

DATE: April 5, 2016
TO: Invited Parties
FROM: Pamela Hodges, Controller
SUBJECT: Independent Auditing Services

The City of Carrollton, Texas (the “City”) is soliciting proposals from qualified firms of certified public accountants to audit the City’s financial statements for the fiscal years ending 2016 through 2018, with two one-year extensions thereafter.

All questions and correspondence should be directed to either Pamela Hodges, Controller, at pamela.hodges@cityofcarrollton.com or 972/466-3113 or Bob Scott, Chief Financial Officer, at bob.scott@cityofcarrollton.com or (972) 466-3103. All emails to Pam or Bob should also copy Vince Priolo, Purchasing Manager, at vince.priolo@cityofcarrollton.com.

Contact with the City of Carrollton, Texas personnel other than Pamela Hodges or Bob Scott regarding this request for proposal (RFP) must be scheduled through the RFP contacts. Direct contact with the City Council or members of management during the RFP process without following the required protocol may be grounds for elimination from the selection process.

FINANCE



CARROLLTON
T E X A S



CARROLLTON
T E X A S

CITY OF CARROLLTON

GENERAL CONDITIONS

AND

SPECIFICATIONS

FOR

REQUEST FOR PROPOSAL FOR

INDEPENDENT AUDIT SERVICES

RFP # 16-018

**PROPOSALS DUE NO LATER THAN
APRIL 28, 2016 @ 2:00 P.M.**

**BIDS MUST BE SENT TO
CITY OF CARROLLTON PURCHASING DEPARTMENT
2ND FLOOR
1945 E. JACKSON ROAD
CARROLLTON, TEXAS 75006**



CARROLLTON
T E X A S

NOTICE TO BIDDERS

Sealed bids/ Request for Proposal's will be received by the city of Carrollton, Carrollton, Texas, at the office of Vince Priolo, Purchasing Manager, City Hall Building, 1945 E. Jackson Road, Carrollton, Texas 75006-1790 until the hour of 2:00 PM on the 28th day of April, 2016. Bids duly delivered and submitted will be considered for supplying the following:

REQUEST FOR PROPOSAL FOR INDEPENDENT AUDIT SERVICES RFP# 16-018

The submitted bids will be publicly opened on Thursday, **April 28, 2016 at 2:00 PM** at the place designated for the submission of bids.

The term RFP and BID are used as interchangeable terms in this document.

The Owner reserves the right to reject any or all bids and to waive formalities. In case of ambiguity or lack of clearness in stating the price in the bids the Owner reserves the right to consider the most advantageous construction thereof, or to reject the bid.

Any bid received after stated closing time will be returned unopened. If bids are sent by mail to the Purchasing Manager, the bidder shall be responsible for actual delivery of the bid to the Purchasing Manager before the advertised date and hour for opening of bids. If mail is delayed by the postal service, courier service, an ISP – internet service provider or in the internal mail system of the city of Carrollton beyond the date and hour set for the bid opening, bids thus delayed will not be considered and will be returned unopened.

Information concerning the bid specifications may be obtained by contacting the employees listed in the cover letter. Information on the bid process/procedures may be obtained from Vince C. Priolo, Purchasing Manager at (972) 466-3115 or via email at purchasing@cityofcarrollton.com.

Until the final award by the city of Carrollton, said City reserves the right to reject any and/or all bids, to waive technicalities, to re-advertise, to proceed otherwise when the best interests of said City will be realized hereby. Bids will be submitted sealed and plainly marked with the date and time of opening.

City of Carrollton, Texas



Vince C. Priolo
Purchasing Manager

Publication Dates: Sunday, April 3, 2016 & Sunday, April 10, 2016

Opening Date: Thursday, April 28, 2016 @ 2:00 PM

PROPOSAL OF BIDDERS

The term RFP and BID are used as interchangeable terms in this document.

The following bid is made for furnishing the materials/services for the city of Carrollton, Texas.

The undersigned declares that the amount and nature of the materials/services to be furnished is understood and that the nature of this bid is in strict accordance with the conditions set forth and is a part of this bid, and that there will at no time be a misunderstanding as to the intent of the specifications or conditions to be overcome or pleaded after the bids are opened.

The undersigned, in submitting this bid, represents that they are an equal opportunity employer, and will not discriminate with regard to race, religion, color, national origin, age and sex in the performance of this contract.

