

NEFFENDORE, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.
FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Honorable Mayor and Members of
the City Council
City of Bandera, Texas
Bandera, TX 78003

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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bandera, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Bandera, Texas's basic financial statements, and have issued our report thereon dated May 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Bandera, Texas'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Bandera, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Bandera, Texas's internal control.

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 a 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 a 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did identify deficiencies in internal control that we consider to be material weaknesses.

Significant journal entries were necessary to correct beginning balances, coding errors, record accrual adjustments, record fixed assets and accumulated depreciation balances, and record long-term debt adjustments. Management has reviewed and agreed to record all audit adjustments.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bandera, Texas's 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1. The City did not have a depository contract in accordance with Section 105 of the Local Government Code (Establishment of Depository).
2. The City did not have a designated investment officer with the required training in accordance with Section 2256 of the Local Government Code (Public Funds Investment Act).
3. The City did not have the required internal management reports in accordance with Section 2256.023 of the Local Government Code (Public Funds Investment Act).

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Neffendorf, Knopp, Dooss & Company, P.C.
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

May 30, 2014

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May 30, 2014

Honorable Mayor and Members of
the City Council
City of Bandera, Texas
Bandera, TX 78003

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bandera, Texas for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Bandera, Texas are described in Note 1 to the financial statements. The City implemented new GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The application of existing policies was not changed during the year ended September 31, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 30, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recommendations

Depository Contract

The City does not currently have a depository contract. We recommend the City comply with the Local Government Code Section 105 regarding depository contracts.

Public Funds Investment Act

1. The City did not designate an investment officer with the required training in accordance with Local Government Code Section 2256. We recommend the investment officer attend the required training complying with the Public Funds Investment Act.
2. The City did not have the required internal management reports in accordance with Local Government Code Section 2256.023. We recommend the City prepare the required reports to comply with the Public Funds Investment Act.

Financial Accounting and Controls

The City has not adopted a written policy manual for financial accounting, reporting and controls. We recommend that the City adopt a written manual for policies and procedures to address all financial aspects (reporting, recording, budgeting, utility billing, municipal court, payroll); internal controls and proper review and approvals.

Inventory of Fixed Assets and Supplies

1. The prior year audit firm provided us with depreciation schedules for the City. However, the City had not performed an actual physical inventory of all fixed assets (compare and update depreciation schedule). We recommend the City take a physical inventory annually (at year-end).

We also recommend that the City adopt a fixed asset policy to provide a dollar limit on what is capitalized (i.e. items purchased over \$500 or \$1,000) and what is expensed as part of the supplies (or non-capital) inventory and to establish internal control over these assets.

2. The City has not taken a physical inventory of materials and supplies. Although the amount maybe immaterial, we recommend that the City take an annual physical inventory (at year-end) for possible recording in the general ledger.

Expenditures/Expenses

During the normal course of the audit a test of transactions was performed. We noted several invoices that did not indicate proper approval. Several of the invoices requested were miss-filed and could not be readily located. We recommend each invoice be reviewed by the department head or appropriate administrative personnel and approval indicated on the invoice prior to payment. We recommend all documents relating to the invoice remain with the invoice and a proper filing system be instituted.

Payroll Expenditures/Expenses

Payroll expenditures/expenses were not posted to the correct accounts in the fund financial statements. The total expenditure/expenses were posted to an asset account on the balance sheet in the General Fund and the Water and Sewer Funds instead of the expenditure/expense accounts. We recommend the payroll be recorded to the correct expenditure/expense accounts in the appropriate funds.

Bank Reconciliations

Bank reconciliations prepared by the City did not agree with the general ledger accounts. We recommend reconciliations prepared be reconciled to the appropriate general ledger accounts. We also recommend reconciliations be reviewed and approved by an additional supervisory personnel.

Municipal Court Bank Deposits

Municipal Court Clerk prepares the daily deposits and often delivers the deposit to the bank. There is currently no review by supervisory personnel of the deposits to the computer receipts. We recommend a review of the deposits to the computer receipts be performed on a regular basis by supervisory personnel and someone other than the Court Clerk deliver the deposits to the bank.

Park Fee Collections

The City charges a park entry fee on the weekends for use of the City Park. The fee is based on the number of people in each vehicle. The employee counts the people in the vehicle, writes the number on a report, collects the fee and issues a pass. At the end of each day the employee places the proceeds and the forms in a bank bag and deposits it in the bank night depository. On Monday the City Secretary retrieves the bag from the bank. The Utility Clerk counts the money and ties it to the

reports and number of passes issued. The Utility Clerk prepares the deposit and the Treasurer delivers the deposit to the bank. The passes issued do not indicate the number of people in the vehicle. The funds collected are for the number of people in the vehicle. The only indication of the number of people in the vehicle is the number written on the report by the employee. We recommend pre-numbered tickets be issued for each person in a vehicle and the number of tickets reconciled to the funds collected.

This information is intended solely for the use of the City Council and management of City of Bandera and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Neffendorf, Knopp, Doss & Company, P.C.
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas