services staff, along with personnel in citywide departments will be trained to identify and capture invoice information for accrual purposes. All invoices will be physically inspected to determine the correct fiscal year and the amount to be accrued. Additionally, proper controls for this labor intensive exercise is currently being discussed by the Fiscal Accountability Committee. The City will also look to Crowe Horwath LLP (accounting and auditing consultant) to help identify and implement control improvements in this and other areas.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

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***07-II.3 Material Weakness: Financial Accounting and Reporting Process (updated from fiscal years 2004-2006)***

Views of Responsible Officials – Concur. Management continues to focus on organizational improvement using the Maximus consultant’s recommendations as a resource in considering strategic realignment of core functions in Financial Management Services (FMS). The Finance Director and the City Controller continue to review and revise the organizational and reporting structure to ensure the operational efficiency and effectiveness of the Accounting Division. This includes the functions of accounting and financial reporting. It should be noted that the Division has spent most of the last three years primarily focused on becoming current with the publication of the CAFRs and single audit reports.

Further, the City is analyzing the replacement of several legacy computer systems (including the financial management system and the fixed asset tracking system) with an integrated enterprise-wide management system. The City is currently in the beginning stages of implementing a Oracle/Peoplesoft solution as its Enterprise Resource Planning (ERP) solution for Human Resources and Payroll. The process to identify the appropriate solution for a financial systems should begin in the near future once the CAFR is current.

Regarding additional personnel, Council has committed to providing the appropriate level of personnel to ensure the success of FMS, as well as accounting and financial reporting operations throughout the City. As in fiscal year 2007 and 2008, the Council approved additional funding for contractual services. Council also approved ten (10) new authorized positions in Financial Management Services, resulting in an increase to the Financial Management Services budget.

As part of an upcoming retreat for FMS management, a comprehensive turnaround management plan will be developed to address the improvement of financial accounting and reporting processes, material weaknesses related to recordkeeping and reconciliation functions, and policies and procedures development and documentation. Improvements that are addressed will be implemented throughout fiscal year 2009 and subsequently.

FMS will continue to seek out opportunities to improve communications, including informal (i.e. email) and formal (training sessions, presentations) communications, reminding departments to share information on new initiatives that have a finance and accounting implication. Additionally, the FMS will use the newly created Financial Accountability Committee to foster improved communications with other departments on both internal and external changes.

Contact Person: Lena Ellis, Director of Financial Management Services, 817-392-8517

***07-II.4 Material Weakness: Cash Reconciliation and Reporting Process (updated from fiscal years 2004-2006)***

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Views of Responsible Officials – Concur. Procedures have been implemented to help speed up the reconciliation process such as daily bookings that are made to reflect amounts moving between the main consolidated account and the ancillary zero balance accounts, staff reassignments, and increased oversight by accounting supervisors.. In addition to the City's bank reconciliations there are departmental clearing accounts that require monitoring and reconciling to detect and correct any problems in the main bank reconciliations. Starting in September 2007, the City has employed external contractors who are Certified Public Accountants to assist in the reconciliation of these accounts. There are 19 clearing accounts, of which 17 are current. The remaining two are in process and the anticipated completion date is February 28, 2009. The City will also require that the Financial Management Services Department be alerted on the opening of all new accounts. Starting in Fiscal Year 2009, procedures have been implemented requiring the Water Department to prepare and provide the Financial Management Services Department a monthly reconciliation of credit card activity, which is then reviewed and ledger balances are adjusted as needed. In order to help solve the issue of timeliness of the reconciliation preparation, the City's Fiscal Year 2009 approved budget includes seven new headcount for its Accounting Division. Once hired and trained, these employees will give Financial Management Services additional resources for increased analytics and reconciliation while keeping current with transaction processing.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.5 Material Weakness: Reporting Component Units (updated from fiscal year 2005 and 2006)***

Views of Responsible Officials – Concur. Effective January 15, 2009, the Accounting Division of the Financial Management Services Department will maintain an electronic spreadsheet listing all potential and actual blended component units indicating the conclusion reached by the Accounting Division as to the status of the unit as a component unit. On an ongoing basis, the Accounting Division will monitor the agendas of all City Council meetings for any new potential blended component units or changes in existing blended component units.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.6 Significant Deficiency: Controls over Wire Transfers (updated from fiscal years 2005 and 2006)***

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Views of Responsible Officials –Concur. A new wire transfer form was in fact implemented in October 2006, requiring supporting documentation and two signatures, and is still in use to-date with one modification. However, in Fiscal Year 2007, the form was not utilized correctly due to short staffing, resulting in situations in which wire transfers were not properly approved. To prevent continued issues with lack of approval, an additional signature line was added to the form in July 2008, which requires a sign-off by either the Director or an Assistant Director of Financial Management Services on all wires over \$25,000.

Contact Person: James Mauldin, City Treasurer, Financial Management Services, 817-392-2438

***07-II.7 Significant Deficiency: Computer System Access Controls (updated from fiscal year 2006)***

Views of Responsible Officials – Concur. The City continuously reviews and updates system access controls. The Information Security Council has updated Administrative Regulation D-5 Information Technology Security establishing improved security processes and risk assessments. It will be published in quarter one Fiscal Year 2009. Additionally, a new Annual Report on Information Security is in review by the City’s Information Security Council and planned to be published in February 2009. Although the existing system access controls are reasonable, the recommendations are reasonable.

By April 1, 2009, the City will update the plan for system and physical access created in response to the 2006 audit to include key security configuration reviews. That plan sufficiently addresses personnel system access.

By May 1, 2009 the City will develop a plan with milestones and funding strategy to complete a comprehensive Security Risk Assessment. Upon completion of that assessment a plan to select and implement appropriate security monitoring controls can be established.

Contact Person: Pete Anderson, Chief Information Officer, IT Solutions, 817-392-8781

***07-II.8 Significant Deficiency: Accuracy of and Supporting Documentation for Journal Entries (updated from fiscal years 2005 and 2006)***

Views of Responsible Officials – Concur. Journal entries are no longer manually entered into the City's general ledger except on an exception basis. During Fiscal Year 2008, the City developed a journal entry creation program that interfaces to the ledger. Accountants now prepare their journal entries using this interface and submit the entries along with supporting documentation to the supervisor for review and approval. If approved, the supervisor selects the entry for electronic uploading to the general ledger. If not approved, the journal entry is returned to the

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accountant for correction. Only supervisory staff will have the ability to approve a journal entry for posting to the ledger.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.9 Significant Deficiency: Grant Management (updated from fiscal years 2005 and 2006)***

Views of Responsible Officials – Concur. Current Status is summarized as follows:

- Fiscal training was provided to the outside agencies (those funded in General Fund (Non-Departmental)) and Cultural & Tourism Fund) that receive funding from the City of Fort Worth. The training was done by the Texas Chapter of CPAs, Staff from both Financial Management Services (FMS) and the Budget Department also participated in this training.
- A procedure has been developed and is currently being implemented. Before the departments apply for federal or state financial assistance, a Mayor and Council Communication (M&C) must be approved by City Council. Accountants in the Accounting Division of FMS review all M&Cs before sending for Council's approval. Effective October 28, 2006, all accountants were instructed to screen and identify M&Cs that were grant related as well as any contracts of financial assistance. Additional procedures will be implemented to more carefully identify the source and proper classification of funds to determine the validity of including the award on the Schedule of Expenditures of Federal and State Awards. Specifically, the accountant will utilize the guidelines listed in Office of Management and Budget Circular A-133, Subpart B, section 210 as a tool to determine the proper classification status of projects. If a determination still cannot be made by using these guidelines, the accountant will solicit additional information from the granting agency. At the time of the grant application, the City does not have an executed contract. Upon receipt of the contract, a final determination will be made to verify the proper classification of the project's grant/non-grant status. The fund to which the project is assigned is listed in the M&C, which is initialed by the accountant and the supervisor.
- Effective January 3, 2007, the Grant Accounting Supervisor began reviewing each City Council Meeting Agenda to identify all grant related agenda items on a weekly basis. A "tickler reminder" each Friday afternoon in the Supervisor's Outlook Calendar triggers an alert to examine the City Council Agenda. The supervisor will appoint a person to examine the Council Agenda in the event of the supervisor's absence.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.10 Significant Deficiency: Documentation of Policies and Procedures Related to Accounting and Reporting (updated from fiscal year 2006)***



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Views of Responsible Officials – Concur. Crowe Horwath LLP, an outside consultant, was hired to direct and augment staffing for producing the 2007 and 2008 CAFRs and Single Audit Reports. In addition, the City, with the assistance of the consultant, is to document processes and procedures relative to the reports noted above. Matrix Resources is the original consultant that has been working on all other policies and procedures within the Financial Management Services Department. They are about 50% to 60% complete with this documentation effort. A preliminary set of policies and procedures are anticipated by the end of Fiscal Year 2009. Review and enhancement of policies and procedures will be ongoing.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.11 Significant Deficiency - Change Management of Computer Controls (updated from fiscal year 2006)***

Views of Responsible Officials – Concur. The City has reasonable and adequate change control procedures and continues to enhance them. There are several reports available to help identify unauthorized changes. Directors continue to emphasize the requirement to comply with the Change Management Policy. Existing systems have limited capabilities to monitor and track changes but the recommendation to review these and identify improvements is reasonable.

