



CITY OF RICHARDSON, TEXAS

Independent Auditors' Reports on Federal Awards in
Accordance with OMB Circular A-133 Report

Year Ended September 30, 2008

CITY OF RICHARDSON, TEXAS

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

The Honorable Mayor and City Council
City of Richardson, Texas:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richardson, Texas (the City) as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 6, 2009, which included a paragraph relating to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures, and an amendment of GASB Statements No. 25 and 27*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we 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 that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency 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 City's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01, to be a significant deficiency 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 City's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

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

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

KPMG LLP

February 6, 2009



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

**Independent Auditors' Report on Compliance with Requirements Applicable to Its
Major Program and on Internal Control over Compliance in Accordance with
OMB Circular A-133 and on Schedule of Expenditures of Federal Awards**

The Honorable Mayor and City Council
City of Richardson, Texas:

Compliance

We have audited the compliance of the City of Richardson, 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* that are applicable to its major federal program for the year ended September 30, 2008. The City's major federal program is 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 its major federal program 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2008. However, the results of our auditing procedures disclosed 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 cost as items 08-02 and 08-03.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal 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 purposes 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.

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 city's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-02 and 08-03 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 city's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2008, and have issued our report thereon dated February 6, 2009, which included a paragraph relating to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures, and an amendment of GASB Statements No. 25 and 27*. Our audit was formed for the purpose of forming opinions on the financial statements that collectively compose the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

KPMG LLP

February 6, 2009

CITY OF RICHARDSON, TEXAS
Schedule of Expenditures of Federal Awards
Year ended September 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Grant number	Federal expenditures
U.S. Department of Transportation:			
Passed-Through the Texas Department of Highways and Public Transportation			\$ 353,950
Highway Beautification	20.205	CSJ:0918-45-528	
Citywide Traffic Signal Improvements	20.205	CSJ: 0918-45-794&795	24,580
Congestion Mitigation Air Quality	20.205	CSJ: 0918-45-322	1,144,830
Total U.S. Department of Transportation			<u>1,523,360</u>
Federal Emergency Management Agency (FEMA):			
Passed-Through the Governor's Division of Emergency Management			
Public Assistance for City's Preparation of Gustav	97.036	EM-3290-TX	87,161
Public Assistance for City's Preparation of Ike	97.036	EM-3294-TX	154,724
Total FEMA			<u>241,885</u>
Office of National Drug Control Policy:			
North Texas High Intensity Drug Trafficking Area	07.XXX	I8PNT501Z	25,121
Total Office of National Drug Control Policy			<u>25,121</u>
Department of Justice:			
Passed-Through the North Central Texas Council of Governments			
State Homeland Security Grant Program	97.073	Unknown	5,818
Joint Terrorism Task Force	16.XXX		5,274
North Texas Regional Computer Forensic Lab	16.XXX		15,573
Bullet Proof Vest Grant	16.607		5,248
Total Received Directly from the Department of Justice			<u>26,095</u>
Total Department of Justice			<u>31,913</u>
Department of Homeland Security:			
Passed-Through the Governor's Division of Emergency Management			
2007 State Homeland Security Program	97.008	2007 GE – T7 – 0024	49,000
Total Department of Homeland Security			<u>49,000</u>
Total Federal Financial Assistance			<u>\$ 1,871,279</u>

The accompanying notes to schedules of expenditures of federal and state awards are an integral part of this schedule.

CITY OF RICHARDSON, TEXAS

Notes to Schedules of Expenditures of Federal Awards

September 30, 2008

(1) General

The accompanying schedules of expenditures of federal awards include the federal and state grant activity of the City of Richardson, Texas (the City). The information in these schedules are presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Uniform Grants Management Standards*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of the basic financial statements.

The City's reporting entity is defined in note I to the City's basic financial statements. Federal and state awards received directly from these agencies as well as federal and state awards passed through other government agencies are included on the schedules.

(2) Basis of Accounting

The accompanying schedules of expenditures of federal and state awards are presented using the modified-accrual basis of accounting, which is described in note I to the City's basic financial statements.

(3) Schedule of Findings and Questioned Costs

The schedule of findings and questioned costs, including the summary of auditors' results, is included on page 7.