The undersigned hereby proposes to furnish the items on, F.O.B. Carrollton, Texas, freight pre-paid at the unit prices quoted herein after notice of bid award.

The undersigned affirms that they are duly authorized to execute this contract that this company, corporation, firm, partnership or individual has not prepared this bid in collusion with any other bidder, and that the contents of this bid as to prices, terms or conditions of said bid have not been communicated by the undersigned nor by any employee or agent to any other person engaged in this type of business prior to the official opening of this type of business prior to the official opening of this bid.

**REQUEST FOR PROPOSAL FOR INDEPENDENT AUDIT SERVICES
RFP# 16-018**

Respectfully Submitted,

Please provide a copy of your company's W-9

SIGNATURE

DATE

PRINTED NAME TITLE

COMPANY NAME CONTACT PERSON

MAILING ADDRESS STREET CITY STATE ZIP

PHONE NUMBER (metro/toll free) FAX NUMBER E-MAIL ADDRESS

NO BID: If response is not received in the form of a "Bid" or "No Bid" bidder will be removed from bid list. Please give a specific reason as to why you are unable to bid, i.e.: we do not sell the required product/service. **No bids may be faxed to 972-389-9557 or sent to purchasing@cityofcarrollton.com.**

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Appendices

- A. Single Audit Reports for the Years Ended September 30, 2013, 2014 and 2015
- B. List of Fiscal Year 2015 Client Prepared Audit Schedules
- C. Bond Rating Analysis - Fitch and Standard & Poor'
- D. Biographies of Key Officials
- E. Internal Audit Work Plan
- F. Financial Policies Adopted by the City Council
- G. Conflict of Interest Questionnaire
- H. Certificate of Interested Parties

FINANCE

I. INTRODUCTION

A. Nature of Request

The City of Carrollton, Texas, is requesting proposals from independent CPA firms to perform financial audits of the City for the fiscal years ended September 30, 2016 through 2020. In addition, the City may receive sufficient federal and state grant revenues in a given year to require that a single audit be performed in accordance with federal government requirements. The winning proposer will be awarded an initial contract of three years with the City having the option to extend the contract period an additional two years. The City has no mandatory auditor rotation policy.

Robert B. Scott, C.P.A., Chief Financial Officer/Assistant City Manager, will coordinate the City's working relationship with the independent auditors, and Pamela Hodges, C.P.A., Controller, will assist the auditors on day-to-day contacts during the field work.

To assist in the preparation of the proposal, the following information has been attached as appendices:

- A. Single Audit Reports-Most Recent Three Years
- B. List of Fiscal Year 2015 Client Prepared Audit Schedules
- C. Bond Rating Analysis-Fitch & Moody's
- D. Biographies of Key Officials
- E. Internal Audit Work Plan
- F. Financial Policies Adopted by the City Council

Additionally, the following documents can be obtained on our website at www.cityofcarrollton.com:

- o September 30, 2015 Comprehensive Annual Financial Report - <https://cityofcarrollton.com/index.aspx?page=2218>
- o Official Statements from recent bond issues - <http://cityofcarrollton.com/index.aspx?page=965>
- o Fiscal Year 2016 Annual Budget – <https://cityofcarrollton.com/index.aspx?page=879>

The City has not received a Management Letter from its auditor in over ten years as no significant deficiencies or material weaknesses what been identified. Any opportunities for internal control improvements or increased efficiencies have been insignificant and have been communicated verbally to management.

B. General Information

1. Description of the City

Located in northwest Dallas County and southeast Denton County, Carrollton is only 14 miles from downtown Dallas and 10 miles east of the Dallas-Fort Worth Regional Airport. Carrollton is readily accessible via Interstate Highway 35E on the west, the

Dallas North Tollway on the east, the President George Bush Turnpike and State Highway 121. IH-635 is only two miles south of the city limits. The City encompasses an area of 37 square miles with a population currently estimated at 125,250.

The City provides a full range of municipal services. These services include police and fire protection; sanitation services; the construction and maintenance of streets and infrastructure; parks and recreation; water and sewer; planning and zoning; economic development; and general administrative services.

2. Component Units

Based upon the criterion set forth in generally accepted accounting principles, no other governmental organizations are currently includable with the City's reporting entity.