By May 1, 2009, the City will develop a plan to review and recommend changes to the Change Management Policy to improve controls regarding Emergency Changes, Change Migration, and improve monitoring.

Contact Person: Pete Anderson, Chief Information Officer, IT Solutions, 817-392-8781

***07-II.12 Significant Deficiency: Recording Debt Transactions***

Views of Responsible Officials – Concur. The City recognizes the need and is committed to proper accounting for its debt and all other transactions. In fiscal year 2008, the City hired additional personnel with detailed experience in this area. Debt related transactions have been assigned to one employee whose training and work is managed and reviewed by a competent and experienced supervisor. Additionally, Financial Management Services, through the Fiscal Accountability Committee and other means, will foster more improved communication to identify citywide activity related to debt.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.13 Significant Deficiency: Court System Accounts Receivable and Escrow Liabilities (updated from fiscal year 2006)***

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Views of Responsible Officials – Concur. The department is performing an assessment of the municipal court system to identify and correct the deficiencies noted in the calculation and recording of court costs payable to the State of Texas, along with ensuring the appropriate audit control procedures are implemented to ensure the integrity of the court financial data. Anticipated completion date is February 28, 2009.

Contact Person: William Rumuly, Clerk of the Court, Municipal Court Services Department, 817-392-6736

***07-II.14 Material Non-Compliance Finding: Timely Filing of Single Audit Reports***

Views of Responsible Officials – Concur. In addition to the procedures and changes noted in 2006, the City has engaged the services of an external consultant to augment staffing needs and manage the 2007 and 2008 audits and CAFR/Single Audit process. The addition of this consultant to our team will get the City current on the CAFR and Single Audit for Fiscal Year 2008-2009. Training and process documentation provided by the consultant will enable City staff to perform these functions on a go-forward basis and meet established deadlines. Further, added personnel due to Council approved authorized positions will be allocated to help in timely accounting and financial reporting, including the filing of the Single Audit Report. Anticipated completion date is July 31, 2009.

Contact Person: Walter Peoples, City Controller, Financial Management Services 817-392-6217

***07-II.15 Material Non-Compliance Finding: Deposit Collateralization***

Views of Responsible Officials – Concur. The two accounts uncollateralized are local government accounts. One is managed by the Housing Department and the other is managed by the Economic Development Department. The City's Treasury Division will develop control procedures, working with the appropriate City departments, to ensure that monies held on deposit are fully protected at all times. It is anticipated that these control procedures will be in place no later than June 30, 2009.

Contact Person: James Mauldin, City Treasurer, Financial Management Services, 817-392-2438

***07-III.1 Material Weakness in Controls and Material Non-Compliance Finding: Homeland Security Equipment and Real Property Management***

Views of Responsible Officials – The City concurs with the finding and recommendation. Beginning with the 2006 Homeland Security Grant Program, each department is asked to identify the specific account numbers needed for the items they will be purchasing so that

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equipment can be tracked and identified more efficiently in the financial system. All equipment is assigned to a department that maintains a record of where the equipment is physically located. In addition, we have begun a process to capture and link all financial and transaction documents associated with a given purchase in a single electronic file to ease auditing and tracking efforts. We will share this information with the Finance Department as required to improve our overall grants and financial management process. Anticipated completion date is by the end of Fiscal Year 2009.

Contact Person - Eric Carter, Homeland Security Grant Manager, City Manager's Office (817) 392-2877

***07-III.2 Significant Control Deficiency and Noncompliance Finding: Homeland Security/Community Development Block Grant/Airport Improvement Program/Highway Planning and construction Suspension and Debarment***

Views of Responsible Officials – The City concurs with the finding and recommendation. Vendor assignment for purchases of \$25,000 or larger generally are made through the Purchasing Department via the department making the purchase request. Effective January 15, 2009, when purchases are authorized for items over \$25,000, the Homeland Security Grants Office will request verification of vendor status from the purchasing department prior to authorizing final purchase approval and will retain a copy of the vendor status from the Excluded Parties List System to document vendor's current status.

Contact Person – Eric Carter, Homeland Security Grant Manager, City Manager's Office (817) 392-2877

***07-III.3 Material Weakness in Controls and Material Non-Compliance Finding: Homeland Security Reporting***

Views of Responsible Officials – The City concurs with the finding and recommendation. Effective January 15, 2009, management has set up an electronic reminder to ensure the report is submitted within 30 days of the end of the quarter and a supervisory review/signature will be required on the report. With the reminder in place, the City will have the ability to submit the required reports in a timely manner.

Contact Person - Eric Carter, Homeland Security Grant Manager, City Manager's Office (817) 392-2877

***07-III.4 Non-Compliance Finding: Community Development Block Grant Earmarking***

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Views of Responsible Officials – The City concurs with the finding and recommendation. The City has contacted Housing and Urban Development (HUD) to determine whether its explanation for this variance was acceptable. However, HUD officials had not yet responded as of the time of the preparation of final CAFR document. The City’s timeline for resolution of this finding is dependent upon the HUD timeline for response to the City’s request, which was undetermined as of the preparation of the CAFR.

The variance occurred because HOME Investment Partnership Grant recapture funds were inadvertently booked to Community Development Block Grant (CDBG) Program Income revenue accounts in a prior reporting period. As specified at 24 CFR 570(e)(1), the amount of CDBG funds that may be used for public services may include 15% of program income received during the preceding program year. Therefore, additional public services costs were budgeted for the 2006-07 year based on apparent CDBG program income amounts booked during 2005. The City has taken the following steps concerning its recordkeeping for program income to ensure that future variances from the 15% expenditure requirement do not occur: when program income generated by housing activities funded through HUD grants is received, a Senior Accountant in the Housing & Economic Development Department reviews Receipt Distribution Documents (RDDs) to verify that this revenue is coded to the appropriate grant for recording in the general ledger. The program manager responsible for housing loan servicing reconciles housing-related program income and recapture revenue monthly, verifying grant sources, and forwards this reconciliation to the Grant Accountant in the Financial Management Services Department for review and confirmation. Upon confirmation, program income is receipted in the appropriate grant’s line of credit in the HUD disbursement and reporting system. This process for ensuring that program income is accurately receipted by grant source has been in place and ongoing since late 2007.

Contact Person - Barbara Asbury, Senior Administrative Services Manager, Housing and Economic Development (817) 392-7331.

***07-III.5 Significant Control Deficiency: Air Pollution Control Services Allowable Costs***

Views of Responsible Officials – The City concurs with the finding and recommendation. The Grant Program Manager understands the complexities of the approved annual grant contracts and works with the budget constraints to ensure compliance. Effective January 15, 2009, the Grant Program Manager and assigned Administrative Assistant will read each grant contract for all provisions regarding cost allocation. When a grant contract references an outside document this document will be secured, reviewed and maintained on file. The Grant Program Manager will be responsible for assembling the reference documents required to meet grant requirements. The reference documents and grant contracts will be maintained at a location that is readily accessible to both the Program Manager and the assigned Administrative Assistant. When questions arise regarding OMB compliance, Environmental Management Department staff will forward the information to or meet with the Financial Management Services Department,

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Accounting Division for clarification and expert assistance from the assigned Senior Accountant. If additional guidance is necessary, the Texas Commission on Environmental Quality will be contacted.

Contact Person - Tara Sims, Administrative Services Manager, Environmental Management (817) 392-6102

***07-III.6 Material Weakness in Controls and Material Non-Compliance Finding: Airport Improvement Program Davis-Bacon Act***

Views of Responsible Officials – The City concurs with the finding and recommendation. The Department of Aviation will require the addition of Davis-Bacon compliance review and reporting to all contracts for projects managed by independent contractors and City Department’s managing projects on behalf of the Aviation Department. To ensure that compliance is being monitored, the Aviation Department will require project managers to provide copies of certified payroll and timesheets along with pay requests and invoices. If the proper documentation is not provided with pay requests/invoices, they will not be approved for payment until these documents are received. Due to the 2006 CAFR being completed late in 2007 and the 2007 CAFR review did not start until after this project was closed, there was no way to take corrective action on the contract specifically tested during the 2007 CAFR. As of January 15, 2009, the City has implemented the monitoring process described above for all contracts applicable to Davis-Bacon.