(4) Relationship to Federal Financial Reports

Grant expenditure reports as of September 30, 2008, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

(5) Subrecipients

Of the federal and state expenditures presented in the schedules, the City of Richardson, Texas did not provide federal and state awards to subrecipients during 2008.

CITY OF RICHARDSON, TEXAS
Schedule of Findings and Questioned Costs
Year ended September 30, 2008

Section I Summary of Auditors' Results:

Financial Statements

1. Type of auditors' report issued on the financial statements: **Unqualified**
2. Significant deficiency(ies) in internal controls were disclosed by the audit of the basic financial statements: **Yes**; Material weaknesses: **No**
3. Noncompliance material to the basic financial statements: **No**

Federal Awards

4. Significant deficiency(ies) in internal controls were disclosed by the audit of the major program: **Yes**; Material weaknesses: **No**
5. Type of auditors' report issued on compliance for major program: **Unqualified**
6. Any audit findings disclosed that are required to be reported under Sec. 510(a) of OMB Circular A-133: **Yes**
7. Major program includes:

CFDA number	Name of federal program
20.205	Highway Planning and Construction Cluster

8. Dollar threshold used to distinguish between type A and type B programs: **\$300,000**
9. Auditee qualified as low-risk auditee: **Yes**

CITY OF RICHARDSON, TEXAS
Schedule of Findings and Questioned Costs
Year ended September 30, 2008

Section II Financial Statement Findings:

Finding 08-01

Preparation of the SEFA

Finding: Significant Deficiency

Questioned Cost:

None

Criteria:

In accordance with OMB Circular A-133, Subpart C, .310(b) (Financial Statements), the auditee shall prepare a schedule of expenditures of Federal Awards for the period covered by the auditee's financial statements.

Condition:

In order to verify the accuracy of the information reported on the SEFA, we attempted to agree reported information (CFDA number, pass-through name, expenditure amount, etc.) to supporting documentation. In doing so, we noted 1) one grant reported as a federal award that was actually funded through local sources, 2) approximately \$24,000 mistakenly reported on the SEFA as Step 2 – Landscaping Enhancements expenditures.

Cause and Effect:

The individual responsible for preparing the SEFA was only recently hired by the City and is still learning the grant accounting process. Additionally, various accounting personnel were on leave during the year due to personal issues.

The impact of this condition could result in inaccurate reporting of expenditures on the SEFA. Additionally, inadequately determining a grant's funding source could impact the programs required for testing in a Single Audit or result in a Federal or State Single Audit not being performed due to expenditures being reported at levels below the amount (\$500,000) requiring a Single Audit.

Recommendation:

Accounting management should hold regular discussions with other departments to ensure that all of the City's outstanding grants have been properly reported in the SEFA. For each new grant received, accounting personnel should review the grant agreement to determine the funding source (federal, state, or local). On a quarterly basis, accounting personnel should prepare and management should review a SEFA. Reviewing the SEFA on a quarterly basis would help identify any unexpected or unusual expenses. Additionally, providing this SEFA to other departments would help ensure the completeness of grants reported on the SEFA.

CITY OF RICHARDSON, TEXAS

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Views of Responsible Officials:

The accounting department mistakenly classified the award of funds for the Sustainable Development Transportation Infrastructure Project (Eastside turning lanes) as a federal “pass through” grant and reported the financial transactions on the SEFA. The funding for this project was made available through an Interlocal Cooperative Agreement between North Central Texas Council of Governments and the City of Richardson and should not have been listed on the SEFA. This information was removed from the SEFA.

The accounting department should have reported approximately \$24,000 in the “adjustments” column on the SEFA report as this amount relates to a prior year transaction. This amount was reclassified and appropriately reported on the SEFA.

The accounting department will review all grant agreements to determine the funding source and will hold regular discussions with project managers to ensure that all of the City’s grants are properly reported on the SEFA. Accounting will provide a quarterly SEFA report to management for review. Additionally, training for grant recording and reporting for new accounting personnel who are responsible for monitoring our grant programs has been scheduled.