3. Fund Structure

The City's accounting records are maintained in accordance with accounting principles generally accepted in the United States as promulgated by the Government Accounting Standards Board. Accordingly, the City maintains general, special revenue, debt service and capital projects governmental fund types; enterprise funds and internal service funds. For fiscal year ended September 30, 2015, the City reported the following major governmental funds: General Fund, Debt Service Fund, Street and Drainage Capital Project Fund and General and Public Facilities Capital Project Fund. Additionally, the City's Water and Sewer, Golf Course and Sanitation enterprise funds was reported as major funds.

4. Budget

The City Manager submits to the City Council a proposed operating budget for the fiscal year beginning October 1. The adopted operating budget is legally enacted through passage of an ordinance and represents the proposed fund appropriations. Modifications are made during the mid-year budget review and approved by Council in September. Unencumbered appropriations lapse at the end of the year. Budgeted amounts may be transferred between accounts or divisions by the city manager on a limited basis. The budget, as well as all revenues, appropriations, and encumbrances are recorded in the accounting records.

Approved Fiscal Year 2016 recurring expenditure budgets for the City's major operating and debt service funds are as follows:

General Fund	\$91,247,991
Administrative Services Fund	16,383,584
General Debt Service Fund	21,421,482
Water and Sewer Operating Fund	36,335,572
Sanitation Operating Fund	8,214,429
Golf Course Operating Fund	2,871,116
Fleet Services Fund	3,162,163
Risk Management Fund	2,220,570
Employee Health and Disability Fund	10,820,000

The Administrative Services Fund is consolidated into the General and Water and Sewer funds for Financial Statement presentation.

The City currently has 831.5 budgeted FTE positions. This does not include temporary and seasonal staffing.

The City participates in the Texas Municipal Retirement System and also offers its employees a IRC 457 Deferred Compensation plan.

The City is self-insured as part of a comprehensive risk management program and comprehensive employee health and disability program. These activities are accounted for in their respective internal service fund.

More detailed information on the government and its finances, as well as a summary of significant accounting policies can be found in the City's Comprehensive Annual Financial Report (CAFR).

5. Accounting Process - Related Systems

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise fund are maintained on the accrual basis.

6. Computer Systems

The City's financial, payroll, and Human Resource (HR) systems are Infor Lawson software applications hosted by a third party hosting company, Ciber.

The utility billing is processed with H T E software on an IBM I-series computer. Information from this system does not post automatically to the Lawson system.

The Municipal Courts collections are processed using the Tyler Technology Incode software which, again, does not automatically interface with the Lawson financial system.

The Information Technology area is managed by Xerox Corporation, a private vendor.

The City currently contracts with the Dallas County and Denton County Tax Offices for property tax collection services.

7. Implementation of Accounting Standards

The City is a “Phase I” government as defined by GASB 34 and will generally implement new accounting standards one year prior to the required implementation date.

8. Internal Audit/Fraud Prevention Program

Internal audit with the support of and in conjunction with city management examines and evaluates the adequacy and effectiveness of the City’s system of internal control and the quality of performance in carrying out assigned responsibilities. In order to develop the annual audit plan, the Internal Auditor performs a risk assessment and selects areas for audit based upon the results of the risk assessment.

In order to mitigate the risk of fraud, City Management has developed a fraud prevention program that includes:

- Development of a city wide ethics policy.
- Development of a purchasing manual and charging purchasing with the task of monitoring compliance.
- Requiring Internal Audit to perform a citywide control environment assessment survey.
- Implementing an anonymous hotline for employees to report known or suspected issues.
- Educating the City Council and non-financial management on fraud risk in the City.
- Educating frontline collection employees on proper revenue collection, handling, and depositing techniques.
- Performing a monthly analytical review of revenue collections by revenue item and financial operating results by fund.
- A Grants review Committee headed by the Internal Auditor to review Grant applications to determine desirability of applying and potential compliance issues.

Internal audits performed (see Appendix E) have been essential in detecting and correcting internal control deficiencies before they result in significant financial

losses. The analytical reviews have been useful in detecting and correcting billing rate errors, billing delays, miscoded accounts and journal errors.