Contact Person - James Burris, Management Analyst II, Aviation Department (817) 392-5404

***07-III.7 Significant Control Deficiency and Non-Compliance Finding: Community Development Block Grant Subrecipient Monitoring***

Views of Responsible Officials – The City concurs with the finding and recommendations. To ensure that all subrecipients are notified regarding the applicable standard, the City’s contracts with subrecipients include an Exhibit specifying the OMB A-133 requirements cited above. This Exhibit requires an agency representative signature in acknowledgement, and requires submission of such audits to the City within 30 days of their completion. Contract requirements are monitored by the Housing & Economic Development (HED) Contract Compliance staff, which receives copies of A-133 audits from applicable agencies in receipt of over \$500,000, and maintains these on file. On preparing its annual audit schedule of CDBG-funded subrecipient contracts, the Internal Audit Department will obtain copies of all such current A-133 audits from HED staff and will identify contracting agencies not meeting the A-133 \$500,000 threshold. For agencies receiving less than \$500,000 in federal funds from all sources, and/or agencies not submitting A-133 audits, financial monitoring reviews will be conducted by the Internal Audit Department during the program year in which the agency is contracted to receive CDBG grant funds from the City. Internal Audit will promptly notify HED staff of any agency determined

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through this financial review to be out of compliance with federal audit requirements, so that appropriate enforcement action may be taken, up to and including suspension of payments and/or termination of the contract. These audit verification steps will be taken during the third and fourth quarter of every CDBG program year, effective January 15, 2009.

Contact Person - Marilyn Jackson, Senior Contract Compliance Specialist, Housing and Economic Development (817) 392-7329

***07-III.8 Significant Control Deficiency and Non-Compliance Finding:  
Homeland Security Procurement***

Views of Responsible Officials – The City concurs with the finding and recommendation. The decisions to change vendors occurs within the Purchasing Department. Effective January 15, 2009, any proposed changes in vendors made by the Purchasing Department must be communicated in writing to the Grant Department to ensure that federal requirements are met. Decisions to change a vendor for a federally funded project will not be based on the geographic location of the vendor.

Contact Person - Eric Carter, Homeland Security Grant Manager, City Manager's Office (817) 392-2877

***07-III.9 Significant Control Deficiency and Non-Compliance Finding: Highway Planning and Construction Allowable Costs***

Views of Responsible Officials- The City concurs with the finding and recommendation. As of January 15, 2009, Treasury staff now requires original signatures for wire authorizations, which will resolve this issue. The Supervisors' responsible for approval will not authorize payment until proper documentation is attached, which will help prevent duplicate payments.

Contact Person - Bryan Beck, Engineer, City Manager's Office (817) 392-7909

***07-III.10 Significant Control Deficiency and Non-Compliance Finding: Airport Improvement Program Allowable Costs***

Views of Responsible Officials –The City concurs with the finding and recommendation. City employees responsible for approving invoices for payment will ensure that the appropriate supporting documentation is attached to the payment requests, effective January 15, 2009. Payments without appropriate support will not be approved for payment. The City will also

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ensure that the supporting invoices are attached and filed with the payment requests so that grant documentation is appropriately maintained. Finally, Aviation staff will follow up with utility companies for a final accounting of money advanced for work to be performed on these projects and any future projects that require advance payment. The City is in the process of improving the “Green Sheet” or Project Completion form. This form will now be utilized for all projects and will ensure that once a project is complete, that the proper process will be followed to ensure that project closeout is done in a timely manner and with the appropriate documentation received.

Contact Person - James Burris, Management Analyst II, Aviation Department (817) 392-5404

***07-III.11 Significant Control Deficiency and Non-Compliance Finding: HOME Subrecipient Monitoring***

Views of Responsible Officials – The City concurs with the finding and recommendation. Response **07-III.7** above outlined the City’s response regarding subrecipient monitoring for OMB A-133 audit requirements. To ensure that annual performance and financial reviews of HOME subrecipient contracts are conducted, the City’s Housing & Economic Development Department Contract Compliance staff will annually prepare a monitoring schedule which includes all active HOME contracts as well as all HOME-funded affordable housing projects for which continuing monitoring requirements apply during the period of affordability established by HUD regulations , effective January 15, 2009. Consistent with Response **07-III.7** above, the Internal Audit Department will be informed by HED Contract Compliance staff of all applicable HOME-funded projects and contracts, and will include them in its auditing schedule and conduct financial reviews of HOME funding recipients as well CDBG subrecipients. Program and project staff responsible for contract administration of HOME affordable housing activities regularly review performance reports and/or project inspection reports tracking work progress, cost eligibility, and adherence to contractual performance objectives. For housing programs or projects for which monthly reports are not applicable or appropriate given the nature or timing of the activity, contractual language will be modified and appropriate performance milestones specified in the contract or its exhibits.

Contact Person - Marilyn Jackson, Senior Contract Compliance Specialist, Housing and Economic Development (817) 392-7329

***07-III.12 Material Weakness in Controls and Material Non-Compliance Finding: Regional Outreach for Recycling Reporting***

Views of Responsible Officials – The City concurs with the finding and recommendation. This contract has ended, so no further reports are due. However, staff intends to continue to work with the North Central Texas Council of Governments on all future grant applications to attempt to

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negotiate additional time to submit quarterly reports over and above the 5 days after the end of the quarter. With this change, the City should have no problems with meeting the deadline while still being able to use accurate general ledger reports as basis for the reports. This negotiation for additional time is effective for all new grant agreements on or after January 31, 2009.

Contact Person - Tara Sims, Administrative Services Manager, Environmental Management (817) 392-6102

***07-III.13 Significant Control Deficiency and Non-Compliance Finding: Highway Planning and Construction Allowable Costs***

Views of Responsible Officials – The City concurs with the finding and recommendation. The City will verify that documentation has been received before payment is issued. The City will develop a formal policy defining any rate multipliers used. The anticipated completion date is March 31, 2009.

Contact Person - Bryan Beck, Engineer, City Manager's Office (817) 392-7909

***07-III.14 Significant Control Deficiency and Non-Compliance Finding: CDBG Equipment and Real Property Management***

Views of Responsible Officials – The City concurs with the finding and recommendation. This appears to be an isolated incident. However, City staff will review applicable grant-funded construction costs to ensure that they are properly recorded and specifically identified and tracked, effective January 15, 2009.

Contact Person - Barbara Asbury, Senior Administrative Services Manager, Housing and Economic Development (817) 392-7331

***07-III.15 Material Weakness in Controls and Material Non-Compliance Finding: Highway Planning and Construction Davis-Bacon Act***

Views of Responsible Officials – The City concurs with the finding and recommendation. The Department of Aviation will require the addition of Davis-Bacon compliance review and reporting to all contracts for projects managed by independent contractors and City Department's



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managing projects on behalf of the Aviation Department. To ensure that compliance is being monitored, the Aviation Department will require project managers to provide copies of certified payroll and timesheets along with pay requests and invoices. If the proper documentation is not provided with pay requests/invoices, they will not be approved for payment until these documents are received. As of January 15, 2009, the City has implemented the monitoring process described above for all contracts applicable to Davis-Bacon.

Contact Person - James Burris, Management Analyst II, Aviation Department (817) 392-5404

***07-III.16 Significant Control Deficiency and Non-Compliance Finding: Highway Planning and Construction Program Income***

Views of Responsible Officials – The City concurs with the finding and recommendation. The City will implement a written policy for the use of rental income generated from a federal grant program. The policy will require the documentation for the basis of the income and that the income must be used within that project. The City will require project files to include support showing how any income generated was used. The anticipated date of completion of this policy is March 31, 2009.

Contact Person - Bryan Beck, Engineer, City Manager's Office (817) 392-7909

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***Internal Control Finding 05-11***

Program - Department of Energy (“DOE”) Weatherization, CFDA 81.042

Condition - Employees were paid for hours in excess of grant work hours reported on the Time and Attendance sheets. In 2 of 3 employees tested for one time periods, employee salaries charged to grant funds exceeded hours worked on grant as noted on Time and Attendance form.

Recommendation - Even though this pay period was corrected upon discovery, the City should implement policy to prevent salary amounts from being erroneously posted to grant funds.

Current Status is summarized as follows:

- Continuing Process - The City is exploring new ERP payroll system alternatives to more accurately record expenditures.

***Internal Control Finding 05-14***

Programs - Airport Improvement Program, CFDA 20.106; Highway Construction, CFDA 20.205; Community Development Block Grant, CFDA 14.218; Fire Station #8, State Grant

Condition - The City’s capital asset coordinator does not reconcile the annual inventory of fixed assets to the fixed assets system, FATS. Procedures were not in place to identify risk of misappropriation or improper disposition of property acquired with federal or state awards. The grants noted above acquired capital assets with grant funds for the fiscal year ended September 30, 2005.

Recommendation - Implement the procedure to reconcile the annual inventory of capital assets to the FATS system and maintain control of assets acquired with federal or state awards.

Current Status is summarized as follows:

- In Process - Staff is working to reconcile assets through alternate methods other than the City’s Fixed Asset Tracking System. Additionally, management will incorporate capital assets into the upcoming ERP financial system.

