

**CITY OF ALVARADO, TEXAS**  
**SINGLE AUDIT REPORTS AND SCHEDULES**  
**SEPTEMBER 30, 2010**

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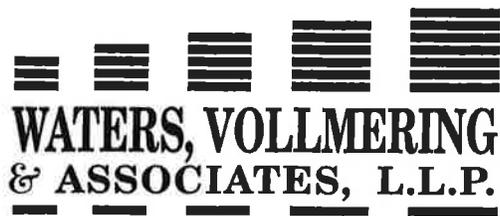
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**REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor, and City Council  
City of Alvarado, 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 City of Alvarado, Texas as of and for the year ended September 30, 2010, which collectively comprise the City of Alvarado, Texas' basic financial statements and have issued our report thereon dated April 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audit 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 City of Alvarado, Texas' 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 of the effectiveness of the City of Alvarado, Texas internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the City of Alvarado, Texas' internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. . A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Lack of segregation of duties

A good system of internal control provides for a proper segregation of the accounting functions. The City has a small number of people in their offices performing a variety of duties, some of which may be incompatible. The City does not have the proper segregation of duties over cash receipts and disbursements, accounts

receivable, accounts payable, and manual journal entries. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce risk of errors or fraud.

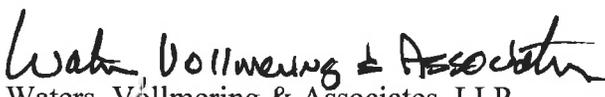
Also, separating these duties will improve internal controls over cash and other assets and reduce the possibility of irregularities. We recommend that management review the current assignment of accounting functions. Isolate any incompatible accounting functions that are the responsibility of one employee and reassign the responsibilities for these duties, if practical, or create a supervisory review of these functions. Where possible, duties should be segregated to reduce the risk of errors or fraud.

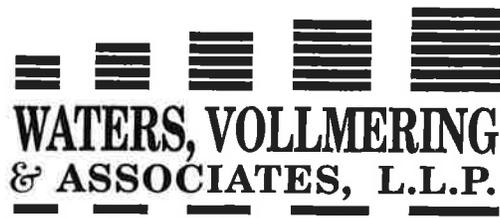
Between the end of the fiscal year, September 30, 2010 and the issuance of the audit report, we determined that the city has taken steps to improve their segregation of duties. In April of 2011, a new city manager was hired.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Alvarado, Texas' 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, others within the organization, 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.

  
Waters, Vollmering & Associates, LLP  
Mansfield, Texas  
April 21, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and City Council,  
City of Alvarado, Texas:

**Compliance**

We have audited The City of Alvarado, Texas', (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 of Alvarado, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

**Internal Control Over Compliance**

Management of The City of Alvarado, Texas 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

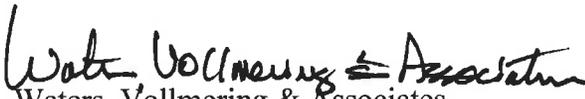
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule of Expenditures of Federal Awards**

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 Alvarado, Texas as of and for the year ended September 30, 2010, and have issued our report thereon dated April 21, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, City Council, others within the City, 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.

  
Waters, Vollmering & Associates

April 21, 2011

**CITY OF ALVARADO, TEXAS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
SEPTEMBER 30, 2010**

**Finding**

NONE

**CITY OF ALVARADO, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**SEPTEMBER 30, 2010**

A. Summary of Auditor's Results

The auditor's report expresses an unqualified opinion on the financial statements

Significant deficiencies in internal control over financial reporting were disclosed; however, none of the significant deficiencies disclosed were deemed to be material weaknesses.

No instances of noncompliance material to the financial statements of the City of Alvarado, Texas were disclosed during the audit.

No significant deficiencies in the internal control over major federal award programs were disclosed during the audit

The independent auditors' report on compliance for the major federal award programs for the City of Alvarado, Texas expresses an unqualified opinion on all major programs.

No audit findings are reported.

The programs tested as major programs included:

U.S Dept. of Agriculture – 10.760 Water and Waste Disposal Systems for Rural Communities

U.S. Dept. of Housing and Urban Development – 14.228 Community Development Block Grant/States Program – Texas Capital Grant

The threshold used to distinguish between Type A and Type B federal programs was \$300,000.

The City did not qualify as a low-risk auditee.

B. Findings Related to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards, including significant deficiencies in internal control.

A good system of internal control provides for a proper segregation of the accounting functions. The City has a small number of people in their offices performing a variety of duties, some of which may be incompatible. The City does not have the proper segregation of duties over cash receipts and disbursements, accounts receivable, accounts

payable, and manual journal entries. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce risk of errors or fraud.

Also, separating these duties will improve internal controls over cash and other assets and reduce the possibility of irregularities. We recommend that management review the current assignment of accounting functions. Isolate any incompatible accounting functions that are the responsibility of one employee and reassign the responsibilities for these duties, if practical, or create a supervisory review of these functions. Where possible, duties should be segregated to reduce the risk of errors or fraud.

C. Findings and Questioned Costs for Federal Awards

Program Finding/Noncompliance

Costs

NONE

**CITY OF ALVARADO, TEXAS  
CORRECTIVE ACTION PLAN  
SEPTEMBER 30, 2010**

**Finding**

NONE

**CITY OF ALVARADO, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2010**

<u>Federal Grant/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Current Period Expenditures</u>
<b>Direct Grants</b>			
U.S. Department of Agriculture			
Rural Development	10.760		\$ 653,006 #
Total U.S. Department of Agriculture			<u>653,006</u>
<b>Indirect Grants</b>			
U.S Department of Hosing and Urban Development			
Passed through Texas Department of Rural Affairs			
Community Development Block Grant/States Program			
Texas Capital Fund - Sabre Communication	14.228	728112	417,118 #
Community Development Block Grant/States Program Recovery	14.255	729011	<u>254,924</u>
Total U.S. Department of Housing and Urban Development			<u>672,042</u>
U.S Department of Justice			
Passed through Texas Department of Justice			
COPS Grant		2009-RK-WX-0829	<u>30,727</u>
Total U.S. Department of Housing and Urban Development			<u>30,727</u>
Total Federal Financial Assistance - Current Period Expenditures			<u>\$ 1,355,775</u>

# - Major Program

**CITY OF ALVARADO, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2010**

- A. The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.