9. Organizational Responsibility for the Accounting Function

The Accounting Division falls under the general supervision of the Controller, who reports to the Assistant City Manager/Chief Financial Officer. The Accounting Division is made up of the following staff:

Sr. Accountants	2
Staff Accountant	1
Payroll Coordinator	1
Payroll Clerk	1
GL Clerk	1
AP Clerks	2

II. NATURE OF SERVICES REQUESTED

A. Base Scope of Work to be Performed

For each of the fiscal years covered by the proposal, the audit shall include an examination of the financial statements of all accounts and funds of the City. Such examination shall be made in accordance with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and in accordance with the laws of the State of Texas. These standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The audit shall include examination, on a test basis, of the evidence supporting the amounts disclosed in the basic financial statements.

The City desires the auditor to express an opinion on the fair presentation of its basic financial statements in conformity with generally accepted accounting principles.

The City also desires the auditor to express an “in relation to” opinion on the fair presentation of its combining and individual fund financial statements and schedules in conformity with generally accepted accounting principles. The auditor is not required to audit the introductory, statistical or continuing disclosure sections of the report.

The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.

In addition, the City typically receives sufficient federal and state grant revenues in a given year to require that a single audit be performed in accordance with federal government requirements.

From time to time, the City may request the auditor to perform other audits and reviews or additional work not specifically provided for under this section. If such a request is made, the auditor shall submit, at the City's request, a separate proposal for completing the engagement, along with a proposed fee schedule. The City reserves the right to contract any additional audits or reviews or additional work with whomever they choose.

The Auditor's assistance and consultation will be required in implementing new GASB statements at a date to be determined by the City, even if prior to the required effective date.

Additionally, the auditor will be required to review the City's compliance with requirements of the State of Texas Public Investment Funds Act.

B. Electronic Data Analysis

The City desires the option of incorporating electronic data analysis (data mining) with our annual audit process. This analysis would include analysis of the following data sets:

- Vendor data
- Disbursement data – Detail
- Disbursement data – PO Data
- Disbursement data – Check Register Information
- Disbursement data – Purchasing Card
- Human Resource data
- Payroll data

Analysis should include at least:

- Identification of possible duplicate vendor payments.
- Analysis of Pcard data by employee, accounting unit, vendor and day of week.
- Comparison of vendor and employee data for possible fraudulent vendors, i.e. comparison of addresses, phone numbers.
- Identification of missing and duplicate vendor data, i.e. vendors with same address, phone or tax id number.
- Identification of anomalies in employee data, i.e. employees with same addresses to understand the information for family and reporting relationship within the operations of the City.
- Overtime patterns by employee, department, etc.

C. Auditing Standards to be Followed

To meet the requirements of this request for proposals, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants, the standards for financial audits set forth in the U. S. General Accounting Office's *Government Auditing Standards*, the provisions of the Single Audit Act of 1984 (as amended in 1996) and the provisions of U.S. Office of

Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and as replaced by the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (2 CFR 200) as well as the requirements of the State of Texas Single Audit Circular (State Single Audit) in accordance with *Uniform Grants Management Standards* of the State of Texas.

The CAFR will be prepared by the City in accordance with the most recently issued Governmental Accounting Auditing and Financial Reporting (GAAFR), and the standards promulgated by the Governmental Accounting Standards Board (GASB), in the format and with the content necessary in the opinion of the Auditor and Controller to qualify for the Certificate of Achievement for Excellence in Financial Reporting issued by the Government Finance Officers Association of the U.S. and Canada (GFOA).

D. Reports to be Issued

1. Comprehensive Annual Financial Report (CAFR)

A report on the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States is to be issued.

Reports of examination of the financial statements must:

- (a) state the scope of the examination and that the audit was performed in accordance with generally accepted auditing standards, and
- (b) must include an opinion as to whether the statements conform to accounting principles generally accepted in the United States.

The City retains responsibility for the preparation and printing of the CAFR.

2. Management Letter, if necessary

If necessary, the management letter shall detail audit findings and recommendations affecting financial statements, internal controls, accounting, data processing systems, legality of actions, other instances of noncompliance with laws and regulations, and any other material matters.

The management letter shall be reviewed in draft form with the Controller in order to determine that the observations reflect an accurate understanding of the City's systems and procedures.

The Auditor shall report any significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. In addition, the Auditor shall report

significant opportunities for internal control improvements or increased efficiencies requiring action by City management and/or the City Council.

Additionally, the Auditor shall be required to make an immediate, written report to the City Manager of all material irregularities and illegal acts or indications of illegal acts of which they become aware.