***Material Weakness: Accounting for Capital Assets (updated from fiscal years 2004 and 2005)  
06-II.1***

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Condition - Numerous difficulties were encountered over the past several years in accounting for the City's capital assets, including:

- unidentified differences between capital asset balances in the City's Fixed Asset, and lack of periodic reconciliations between FATS and the general ledger.
- additions to the FATS system for current capital outlays not recorded on a timely basis.
- improper classification of some completed and in-use capital assets as construction-in progress (CIP); no definitive written policy or a consistent practice regarding when individual projects have reached completion and should be re-classified from CIP to in-use capital assets; and certain operational expenditures were improperly capitalized to CIP.
- inconsistency regarding when contributions from developers are added to City records and the documentation required to support these assets.
- Disposals and transfers were not properly recorded due to inadequate communication between operating departments and the Finance Department relating to capital assets being added to the FATS, CIP and general ledger systems. An annual inventory of capital assets was not performed to ensure the accuracy of data in FATS.
- The depreciation on certain capital assets was improperly calculated and required adjustment.
- Repairs to capital assets are not well tracked or capitalized when appropriate.
- The City does not have consistent or documented policies regarding accounting for capital assets or the related reconciliation processes.
- Because of the errors identified and because of the complicated process of accumulating the data for year-end reporting, this area, more than any other, caused the delay in the yearend financial reporting process.
- The City does not maintain an appropriate detail of federally funded capital assets that is periodically compared to actual asset counts.

Recommendation - The auditor recommended that:

- In order to comply with generally accepted accounting principles, the City's management should ensure that the City's capital asset system includes a comprehensive inventory of infrastructure assets including roads, bridges, sidewalks and alleyways, storm water drainage structures and retention facilities. Additions of capital assets should be recorded on a timely basis; work to eliminate the backlog of "work-sheet" capital assets and enter them correctly into the FATS system.
- The City should implement procedures to periodically reconcile capital assets in FATS and CIP to capital assets in the general ledger. Differences should be investigated and

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resolved on a timely basis. Depreciation should be calculated consistently and properly. Further, projects should be reviewed by the Finance Department on a periodic basis to ensure that only true asset costs are capitalized. Operational costs should not be capitalized as part of CIP.

- Develop a City policy on when to consider construction-in-progress as complete and ready for transfer into in-use capital assets. Develop a City policy regarding the date on which to add developer contributions. In addition develop other policies on accounting for capital assets in general and the related reconciliation processes.
- Develop a process to conduct an inventory of all City assets to ensure that the data in FATS is accurate. The City should conduct such an inventory on all City departments. After the initial inventory is performed to ensure the integrity of the data in FATS, the City can then implement a policy to count the assets of each department on a rotation basis. Each department should be counted as least once every 3 years.
- On an overall basis, improve communication between departments, install additional controls around the recording of capital asset additions and deletions, require timely and complete reconciliation of detailed capital asset records (FATS and CIP) to the general ledger, provide additional training to capital asset accountants regarding the City's systems and the required accounting, require timely and rigorous review of the recordkeeping performed by capital asset accountants, and document all procedures to be followed in accounting for capital assets in a policies manual.

Current Status is summarized as follows:

- The City has employed the services of qualified external consultants to complete the 2007 and 2008 CAFR. During the fourth quarter of 2008 equipment inventory listings for Fiscal Year 2007 were distributed to the departments and any differences resolved.
- The City is striving to improve the flow of information between Accounting and the functional departments. We are working with the departments and the Capital Projects Management team to identify and appropriately capitalize those assets in CIP that are complete and in-service.
- The City of Fort Worth has delayed implementation of revisions to Administrative Regulation C-8. The Financial Accountability Committee, a committee of departmental fiscal personnel and Finance staff, has taken up the issues of capital asset tracking, additions, and retirements. The committee was formed in October 2008. The committee's charge is to develop a comprehensive policy that provides consistent treatment, where appropriate, across all departments. That policy will also address training needs and frequency. It has produced no policies or procedures to date. However, the City is using the committee to determine what changes to existing or new policies and procedures are needed in this area.
- The Accounting Division has worked closely with the departments and the Capital Projects Management team to correctly identify construction projects ready for capitalization as well as donated assets. Specifically, during Fiscal Year 2007 a listing of

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open CIP projects was provided to the Capital Projects Management team. This team worked with the departments to review each project on the list to determine project completion status. Those projects determined to be complete and in service were capitalized. Financial Management Services used project completion notices and final invoices to verify project status.

- See also current year finding number **07-II.1**.

***Material Weakness: Financial Accounting and Reporting Process (updated from fiscal years 2004 and 2005) 06-II.2***

Condition – Due to a number of issues, the City’s audited financial statements for fiscal years 2004 and 2005 were not issued until 22 and 19 months after year end, respectively. The City’s 2006 audited financial statements were also delayed and were issued 21 months after year end. Internal controls over the financial accounting and reporting processes were not functioning appropriately during fiscal 2006, which was considered to be a material weakness in internal controls that were in place during that year. In addition, the City was not in compliance with the filing deadlines stipulated in OMB Circular A-133 for the Single Audit report. This deadline is 9 months after the fiscal year end.

Recommendation – The auditor recommended investing in upgrading the financial accounting and reporting function for the City, including:

- Assessment for the need of additional or better qualified and more highly trained personnel
- Cross-training of personnel so that procedures are consistent
- Reorganization of duties and internal structure within the accounting function
- Revision to the supervisory structure for the accounting functions
- Assessment and possible upgrade of computer systems used in the accounting function
- Implementation of supervisory reviews of processes and supervision of all accounting functions
- Documentation of policies and procedures and additional training on and communication of those policies and procedures
- Emphasis to all departments of the importance of frequent and full communication between other city departments and the Finance Department of any information that may impact the City’s financial accounting and reporting.

Current Status is summarized as follows:

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- Management has used the organizational consultant's recommendations as the basis in considering strategic realignment of core functions in the Finance Department, and the reorganization of duties and reporting structure within the Accounting Division. The organizational structure and resource utilization was further reviewed and revised after the hiring of a new Finance Director and Accounting Manager. The initial departmental restructure has been completed. However, the Director, together with Financial Management Services' management team (includes the Accounting Manager/Controller), will review and revise the organizational structure where and when deemed necessary to respond to the changing internal and external environment. It should be noted that the Finance and Budget departments have been merged to form the Financial Management Services Department.
- The City is analyzing the replacement of several legacy computer systems (including the financial management system and the fixed asset tracking system) with an integrated enterprise wide management system. The City is currently engaged in the negotiation phase of the HR/Payroll Enterprise Resource Planning (ERP) selection process. Negotiations are currently scheduled to be completed by the end of the 2008 calendar year with the implementation phase beginning in early 2009 and completing 18 months from that start-up point. The ERP solution for the financials is scheduled to begin thereafter. As time allows staff, along with a consultant, work to define and gather preliminary requirements for this ERP system. The City has decided to focus on getting the CAFRs current before moving forward with the financial ERP solution.
- Regarding additional personnel in the Accounting Division, the City's fiscal year (FY) 2007 Budget appropriated \$ 400,192 and \$1,000,000 for additional staff (3 FTEs) and contractual services respectively. An Accounting Manager, Financial Reporting Coordinator, and a Senior Accountant position were added to the Finance Department budget in Fiscal Year 2007. Funds to provide contract services to support accounting and audit functions were also allocated in the department's Fiscal Year 2007 budget. The Fiscal Year 2008 budget approved by Council resulted in an increase of six additional authorized personnel: one Assistant Finance Director, one Accounting Services Supervisor, three Senior Accountants, and one Accounting Technician, plus additional consulting services. In the fiscal 2009 budget, Council also approved additional dollars to fund a combination of six accountants and senior accountants, and one account technician for the Accounting Division and three contract administration specialists for the Purchasing Division. Council also approved funds for Financial Management Services to contract with Crowe Horwath to assist the City with the 2007 and 2008 CAFRs and Single Audit Reports.
- The Fiscal Accountability Committee (FAC) was established in October 2008 to help in addressing deficiencies noted in the 2006 audit management letter. This includes developing citywide policies and procedures, educating fiscal personnel, and improving citywide fiscal operations. In addition to the FAC, the Financial Management Services (FMS) Department is implementing improvements as it works on the 2007 and 2008 CAFRs and Single Audit Reports. Matrix Resources, Inc. is helping FMS to document

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internal processes and procedures for reference purposes by staff. The Crowe consultants are also scheduled identify and document process improvements as they assist the City in expediting the above-mentioned annual reports. This was developed as part of the Maximus study, which was completed August 22, 2006. The plan is currently being implemented and is approximately 75% to 80% complete.

- Financial Management Services will continue to seek out opportunities to improve communications, including informal (i.e. email) and formal (training sessions, presentations) communications, reminding departments to share information on new initiatives that have a finance and accounting implication. The Fiscal Accountability Committee (FAC) was established in October 2008. The purpose of FAC is to provide a forum to address fiscal management challenges regarding identification and implementation of well documented and consistent internal controls, while facilitating improved communications and synchronized operations between departments. This forum will provide an opportunity to educate citywide personnel on new policies, changes to and new accounting principles and other requirements. In addition, the Financial Management Services staff will seek out opportunities to train City departments on varying fiscal topics. Further, FMS staff are currently participating in an in-house training program (facilitated by a PhD. and CPA from a local university) on GASB pronouncements ("Blue Book" training). At some point the plan is to repeat and push this training out citywide.
- See also current year finding number **07-II.3**.