CITY OF RICHARDSON, TEXAS

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section III Federal Award Findings and Questioned Costs:

08-02 Davis-Bacon Act

Program: Federal Program: Highway Planning and Construction, CFDA No. 20.205
Congestion Mitigation Air Quality, CSJ:0918-45-322
Federal Agency: U.S. Department of Transportation
Pass-through Entity: Texas Department of Transportation

Finding: Noncompliance / Significant Deficiency

Questioned Cost:

None

Criteria:

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

Condition:

During our compliance testwork over the Highway Planning and Construction Program, we noted that the weekly certified payroll reports had not been submitted to the City for the final two months of the fiscal year for the only contract related to the Congestion Mitigation and Air Quality Project (CMAQ) grant.

We requested the City obtain the missing certified payroll reports from the general contractor. We obtained these reports and tested the minimum wage rates without exception.

Cause and Effect:

The CMAQ grant was new for the current fiscal year and the individual responsible for obtaining the certified payroll reports for the City was recently hired. Expenditures under the grant began in May 2008 and certified payroll reports were properly provided to the City starting in May. However, in July the contractor stopped providing the reports to the City and the City did not follow up to obtain the reports.

By not obtaining and reviewing the reports, laborers may be receiving a pay rate below the established minimum rate for the locality. As a result, the contractor may retain a disproportionate amount of the federal funds by not paying laborers at established rates.

Recommendation:

We recommend that City management perform periodic reviews ensuring that contractors and subcontractors are properly notified of Davis-Bacon requirements, are submitting the appropriate payroll documentation and certification and are paying prevailing wage rates.

CITY OF RICHARDSON, TEXAS

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Views of Responsible Officials:

The Davis-Bacon Act is a federal law that established requirements for paying wages on public works projects. While all prior months' records were present, there was no record of the City receiving certified payroll reports for the months of August and September from the contractor or subcontractor to substantiate compliance with these requirements. It is the City's responsibility to follow up with the contractor and subcontractor to obtain and review payroll records for laborers working on City projects and to ensure that laborers are receiving established rates of pay and benefits in accordance with the Act. When this issue was brought to our attention, we contacted the vendor and were provided the time sheets and payroll reports for August and September. This information documented and supported that the vendor was in compliance with this Act.

City management will inform all contractors and subcontractors who work on federally funded projects of these requirements. To ensure we are receiving complete and timely documentation for our records, the accounting department, with the assistance of project managers, will perform periodic reviews of the files.

CITY OF RICHARDSON, TEXAS

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

08-03 Procurement, Suspension, and Debarment

Program: Federal Program: Highway Planning and Construction, CFDA No. 20.205
Citywide Traffic Signal Improvements, CSJ: 0918-45-794 & 795
Federal Agency: U.S. Department of Transportation
Pass-through Entity: Texas Department of Transportation

Finding: Noncompliance / Significant Deficiency

Questioned Cost:

None

Criteria:

In expending federal funds under grant agreements the City must verify that the organization with who they intend to business is not excluded or disqualified by: (a) checking the EPLS, (b) collecting a certification form from that organization, or (c) adding a clause or condition to the covered transaction with that organization (2 CFR 180.300).

Condition:

The City expended \$28,980 under the Citywide Traffic Signal Improvements grant to Motorola, Inc. The City did not verify that the organization was excluded or disqualified by (a) checking the EPLS, (b) collecting a certification form from that organization, or (c) adding a clause or condition to the covered transaction with that organization. We reviewed the EPLS and noted that Motorola, Inc. was not suspended nor were they debarred.

Cause and Effect:

The City has not established and implemented policies and procedures regarding suspension and debarment that enable employees to effectively ensure that expenditures under federal awards are only provided to those parties not suspended or debarred. If the contracted party is suspended or debarred, the awarding agency, U.S. Department of Transportation, may disallow costs, annul or terminate the transaction, issue a stop work order, debar or suspend the City, or take other remedies as appropriate.

Recommendation:

Accounting management should hold regular discussions with other departments to ensure that individuals responsible for administering grant funds are knowledgeable regarding suspension and debarment. A policy should be implemented by the City to help ensure that all entities receiving federal funds from the City are in compliance with suspension and debarment requirements before the funds are actually expended.

Views of Responsible Officials:

At the time the auditor brought this issue to our attention, the City contacted Motorola, Inc. and obtained the appropriate documentation for our files confirming the vendor was not debarred from receiving federal funds.

The City is in the process of implementing a procedure that will require all vendors bidding on City projects to certify that they meet these federal requirements before awarding the contract.