3. Single Audit

The report on compliance with laws and regulations related to major and non-major federal and state financial assistance programs must include a statement that the examination was conducted in accordance with applicable auditing standards. This report should include an opinion on compliance with specific requirements applicable to major federal and state financial assistance programs. The report should indicate compliance with general requirements applicable to major federal and state financial assistance programs and compliance with laws and regulations applicable to non-major federal and state financial assistance program transactions tested. It should address the internal control structure used in administering federal financial assistance programs. Findings of noncompliance or ineligible expenditures must be presented in sufficient detail for management to clearly understand them.

The schedule of federal financial and state assistance and related auditor's report, as well as the reports on the internal control structure and compliance will not be included in the CAFR, but are to be issued separately.

4. Reporting to the City Council Finance/Audit Committee

The Finance/Audit Committee consists of three City Council members.

Auditors shall assure themselves that the City Council Finance/Audit Committee is informed of each of the following:

- a. The auditor's responsibility under generally accepted auditing standards
- b. Significant accounting policies
- c. Management judgements and accounting estimates
- d. Significant audit adjustments
- e. Other information in documents containing audited financial statements
- f. Disagreements with management
- g. Management consultation with other accountants
- h. Major issues discussed with management prior to retention
- i. Difficulties encountered in performing the audit
- j. Material written communications
- k. Independence-related relationships between the firm and the city
- l. Confirmation of audit independence

While the day-to-day coordination of the audit will be performed by city staff, the auditor will be provided contact information for the three Finance/Audit committee

members and will be free to contact committee members at any time. As a sub-committee of City Council all meetings comprising a quorum of the committee are required to be posted 72 hours in advance.

E. Special Considerations

The City has earned the Certificate of Achievement for Excellence in Financial Reporting awarded by the GFOA for the past 26 consecutive years. It is the City's objective to retain the Certificate. The auditors shall provide all reasonable assistance and advice to the City to ensure that the Certificate is retained.

The auditor shall have the City's CAFR reviewed by at least one of the firm's GFOA Special Review Committee members prior to its final printing.

The City currently anticipates it will prepare one or more official statements per year in connection with the sale of debt securities which will contain the basic financial statements and the auditor's report thereon. The auditor shall be required, if requested by the City and/or the underwriter, to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters."

F. Work Paper Retention and Access to Work Papers

All work papers and reports must be retained, at the auditor's expense, for a minimum of five years, unless the firm is notified in writing by the City of the need to extend the retention period. The Auditor will be required to make the work papers available, upon request to representatives of federal and state agencies and of the City.

In addition, the Audit firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review work papers relating to matters of continuing accounting significance.

G. Conferences

The following conferences are to be conducted with the Assistant City Manager/Chief Financial Officer or other City personnel as needed:

1. Entrance conference prior to interim work
2. Exit conference at conclusion of interim work
3. Entrance conference at beginning of fieldwork
4. Progress conferences as requested during fieldwork
5. Exit conference at end of fieldwork
6. Conference when draft copy of management letter (if necessary) is prepared
7. Presentation to City Council Finance/Audit Committee

The audit Partner and/or Manager will be present at the City Council Finance/Audit Committee meeting when the Comprehensive Annual Financial Report is presented to answer any questions of the Committee.

H. Insurance

It is the City’s standard practice when entering into agreements for professional services that the winning bidder maintains the following insurance:

1. Commercial General Liability insurance, including, but not limited to Premises/Operations, Personal & Advertising Injury, Products/Completed Operations, Independent Contractors and Contractual Liability, with minimum combined single limits of \$1,000,000 per-occurrence, \$1,000,000 Products/Completed Operations Aggregate and \$1,000,000 general aggregate. Coverage must be written on an occurrence form. The General Aggregate shall apply on a per project basis.
2. Workers’ Compensation insurance with statutory limits; and Employers’ Liability coverage with minimum limits for bodily injury: a) by accident, \$100,000 each accident, b) by disease, \$100,000 per employee with a per policy aggregate of \$500,000.
3. Business Automobile Liability insurance covering owned, hired and non-owned vehicles, with a minimum combined bodily injury and property damage limit of \$1,000,000 per occurrence.
4. Professional Liability Insurance to provide coverage against any claim which the consultant and all consultants engaged or employed by the consultant become legally obligated to pay as damages arising out of the performance of professional services caused by error, omission or negligent act with minimum limits of \$2,000,000 per claim, \$2,000,000 annual aggregate.