***Material Weakness: Cash Reconciliation Process (updated from fiscal years 2004 and 2005)  
06-II.3***

Condition - During fiscal 2006, the cash reconciliation process for the City was significantly improved over prior years, but was still not performed on a timely basis. Timely reconciliations and timely research and resolution of reconciling items is an important control over cash and deposits.

Recommendation – The auditor recommended that cash reconciliations be prepared in a timely manner each month and all un-reconciled differences should be immediately researched and resolved. Any bookkeeping errors that are identified should be researched, thoroughly reviewed, and immediately corrected. The source of any errors detected should be identified and additional controls put in place to prevent those errors from re-occurrence in the future. The reconciliation should be prepared by appropriately trained personnel and should be reviewed by knowledgeable supervisors. The reconciliation procedures should be thoroughly documented and continually reviewed to ensure that they remain appropriate as City finances and systems change over time.

Current Status is summarized as follows:

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- Beginning in October 2005 daily bookings are made to reflect amounts moving between the main consolidated account and the ancillary zero balance accounts. This is designed to allow reconciliation on a balance-to-balance basis. Staff reassignments and increased oversight by accounting supervisors increase accuracy in the bank reconciliations. Cash reconciliation are now current through fiscal year 2007, and will be current by the end of February 2009 for the current fiscal year.
- In addition to the City's bank reconciliations there are departmental clearing accounts that require monitoring and reconciling to detect and correct any problems in the main bank reconciliations. The City employed external contract CPAs to assist in the reconciliation of these accounts. New processes and documented procedures associated with these clearing accounts were implemented in October 2006, and Finance staff is currently performing these tasks. Depending on the transaction volume, departmental clearing accounts are reconciled monthly or quarterly. These reconciliations are current. There are 19 clearing accounts, of which 16 are reconciled through September 2008. The remaining three are in process and will be current by the end of February 2009.
- While the bank reconciliations are detective controls, the City has established several preventative controls to ensure that the departments provide accurate and timely information to the Finance Department Accounting Division. In October 2006, the City began a process that compares credit card bank information to the booking information provided by the departments. Due to the significant volume of credit card transactions processed by the City, it was previously difficult to determine if all monies were received and all transactions booked. This new procedure detects any discrepancies on the front end thus providing greater assurance that errors do not go undetected at the bank reconciliation stage. This procedure change has been fully implemented and works well for two of three credit card accounts. Transactions posted to the Water Credit Card account have proven to be more complicated and has required more coordination with the department. Specifically, the Water Department now prepares a monthly reconciliation of its Water Credit Card account. The reconciled balance is compared to the general ledger and any difference resolved.
- The Accounting Division, the Revenue Office and the departments work more closely and cooperatively to insure cash receipts are recorded timely and properly. Specifically, when the Accounting Division has an unidentified deposit in the bank activity and cannot determine what Fund/Account/Center to credit, the Treasury Division (Revenue Office) is contacted for assistance in getting the deposit recorded as quickly as possible. The City has also begun to use cash over and short accounts to insure cash on the ledger agrees with cash in the bank. Differences are reported to the affected department(s) for investigation and resolution.
- In May, 2006 the City opened the Water Credit Card bank account to facilitate the reconciliation and recording of credit card activity. A Municipal Court Credit Card account was also established in November 2006. Transactions posted to the Water Credit



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Card account have proven to be more complicated and has required more coordination with the department. Starting in Fiscal Year 2009 the Water Department prepares and provides Financial Management Services a monthly reconciliation of credit card activity which is then reviewed and ledger balances and adjusted as required.

- See also current year finding number **07-II.4**.

***Material Weakness: Identifying and Reporting Component Units (updated from fiscal year 2005) 06-II.4***

Condition - The City was not accurately reporting component units in accordance with GASB Statements No. 14 and 39. The Finance Department was not aware that the City did not report certain blended or discrete component units until a research project was conducted for the 2005 fiscal year audit. Additional potential component units were identified during the 2006 audit, requiring additional investigation into their relationship with the City. There is no process in place to ensure that the City captures each new component unit as part of the closing process. Nor is there a process in place to review activities of component units to determine whether their activities are properly accounted for in the City's general ledger.

Recommendation - The Finance Department should designate one individual to research any new organization or corporations created by the City Council to determine if the entity qualifies as a component unit. This person should monitor the new arrangements or debt issuances entered into by the existing component units to ensure that these transactions are properly reflected in the City's financial statements. In addition, all existing related organizations should be reviewed on an annual basis to determine if their status as component units has changed based on change in size, change in activity or change in organization or governance.

Current Status is summarized as follows:

- The Finance Department will more closely investigate and monitor the formation of new potential blended component units. Beginning April 2007, a rigorous ongoing investigation was started to identify and properly report any City component units. The Accounting Division of the Financial Management Services Department now maintains an electronic spreadsheet listing all potential and actual blended component units indicating the conclusion reached by the Accounting Division as to the status of the unit as a component unit. On an ongoing basis, the Accounting Division monitors the agendas of all City Council meetings for any new potential blended component units or changes in existing blended component units.
- The Accounting Division of the Financial Management Services Department will follow a flowchart of questions in the decision making process regarding potential blended component units based upon criteria in GASB Statements 14 and 39. A formalized review process is expected to be completed by March 2009.

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- However, see current year finding number **07-II.5**.

***Material Weakness: Escrow Accounts (updated from fiscal year 2005) 06-II.5***

Condition - The City has traditionally used escrow (liability) accounts to reserve City funds for future, specific purposes. This is an improper use of escrow accounts which should only reflect payables to outside parties. Additionally, the City was not able to provide detail of certain escrow accounts that documents the nature and “ownership” of the funds.

Recommendation – The auditor recommended that the practice of using escrow accounts to designate funds for future uses be ceased. Such amounts may be reflected as a designation of fund balance, but should not be reflected as a liability unless actual expenditures have been incurred. Perform a review of all escrow accounts to ensure they are being properly used. Ensure that all escrow accounts are properly supported with a detailed list of items that make up the account.

Current Status is summarized as follows:

- Staff has reviewed all escrow accounts with a balance of \$25,000 or more to verify their validity as an escrow. Staff continues to review other escrow accounts less than \$25,000. Corrections have been made to reclass accounts according to their purposes. Staff has also reviewed all escrow accounts with no activity for Fiscal Year 2007 as well as all escrow accounts with debit balances. Corrections have been made where necessary.
- Departments involved in the escrow review have been instructed on the proper use of escrows and how to provide reconciliations for those accounts that are true escrows. As each escrow account was reviewed for appropriateness, Financial Management Services worked with the affected departments to determine how the accounts were actually used and to explain the appropriate use of escrow accounts. The set up/creation of new accounts is now restricted to one work team within Financial Management Services and requires the approval of the City Controller. Additionally, in Fiscal Year 2008 the City established a Financial Accountability Committee (FAC). This committee is comprised of operating department fiscal personnel as well and Financial Management Services staff. It's charter is to strengthen internal controls through training and by providing support for creating financial policies and consistent application of policy across departments. The FAC has established a sub-committee to address the issue of escrow accounts city-wide.

***Material Weakness: Year-End Accrual of Accounts Payable 06-II.6***

Condition –Two directions of risk were noted:

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1) Understatement Risk - At the end of the year, the City conducted a procedure to identify all invoices paid after the end of the year that should be accrued at year-end. However, during the audit process we identified a material dollar amount of invoices that had not been appropriately accrued in the process. We requested the City to conduct the process again. The City conducted the process two more times before it was deemed to be appropriate.

2) Overstatement Risk – The City has related accounts payable such as retainage payables, tax payables, and other payables that are not always reconciled or relieved properly.

Recommendation – The auditor recommended that training and supervision be provided to all personnel performing the identification process of year-end accounts payable, and that additional quality control procedures be instituted to ensure the process is appropriately performed.

Current Status is summarized as follows:

- New accounts payable accrual procedures were put in place for the second accrual of Fiscal Year 2007 to more correctly reflect the proper periods. The population consists of all payments through the end of December. All invoices processed the first two weeks of October were automatically recorded in Fiscal Year 2007. The remaining two weeks of October now have a zero threshold (all invoices relating to the prior period will be accrued regardless of the dollar amount of the invoice). All invoices over \$5,000 in November and December will be physically inspected to determine the correct fiscal year and accrued as needed.
- See also current year finding number **07-II.2**.

***Significant Deficiency: Controls over Wire Transfers (updated from fiscal year 2005)  
06-II.7***

Condition - We noted several instances in which approvals were not documented and appropriate backup documentation was missing.

Recommendation – The auditor recommended that City policy be enforced by requiring all wire transfers to be adequately supported with documentation to ensure that they are all appropriately approved and documented prior to issuance.

Current Status is summarized as follows:

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- A new wire transfer form was developed and implemented for use in October 2006. The form requires documentation for the transfer to be attached before the wire will be processed. Two signatures from the originating department are also required. Treasury will not process the transfer requests without both signatures and supporting documentation. In July 2008 an additional signature line was added to the form. The process now requires sign-off by either the Director or an Assistant Director of Financial Management Services on all wires over \$25,000.
- However, see current year finding number **07-II.6**.

