

MONTAGUE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

MONTAGUE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required By the Uniform Guidance and Schedule of Expenditures of Federal Awards	1-3
Schedule of Expenditures of Federal Awards	4
Notes to Schedule of Expenditures of Federal Awards	5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	6-7
Schedule of Findings and Questioned Costs	8-10
Corrective Action Plan	11
Summary Schedule of Prior Audit Findings	12



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR ▪ P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 ▪ FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA
A. PAUL FLEMING, CPA

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and Schedule of Expenditures of Federal Awards

Honorable County Judge and
Members of the Commissioners' Court
Montague County, Texas

Report on Compliance for Each Major Program

We have audited Montague County, Texas' (County) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2017. The County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a material weakness.

The County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards

We have audited the modified cash basis financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated April 2, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise the basic

financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the modified cash basis financial statements or to the modified cash basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the modified cash basis financial statements as a whole.

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
April 2, 2018

MONTAGUE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures and Indirect Costs</u>	<u>Amount Relating to Pass-Through Expenditures</u>
FEDERAL AWARDS				
<u>Department of Homeland Security</u>				
Indirect Program:				
Passed Through the Texas Department of Public Safety Disaster Grants Public Assistance	DR 4223	97.036	\$ 2,446,152	\$ -
<u>Department of Housing and Urban Development</u>				
Indirect Program:				
Passed Through the Texas Department of Agriculture Community Development Block Grant	7215341	14.218	<u>59,465</u>	<u>-</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,505,617</u></u>	<u><u>\$ -</u></u>

MONTAGUE COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2017

Note 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Montague County, Texas (County). All financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies, is included on this schedule.

Note 2 - BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. Most federal grant funds were accounted for in the Special Revenue Funds, a component of the Governmental Fund types. With this measurement focus, only current assets and current liabilities on the modified cash basis of accounting are generally included on the balance sheet. Operating statements of these funds present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The modified cash basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes assets, liabilities, fund equities, revenues and expenditures when they result from cash transactions. This basis is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America (GAAP).

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. Federal grant funds are ordinarily considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are deferred revenues until earned.

Note 3 - CONTINGENCIES

In connection with the federal programs, the County is required to comply with specific terms and agreements as well as applicable federal laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives.

Since such programs are subject to audit or review, the possibility of disallowed expenditures exists. In the event of any disallowance of claimed expenditures, the County expects the resulting liability to be immaterial.

Note 4 - DE MINIMIS INDIRECT COST RATE

Entities that receive federal awards for which an indirect cost rate has never been negotiated may elect to charge a de minimis indirect cost rate of ten percent of modified total direct costs. The County did not elect to charge the de minimis rate to any of its federal awards during the year ended September 30, 2017.



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR • P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA
A. PAUL FLEMING, CPA

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable County Judge and
Members of the Commissioners' Court
Montague County, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montague County, Texas (County) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated April 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the modified cash basis financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the modified cash basis financial statements but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questions costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's modified cash basis financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-001 and 2017-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's modified cash basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County's Response to Findings

The County's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Edgin, Parkman, Fleming & Fleming, PC

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
April 2, 2018

MONTAGUE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2017

A. Summary of Auditor's Results

An unmodified opinion was issued on the modified cash basis financial statements.

The audit disclosed two material weaknesses relating to the audit of the modified cash basis financial statements in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

The audit disclosed no noncompliance that is material to the financial statements.

The audit disclosed one material weakness relating to the audit of the major federal award program in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with the Uniform Guidance. There were no significant deficiencies that were not material weaknesses.

An unmodified opinion was issued on compliance for the major program.

The audit disclosed one audit finding that is required to be reported in this schedule under the Uniform Guidance.

Major program is as follows:

Federal:

97.036 – Disaster Grants Public Assistance

The threshold used to distinguish between Type A and Type B federal programs was \$750,000.

The County was not classified as a low-risk auditee in the context of the Uniform Guidance.

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

Finding 2017-001 – Material Weakness in Internal Control over Financial Reporting

Criteria or Specified Requirement

The County should maintain adequate internal control over financial reporting to ensure accurate reporting in the County's financial statements as well as reporting any amounts to grantors.

Condition Found

During the audit, misstatements in the County's accounting records were material to the County's financial statements. The misstatements were not identified prior to the audit by the County's internal control processes.

MONTAGUE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D) FOR THE YEAR ENDED SEPTEMBER 30, 2017

Cause

The County did not record all of the necessary entries to properly record all financial transactions in accordance with the modified cash basis of accounting and they did not properly track its expenditure of grant funds.

Effect

Material misstatements were noted during the audit of the County's modified cash basis financial statements and were required to be corrected. Therefore, internally prepared modified cash basis financial statements are materially in error and do not follow the County's modified cash basis of accounting.

Recommendation

We recommend that the County record activity for the Federal Emergency Management Agency and Community Development Block Grants in the specific grant special revenue funds as expenditures are paid rather than in the regular Road & Bridge funds and later moved to the grant precinct special revenue funds when reimbursement is received and/or approved. Further, we recommend that the County closely review and adjust all other accounts as necessary prior to closing the County's accounting records prior to the start of the audit.

Views of Responsible Officials and Planned Corrective Action

Please refer to the Corrective Action Plan prepared by the County's management.

Finding 2017-002 – Material Weakness in Internal Control over Bank Accounts

Criteria or Specified Requirement

The County should maintain adequate internal control over bank accounts to ensure that all bank accounts are timely reconciled, agreed to the recorded amounts and reviewed and approved by a third party.

Condition Found

During our preliminary audit procedures in February 2018, we noted that the Treasurer's pooled bank account had not been reconciled since March 2017. However, the account had been reconciled through September 2017 and for the months of the subsequent year through February 2018 by audit fieldwork in March 2018.

Cause

The County's internal control procedures failed to ensure that all bank accounts were reconciled to the general ledger each month.

MONTAGUE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D) FOR THE YEAR ENDED SEPTEMBER 30, 2017

Effect

Deposits and/or withdrawals could be incorrectly included and/or excluded from the County's internally prepared modified cash basis financial statements.

Recommendation

We recommend that the County ensure that each month all bank accounts are reconciled in a timely manner, agreed to the accounting records and reviewed and approved by a third party who will also review the bank statements for large and/or unusual items. We also recommend that the completed bank reconciliations be remitted to the Commissioners' Court for review and approval until the need ceases.

Views of Responsible Officials and Planned Corrective Action

Please refer to the Corrective Action Plan prepared by the County's management.

C. Findings and Questioned Costs for Federal Awards

See Finding 2017-001 – No questioned costs are associated with the finding.

MONTAGUE COUNTY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Finding 2017-001

The County has reviewed the finding noted in the audit and agrees with it. However, it has decided to not change the accounting practices for the grants. However, should the grants extend past the County's fiscal year end, the County will make the necessary accounting entries to report the grant expenditures in the correct funds. Additionally, the County will also make the necessary other adjustments in future years.

The Contact person for this corrective action plan is Rick Lewis, County Judge.

Finding 2017-002

The County will ensure that each month all bank accounts are reconciled in a timely manner, agreed to the accounting records and reviewed, approved by a third party who will also review the bank statements for large and/or unusual items, and the bank reconciliations be submitted to and reviewed and approved by the Commissioners' Court until the need ceases.

The Contact person for this corrective action plan is Rick Lewis, County Judge.

MONTAGUE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2017

Finding 2016-001 – Material Weakness in Internal Control over Financial Reporting

In the prior year, material misstatements were identified requiring material audit adjustments to the County's financial statements. During the current year audit, similar material adjustments were made. See Finding 2017-001.