

**THE BOARD OF TRUSTEES OF
THE GALVESTON WHARVES**

FEDERAL SINGLE AUDIT REPORT

Year Ended December 31, 2016

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
FEDERAL SINGLE AUDIT REPORT
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**REPORT OF INDEPENDENT AUDITORS 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***

To the Board of Trustees
of the Galveston Wharves
Galveston, 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 financial statements of The Board of Trustees of the Galveston Wharves (the “Wharves”), a component unit of the City of Galveston, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the Wharves’ basic financial statements and have issued our report thereon dated April 3, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Wharves’ 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 The Wharves’ internal control. Accordingly, we do not express an opinion on the effectiveness of The Wharves’ 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.

To the Board of Trustees
of the Galveston Wharves
Galveston, Texas

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2016-001, that we consider to be a significant deficiency.

Wharves' Response to Finding

The Wharves' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Wharves' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Wharves' 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*.

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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

April 3, 2017
Houston, Texas

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200,
UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT
REQUIREMENTS FOR FEDERAL AWARDS**

To the Board of Trustees
of the Galveston Wharves
Galveston, Texas

Report on Compliance for Each Major Federal Program

We have audited The Board of Trustees of the Galveston Wharves (the “Wharves”) 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 Wharves’ major federal programs for the year ended December 31, 2016. The Wharves’ major federal programs are 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 Wharves’ 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 to 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* 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the Wharves 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 each major federal program. However, our audit does not provide a legal determination of the Wharves’ compliance.

To the Board of Trustees
of the Galveston Wharves
Galveston, Texas

Opinion on Each Major Federal Program

In our opinion, The Wharves complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of The Wharves 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 of compliance, we considered The Wharves' 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 each 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 Wharves' 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Required by the Uniform Guidance

We have audited the financial statements of The Wharves as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Wharves' basic financial statements. We have issued our report thereon dated April 3, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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

To the Board of Trustees
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Galveston, Texas

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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Whitley Penn LLP

April 3, 2017
Houston, Texas

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
a. Material weakness identified?	No
b. Significant deficiency identified that are not considered to be a material weakness?	Yes, #2016-001
Noncompliance material to the financial statements noted?	None

Federal Awards

Internal control over major programs:	
a. Material weakness identified?	No
b. Significant deficiency identified that are not considered to be a material weakness?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 500.516(a)	No
Identification of major programs:	
CFDA Number(s):	Name of Federal Program or Cluster:
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended December 31, 2016

Section II. - Financial Statement Findings

II. Financial Statement Findings

Finding #2016-001 Procurement procedures

Criteria	State procurement guidelines require a bid or other approved purchase method for expenditures over \$25,000.
Condition:	During audit procedures, we noted a vendor being paid that required a bid. The initial contract expired and a new bid and contract were not initiated.
Effect:	Non-compliance with state procurement guidelines.
Cause:	Contract expired with a vendor chosen from a previous bid. The contract expired during a period when there was a change in management and was overlooked.
Recommendation:	Perform a bid process for the services and obtain an new contract

Section III. - Federal Award Findings and Questioned Costs

None noted.

Section IV. - Status of Prior Year Findings and Questioned Costs

No prior year findings

V. Corrective Action Plan

Finding #2016-001 – Procurement Procedures

Description: A bid will be performed for the services or a vendor will be selected through other approved methods.

Responsible Party: Mark Murchison, Director of Finance

Estimated Completion Date: To be completed in 2017.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***Year Ended December 31, 2016***THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***For the year ended December 31, 2016*

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Expenditures
U.S. Department of Homeland Security			
Direct Program			
Port Security Grant Program	97.056	EMW-2014-PU-00635-S01	\$ 772,985
Port Security Grant Program	97.056	EMW-2015-PU-00285-S01	63,469
Total Direct Program			<u>836,454</u>
Passed through Governor's Division of Emergency Management			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	329EM/1791DR	697,134
Total Passed through Governor's Division of Emergency Management			<u>697,134</u>
Total U.S. Department of Homeland Security			<u>1,533,588</u>
Total Federal Awards			<u>\$ 1,533,588</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS

Note 1 - Basis of Accounting

The Wharves account for federal funding using the modified accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Equipment purchases for grant purposes are treated as expenses in the schedule of expenditures of federal awards and typically capitalized for financial statement purposes. Federal grant funds are considered to be earned to the extent of expenses made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The Wharves' has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of the Wharves under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the Wharves, it is not intended to and does not present the financial position, changes in net position or cash flows of the Wharves.