***Significant Deficiency: Account Review and Reconciliation (updated from fiscal years 2004 and 2005) 06-II.8***

Condition – Several sub-ledgers were not properly maintained or reconciled to the general ledger. The year-end audit process was significantly delayed while these sub-ledgers were reconciled and corrected.

Recommendation – The auditor recommended that we assign specific individuals to each account with appropriate training and resources to regularly reconcile and maintain the sub-ledgers supporting the account. Assign supervisory personnel the task of regular monitoring and review of the reconciliation process. Regularly review the details of the sub-ledgers to identify any items requiring follow-up or reserves. Develop appropriate methodologies for assessment of allowances and reserves necessary to asset items. Review assets for credit balances and review liabilities for debit balances; and research and adjust items to reflect their proper accounting nature.

Current Status is summarized as follows:

- Staff is currently analyzing the balances for all accounts receivable balances and the related allowances, water fund accounts receivable and deposits, inventory credit balances, accounts payable, compensation payable, and the need for a formal policy for determining allowances for bad debts, and continues to review and work with the departments to properly identify and record accounts receivables and deposits. Additionally, the Accounting Division staff reviews assets for credit balances and liabilities for debit balances as part of the closing procedures. With the assistance of the organizational consultant, a training program is currently being developed that will assist in educating the departments on the need for stronger controls over the identified discrepancies. The outside consultant will also assist in the identification and correction of accounts and policies. The Accounting Division will review accounts and policies periodically to assess their validity. Account description will be adjusted for research ease.

***Significant Deficiency: Computer System Access Controls 06-II.9***

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Condition – While conducting walkthrough procedures for the City’s General Computer Controls the following deficiencies were noted:

1. Inappropriate System Access in the following systems:

*MARS*

- Failed logins are neither monitored nor reviewed
- Minimum password standards do not exist
- Restriction of ability to execute, modify, delete or create individuals does not exist

*BuySpeed*

- Access attempts currently not logged
- Minimum password standards do not exist
- “Super user” privileged access is not limited to appropriate personnel, logged, or reviewed
- The Accounting Manager appears to have excessive privileges

*Data Warehouse*

- Failed logins are logged but not reviewed on a periodic basis
- Users are not required to have a unique user identifier in order to distinguish one user from another and establish accountability

*Windows NT*

- Authorized access to sensitive data (such as personnel records) is not logged by Windows NT and the logs are not regularly reviewed to assess whether the access and use of such data was appropriate
- End users are not limited to Windows NT application menus and programs and have access to the Windows NT command line *ZOS 1.7*
- End users are not limited to application menus and programs and have access to the command line
- Design and implementation of Security architecture does not ensure restriction of access to programs, data and other information resources, which is maintainable on an ongoing basis
- The password for IBMUSER is not locked in a safe
- “Special” access for Technical Coordinators is not requested via e-mail by Department Managers to RACF Administrators
- UACC is not set at “none” globally for all dataset access
- Technical Coordinators with group “Special” access are not reviewed quarterly
- Managers do not review and sign-off on forms if user(s) “special” access is appropriate based on job responsibilities

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- Agreement forms are not reviewed quarterly by Security Administration to validate users with “Special” and “Audit” access are appropriate based on business need for this access

2. Transfers/Terminations

If the transferring department does not issue a heat ticket after an employee has moved to a new department then that employee can potentially have access to systems which are not in line with his job role.

3. Physical Access

There is no current review process in place to ensure that only appropriate personnel have access to the data center. Currently there are 206 employees with access to the data center; this is an excessive amount of personnel with access.

Recommendation - The auditor recommended that the following be considered:

- System and physical access should be reviewed on a regular basis to ensure it is appropriate for all employees.
- Minimum password settings should be implemented on all systems.
- Failed system access attempts should be monitored and reviewed.
- The ability to execute, modify, delete or create system changes should be restricted to appropriate individuals.

Current Status is summarized as follows:

- Procedures have been developed and established, and were implemented in September 2008 for system and physical access and are the current process.
- Active Directory accounts and accounts specific to the financial applications are to be reviewed at least annually. Active Directory account reviews by department are currently underway. Financial system reviews are also currently underway, resulting in some user accounts being deactivated.
- A physical access review will also occur at least annually. Reviews are now being completed in accordance with the plan. The review for the City's primary data center was completed in October, and resulted in the revocation of access privileges for a number of personnel.
- The current minimum password settings for Active Directory are due to be strengthened with the approval of an updated City information security policy (AR-D5) currently being prepared for approval by the City Manager's Office in first quarter 2009. The current settings meet the minimum requirements.

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- The policy specifies that the tougher standards will apply to all City systems, including financial systems. The new standards were distributed to all departments earlier in 2008. Department representatives provided inventories of systems with indication of those systems' abilities to conform to the new standard. These standards will be implemented with approval of the revised policy expected in first quarter 2009.
- Procedures were developed and established for identified systems for the monitoring and review of failed access attempts in September 2008 and are the current process. Failed access attempts in Active Directory are among the items being monitored by a third-party under contract to the City. Thresholds have been established, and alerts are provided to information security personnel when those thresholds are exceeded. There are now 35 employees with badge access to the data center. When access is requested through the City Marshalls, validation of the need is approved by the ITS Security Manager. The access list is now reviewed by the CIO annually.
- However, see current year finding number **07-II.12**.

***Significant Deficiency: Controls over Journal Entries (updated from fiscal year 2005) 06-II.10***

Condition - Adjusting journal entries may be prepared by many finance department individuals. These entries should be approved by a supervisor before entry into the general ledger system; however, these reviews are not always documented. Journal entries are then typically entered and posted to the general ledger by one person in the finance department. However, all accountants with access to the MARS system currently have the access ability to enter journal entries themselves. In some cases, journal entries were input and posted by the same individual.

Recommendation – The auditor recommended that we restrict the ability to enter journal entries to only a select number of individuals. In addition, require a second person's review of the entered data prior to finalization and posting by that second individual. Document all reviews made to ensure that only proper journal entries are processed.

Current Status is summarized as follows:

- During Fiscal Year 2008 personnel were added to the Accounting Division resulting in a better segregation of duties. Journal entries are no longer manually entered into the City's general ledger except on an exception basis. During 2008 the City developed a journal entry creation program that interfaces to the ledger. Accountants now prepare their journal entries using this interface and submit the entries along with supporting documentation to the supervisor for review and approval. If approved, the supervisor selects the entry for electronic uploading to the general ledger. If not approved, the journal entry is returned to the accountant for correction. Only supervisory staff have the ability to approve a journal entry for posting to the ledger.
- However, see current year finding number **07-II.8**.

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***Significant Deficiency: Grant Management (updated from fiscal year 2005) 06-II.11***

Condition – In prior years, the City faced difficulty in accumulating the list of all grants for inclusion in the Schedule of Expenditure of Federal and State Awards used in the single audit. In 2006, the City assigned one person to oversee this area and made progress, but still exhibited certain difficulties in preparing a complete schedule.

Recommendation – The auditor recommended that standard policies be developed for reporting grants. Educate personnel in all departments on the requirements related to proper accounting and reporting for grants. This information should also include guidance on the nature of grants, both monetary and non-monetary. Use standard funds for accounting for such grants and perform periodic reviews of all departments to ensure grants are properly accounted for and complied with.

Current Status is summarized as follows:

- Fiscal training was provided to the outside agencies (those funded in General Fund (Non-Departmental) and Cultural & Tourism Fund) that receive funding from the City of Fort Worth. The training was done by the Texas Chapter of CPA, also participating in the training was staff from the Finance and Budget Departments.
- A procedure is currently being implemented. Before the departments apply for federal or state financial assistance, a Mayor and Council Communication (M&C) must be approved by City Council. Accountants in the Accounting Division of the Finance Department review all M&Cs before sending for Council's approval. Effective October 28, 2006, all accountants were instructed to screen and identify M&Cs that were grant related as well as any contracts of financial assistance. Additional procedures will be implemented to more carefully identify the source and proper classification of funds to determine the validity of including the award on the SEFA. Specifically, the accountant will utilize the guidelines listed in OMB Circular A-133, Subpart B, section 210 as a tool to determine the proper classification status of projects. If a determination still cannot be made by using these guidelines, the accountant will solicit additional information from the granting agency. At the time of the grant application, the City does not have an executed contract. Upon receipt of the contract, a final determination will be made to verify the proper classification of the project's grant/non-grant status. The fund to which the project is assigned is listed in the M&C, which is initialed by the accountant and the supervisor.
- Effective January 3, 2007, the Grant Accounting Supervisor began reviewing each City Council Meeting Agenda to identify all grant related agenda items on a weekly basis. A "tickler reminder" each Friday afternoon in the Supervisor's Outlook Calendar triggers an alert to examine the City Council Agenda. The Grant Accountant Supervisor will



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appoint a back-up to perform this review in cases of the Supervisor's absence or in the case of employment termination with the City.

- However, see current year finding number **07-II.9**.

***Significant Deficiency: Documentation of Policies and Procedures Related to Accounting and Reporting 06-II.12***

Condition – There is currently a general lack of documented policies and procedures related to accounting and reporting.

Recommendation – The auditor recognized that the City was working on a project to provide appropriate documentation of all accounting and reporting policies and procedures, and recommended swift completion and implementation of this project. Consider a periodic update to the study to ensure that all policies and procedures remain appropriate in the changing municipal financial environment. Ensure that documented policies and procedures cover all aspects of the City's financial operations, including both manual and IT-driven procedures.

Current Status is summarized as follows:

- Crowe Horwath, an outside consultant, was hired to direct and augment staffing for producing the 2007 and 2008 CAFRs and Single Audit Reports. In addition, the City with the assistance of the consultant is to document processes and procedures relative to the reports noted above. Matrix Resources is the original consultant that has been working on all other policies and procedures within the Financial Management Services Department. They are about 50% to 60% complete with this documentation effort.
- Once policies and procedures are fully documented (internal to Financial Management Services (FMS)), individual supervisors will be required to review and update such documentation on a periodic basis. At this point, however, consultants are still in the process of documenting policies and procedures. After the 2007 and 2008 CAFRs are completed, it is the intent that FMS staff will develop and push out policies to be implemented citywide. Once established, Accounting Division staff will periodically review for citywide compliance with selected policies or minimum standards of operating, and will also seek out opportunities to train City departments on such policies. Additionally, the Fiscal Accountability Committee was formed in October 2008. One of the primary purpose for this committee is to provide a forum to obtain input and share policies and procedures on a citywide basis. It should be noted that it will take some time to fully implement this review and training objective.
- However, see current year finding number **07-II.10**.

***Material Compliance Finding: Timely Filing of Single Audit Reports 06-II.13***

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Condition – The City’s single audit reports were not completed within the time required.

Recommendation – The auditor recommended that procedures be implemented to create an environment in which the year end CAFR and audit process may be completed on a timely basis.

Current Status is summarized as follows:

- Measures have been employed to increase the efficiency of the City’s annual reporting procedures, which include the 1) hiring additional governmental accounting employees (those with CPAs and/or advanced degrees), 2) re-organizing the Accounting Division, 3) documenting related procedures and internal controls, and 4) establishing dedicated leadership for the Finance Department. Outside consultants have also been engaged to augment the existing staffing level and provide added governmental accounting and technological expertise. In addition, the City has engaged the services of an external consultant to manage the 2007 and 2008 audits and CAFR/Single Audit process. The addition of this consultant to our team will get the City current on the CAFR and Single Audit for Fiscal Year 2008-2009. Training and process documentation provided by the consultant will enable City staff to perform these functions on a go-forward basis and meet established deadlines.
- City staff has created an annual closing and CAFR work plan. This document include and enables the tracking of all activities related to the closing the financials, and producing the audit schedules and CAFR/Single Audit. Department supervisors and the City Controller review plan progress weekly. Risks and issues are identified and mitigating procedures are implemented.
- The issues database was implemented for the 2007 CAFR and Single Audit to track and resolve issues more effectively and efficiently.
- The reporting database has been enhanced to speed up the preparation of current and future CAFRs. Ongoing the City strives to improve the accounting and reporting tools. The City has eliminated the need for redundant data entry by developing a journal entry application. Journal entries are entered into the JV application, which validates the fund/account/center and that the entry balances before it is loaded into the CAFR reporting database. Journal entries must also be reviewed and approved by the City Controller before posting to the CAFR database. The JV application stops unapproved entries from posting to the database.
- Departmental management are now actively involved and citywide resources are engaged to ensure timely response to audit questions and proactively identify issues. The importance of accurate and timely published Single Audits and CAFRs has been championed by the City Manager, and the Mayor and Council. Issues are elevated to department heads as needed. Responses reflect the appropriate urgency and importance of the Single Audit and CAFR.

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- On-going planning and status meetings are now conducted to control work schedules and complete tasks according to pre-determined timelines. The Accounting Division plans, assigns staff and schedules accounting activities using Microsoft Project. Scheduled periodic meetings are held with supervisory staff to review status, identify risks and issues, and implement appropriate mitigating strategies.
- See also current year finding number **07-II.14**.

***Material Compliance Finding: Deposit Collateralization 06-II.14***

Condition – On the date of the City’s highest deposit balance, the collateralization was not sufficient to cover the City’s deposit balance.

Recommendation – The auditor recommended that better monitoring procedures be instituted to anticipate when deposit fluctuations may require additional collateralization.

Current Status is summarized as follows:

- While Treasury staff does monitor deposit balances versus collateralization levels, there is still a risk of unexpected large credits arriving in the afternoon that could potentially put funds at risk. The primary source of large credits is Tarrant County, which collects property taxes for the City. Collateralization monitoring has been somewhat of a collaborative effort between Treasury staff and the bank, JPMorgan Chase. A significant cushion exists between cash totals and collateral levels so that normal variations in balances are covered. Communication to the bank occurs any time Treasury is aware that balance levels will be significantly elevated so that collateralization may be adjusted as well. Changes are currently underway to utilize a different end-of-day sweep that would eliminate under-collateralization. Anticipated completion date of these changes is June 30, 2009.
- See also current year finding number **07-II.15**.

***Control and Material Compliance Finding: CDGB Davis-Bacon Act 06-III.1***

Program - CFDA 14.218 CDBG grant from HUD, 2006

Condition - Compliance with Davis-Bacon requirements was not monitored for two construction projects selected for testing.

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Recommendation – The auditor recommended that a review be made of all charges to CDBG projects to make sure compliance with all requirements are met, even after they have been incurred.

Current Status is summarized as follows:

- The city has in place policies and procedures for Davis-Bacon obtain from the U.S. Department of Housing and Urban Development (HUD) CDBG Basic Training. The monitoring procedures are followed and met as required by HUD.

***Compliance Finding: CDBG Real Property Acquisition 06-III.2***

Program - CFDA 14.218 CDBG grant from HUD, 2006

Condition - Real property purchased with CDBG funds was not capitalized on the City's financial accounting system, but charged instead to Other Contractual Services.

Recommendation – The auditor recommended that we properly follow Federal capitalization policies in order to properly state and control capital assets.

Current status is summarized as follows:

The Housing Department has reviewed expenditures and reclassified as needed. All capital outlay and construction in progress reclassifications have been made.

***Compliance Finding: CDBG Citizen Participation Plan 06-III.3***

Program - CFDA 14.218 CDBG grant from HUD, 2006

Condition - Compliance with HUD's requirements for the Citizen Participation Plan was found lacking in several areas:

- As specifically required by HUD in its Monitoring Report from March 2007, the Citizen Participation Plan did not completely describe how it would encourage citizens to participate in the development of the Consolidated Plan.
- The Citizen Participation Plan did not define low and moderate income neighborhoods.
- The Citizen Participation Plan did not include a process whereby a reasonable number of free copies will be provided to the public upon request.

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- The Citizen Participation Plan does not address how amendments to the Plan would be made and how the City would incorporate public comments obtained.
- The Citizen Participation Plan does not address the purpose or the schedule of the public hearings.

Recommendation – The auditor recommended that we update and implement the Citizen Participation Plan to fulfill all requirements.

Current Status is summarized as follows:

- The City responded to HUD’s finding concerning the amendment to the Consolidated Plan and the Citizen Participation Plan. On November 7, 2007 the city published a notice of request for comment that addressed all of the above. The city is awaiting a response from HUD on the submitted Plans. The revised plan has additional language regarding encouragement of citizens and local regional institutions to participate in the development of the Consolidated Plan. It also gives a definition of low and moderate income neighborhoods. The revision also addresses the public notices and places free copies that could be obtained including written requests. The substantial amendments have been revised for each program; the public hearings and complaint issues were both addressed. The city is waiting for approval from HUD on the revision made for the Citizen Participation Plan.

***Compliance Finding: HOME Allowable Costs 06-III.4***

Program - CFDA 14.239 Home Investment Partnership Program grant from HUD, 2006

Condition – One reimbursement for closing costs on a home was actually paid in early fiscal 2007, rather than in fiscal 2006, but was charged to the 2006 grant.

Recommendation – The auditor recommended that costs be charged to grants within the appropriate fiscal year for which they occur. Ensure that employees are aware of and follow proper cutoff policies.

Current Status is summarized as follows:

City policy is that October invoices should not be paid during the first two weeks of the new fiscal year due to the system constraints of properly posting of charges to the correct fiscal year. But due to legal obligations of the City, this check had to be paid in that time frame. City staff has been informed that closing cost assistance is a liability to the City when the check is issued and not when the applicant signs the request for funds form. In the future, this exception will be

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monitored and the necessary journal adjustments will be made as needed. A journal entry was processed to move this expenditure to fiscal year 2007.

***Control and Material Compliance Finding: Airport Davis-Bacon Act 06.III.5***

Program - CFDA 20.106 Airport Improvement grant from DOT, 2006

Condition - Compliance with Davis-Bacon requirements was not monitored for construction projects funded with federal grants through the Texas Department of Transportation.

Recommendation – The auditor recommended that the City Aviation Department staff communicate with all City departments that oversee or coordinate projects to make sure compliance with all requirements is met.

Current Status is summarized as follows:

- The Department of Aviation now requires the addition of Davis-Bacon compliance review and reporting to all contracts for projects managed by independent contractors and City Department's managing projects on behalf of the Aviation Department. To ensure that compliance is being monitored, the Aviation Department requires project managers to provide copies of the compliance review to Aviation for filing in the corresponding grant binders located at Meacham International Airport. For Fiscal Year 2008, consultants have provided Davis Bacon documentation along with pay requests and documentation will be found in the program files and will be turned over to the City once the project is complete.

***Control and Compliance Finding: Highway Cost Documentation 06-III.6***

Program - CFDA 20.205 Highway Planning and Construction grant from Federal Highway Administration, 2006

Condition - Outside relocation specialists managed the property acquisition and relocation process and maintained supporting documentation. The City did not obtain actual receipts or fixed payment calculations from them as supporting documents prior to making relocation payments.

Recommendation – The auditor recommended that we obtain and maintain supporting documentation for all grant expenditures, even those made by outside consultants.

Current Status is summarized as follows:

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- Updated procedures provide that payments made to relocatees include a signed TxDOT claim form and approved M&C with each payment request. A copy of each payment/request, with back-up paperwork, is retained in the Transportation/Public Works relocation files (formerly Department of Engineering).

***Control and Compliance Finding: Highway Program Income 06-III.7***

Program - CFDA 20.205 Highway Planning and Construction grant from Federal Highway Administration, 2006

Condition - Rental contracts were not available for review and therefore, it was not possible to determine if the correct income had been received. Management stated that all rent was managed by an outside contractor and they maintained contracts and were responsible for rent collection.

Current Status is summarized as follows:

- The City's consultant is continuing to follow the Uniform Relocation and Real Property Acquisition Act of 1970. City staff will be working to develop written procedures for the handling of rental income on City acquired properties in conjunction with the real property acquisition procedure noted below. This effort should be completed by March 2009.

***Control Finding: Highway Real Property Acquisition 06-III.8***

Program - CFDA 20.205 Highway Planning and Construction grant from Federal Highway Administration, 2006

Condition - The City does not have a written policy for relocation assistance and real property acquisition dealing with the SH 121 project.

Recommendation – The auditor recommended that a written policy be developed to manage the Relocation Assistance and Real Property Acquisition process, including the use of third party contractors.

Current status is summarized as follows:

- The City's consultant is continuing to follow the Uniform Relocation and Real Property Acquisition Act of 1970. City staff will be working to develop written procedures for the

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acquisition of real property based on the funding source (local, state, and federal). This effort should be completed by March of 2009.

***Control Finding: Highway Cash Management 06-III.9***

Program - CFDA 20.205 Highway Planning and Construction grant from Federal Highway Administration, 2006

Condition - The City requested reimbursement for land purchases in August 2006 after closing on the properties during the month of April 2006.

Recommendation – The auditor recommend that reimbursement requests be prepared on a more timely basis.

Current Status is summarized as follows:

- The City has 6 recently closed relocation files and 2 condemnation settlements being prepared for reimbursement from TxDOT. This will leave approx 3 relocation files and 7 condemnation files still open and pending reimbursement. The City has acquired through condemnation several properties that were funded with grant funding that is 80% reimbursable. However, the reimbursement will not be made by TxDOT until any legal proceedings are completed. These legal proceedings can take several years to be resolved. Given the nature of the litigation, staff does not have a clear opinion of when these reimbursements will be made.

***Control and Material Compliance Finding: Fire Station #8 Davis-Bacon Act 06-III.10***

Program – Contract Number CSJ8648-02-012 Fire Station #8 grant from Texas Department of Transportation, 2006

Condition - Compliance with Davis-Bacon Act requirements was not monitored for construction projects.

Recommendation – The auditor recommend that we review all state-funded grants and implement compliance with the Davis-Bacon Act and educate staff on the need for compliance with federal grant requirements even when using state funds.

Current Status is summarized as follows:



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- For facility construction projects with federal grant funds, Architectural Services continues to coordinate with the City department that currently monitors the federally funded projects.

***Control and Compliance Finding: Fire Station #8 Reporting 06-III.11***

Program – Contract Number CSJ8648-02-012 Fire Station #8 grant from Texas Department of Transportation, 2006

Condition and Context - The City did not prepare Reimbursement Requests during the 2006 fiscal year even though the Contract with the State calls for monthly billings and the City did incur expenses during this period. The City incurred and paid architectural, engineering and construction expenses during the fiscal year totaling \$ 1,270,780. The Texas Department of Transportation was responsible for \$400,948 in reimbursements but such was not requested until two months after the expenditures were incurred. This finding was also noted in 2005.

Recommendation – The auditor recommended that procedures be implemented for monthly billings, in accordance with contract terms.

Current Status is summarized as follows:

- Guidelines have been put in place, and the guideline procedures are currently being performed.

***Control and Compliance Finding: Clean Water Loan Reporting 06-III.12***

Program – CFDA 66.458 Clean Water State Revolving Loan Fund from the Environmental Protection Agency, 2006

Condition and Context - The City incorrectly prepared outlay reports by including retainage amounts prior to when the City received approval authorizing the payment. The retainage was claimed on the 3<sup>rd</sup> and 4<sup>th</sup> quarter reports of 2006, but should not have been claimed until the first quarter of 2007.

Recommendation – The auditor recommended that procedures be implemented for appropriate preparation of outlay reports, in accordance with contract terms.

Current Status is summarized as follows:

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- The Water Department will work with the Texas Water Development Board to obtain written documentation prior to releasing final retainage to contractors. The Water Department has informed employees that deal with the Texas Water Development Board of the finding and the department's response for corrective action. Since the time of that response, the Water Department has not had any construction contracts related to the TWDB eligible for final pay. There was a contract eligible for final pay in Fiscal Year 2007, and one in Fiscal Year 2008, but both were paid before the audit finding and response were made in June 2008.

ATCT	-	Air Traffic Control Tower
CAPER	-	Consolidated Annual Performance and Evaluation Report
CDBG	-	Community Development Block Grant
CEAP	-	Comprehensive Energy Assistance Program
CFDA	-	Catalog of Federal Domestic Assistance
CFW	-	City of Fort Worth
CHDO	-	Community Housing Development Organizations
CIP	-	Construction-in Progress
CO4PR26	-	IDIS Report: CDBG Financial Summary
COPS	-	Community Oriented Policing Services
DART	-	Domestic Abuse Response Team
DEA	-	Drug Enforcement Administration
DNA	-	Deoxyribonucleic Acid
DOE	-	Department of Education
ECC	-	Environmental Collection Center
EDA	-	Economic Development Administration
EDART	-	Enhanced Domestic Abuse Response Team
EDI	-	Economic Development Initiative
EMPACT	-	Environmental Monitoring for Public Access and Community Tracking
EPA	-	Environmental Protection Agency
ERP	-	Enterprise Resource Planning
FAA	-	Federal Aviation Administration
FAC	-	Facility
FATS	-	Fixed Assets Tracking System
FHIP	-	Fair Housing Initiative Program
FWEDC	-	Fort Worth Economic Development Corporation
FY	-	Fiscal Year - Normally refers to the year in which a grant was awarded
GASB	-	Governmental Accounting Standards Board
HHW	-	Hazard Household Waste
HOME	-	Home Investment Partnership Program
HOPWA	-	Housing Opportunities for Persons With AIDS
HUD	-	Housing and Urban Development
IDIS	-	Integrated Disbursement and Information System
ITC	-	Intersection Traffic Control
LIHEAP	-	Low Income Housing Energy Assistance Program

MARS	-	Management and Accounting Reporting System
OJJDP	-	Office of Juvenile Justice and Delinquency Prevention
OMB	-	Office of Management and Budget
POFZ	-	Precision Obstacle Free Zone
PY	-	Program Year (usually June 1 - May 31)
RAMP	-	Routine Airport Maintenance Program
RAS	-	Risk Advisory Services
RLF	-	Revolving Loan Fund
SCRAM	-	Sex Crime Apprehension and Monitoring
SF272	-	Standard Form 272
SMGCS	-	Surface Movement Guidance and Control System
SSBG		Social Services Block Grant
STEP	-	Selective Traffic Enforcement Program
TDHCA	-	Texas Department of Housing and Community Affairs
TPW	-	Transportation and Public Works
UGMS	-	Uniform Grant Management Standards
UPARR	-	Urban Park and Recreation Recovery
WAVE	-	The term "Wave" is derived from the focus on media and enforcement in "waves" during specific holiday periods.



**SCHEDULE OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS  
CITY of FORT WORTH  
FINANCE DEPARTMENT  
1000 THROCKMORTON STREET  
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