NOTE: If the insurance is written on a claims-made form, coverage shall be continuous (by renewal or extended reporting period) for not less than *thirty-six (36) months* following completion of the contract and acceptance by the City of Carrollton.

III. TIME REQUIREMENTS

A. Proposal Calendar

The following is a list of key dates up to and including the date proposals are due to be submitted:

Due date for proposals	April 28, 2016, 2:00 p.m.
Proposal evaluations	April 29 to May 6, 2016
Finance/Audit Committee interviews	TBD
Selected firm notified (subject to Council approval)	June 1, 2016
Council approval	June 7, 2016

B. Schedule for Fiscal Year Audit

1. Fiscal Year 2016 Audit:

Interim work should be completed no later than the end of September. A detailed audit plan is to be provided to the City at the conclusion of the interim work. This plan will include a list of all schedules to be prepared by City staff and a list of all audit confirmations that are known to be needed at the conclusion of interim work.

It is anticipated that the City's financial records for Fiscal Year 2016 and a draft of the fund level financial statements will be ready for the auditor's examination December 5, 2016. Fieldwork is to begin December 5, 2016 and be completed by December 31, 2016.

City staff will prepare a draft copy of the comprehensive annual financial report. The Auditor is to review this document and assist the City in making changes that will satisfy the requirements of the Certificate of Achievement program. A final comprehensive annual financial report is expected to be printed by City staff in January.

Final reports should be completed and ready for distribution to the City Council Finance/Audit Committee by January 19, 2017. Exit conference with the City Council Finance/Audit Committee around January 23, 2017 should be attended by the Audit Partner and/or Manager.

2. Future Years' Audits:

The engagement letter for each subsequent years' audit should be received by March 31st of each year.

Interim work is to be performed sometime during the months of July through September with completion of all interim work no later than the end of September. The City expects as much advanced notice regarding scheduled audit times as possible.

A detailed audit plan is to be provided to the City at the conclusion of the interim work. This plan will include a list of all schedules to be prepared by City staff and a list of all audit confirmations that are known to be needed at the conclusion of interim work.

It is anticipated that the City's financial records and a draft of the fund level financial statements for the prior fiscal year will be ready for the auditor's examination beginning in late-November (after Thanksgiving). Fieldwork is to begin in early-December and should be completed by the end of December.

City staff will prepare a draft copy of the comprehensive annual financial report. The Auditor is to review this document and assist the City in making changes that will

satisfy the requirements of the Certificate of Achievement program. A final comprehensive annual financial report is expected to be printed by City staff in January of each year. The CAFR and management letter (if necessary) must be presented to the City Council Finance/Audit Committee no later than January 27th. Exit conference with the City Council Finance/Audit Committee should be attended by the Audit Partner and/or Manager.

IV. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

A. Finance Department Assistance

The Finance Department staff and responsible management personnel will be available during the audit to assist the auditor by providing information, documentation and explanations. The preparation of confirmations will be the responsibility of the City. The City Attorney's staff will be available to provide legal counsel pertinent to the audit.

B. Information Technology Assistance

Any requirements for computer time and/or system documentation will be coordinated through the Controller.

C. Prior Audit

Grant Thornton LLP located in Dallas, Texas conducted the audit of the financial records for the fiscal years ended September 30, 2006 through 2015. Grant Thornton LLP has agreed to make their work papers available to the successor auditor at their offices. Requests concerning inspection of previous work papers should be submitted to Joseph McMullen (214) 561-2473, of the Dallas office of Grant Thornton LLP.

D. Statements and Schedules to be Prepared by the Staff of the City

The City will compile, prepare, and type all financial statements, schedules, footnotes, the introductory and statistical sections of the CAFR, the letter of transmittal and management's discussion and analysis. Printing and assembly of the entire report and cover shall be performed by the City. Finance Department work papers are prepared on Microsoft Excel schedules.

The Controller and the Auditor will decide at the interim and fieldwork conferences which work papers are to be prepared by City staff. The City shall have closed and balanced all accounts and have prepared preliminary work papers, subject to subsequent client and audit adjustments, for all funds to be examined by the auditor.

E. Work Area, Telephones, Photocopying and FAX Machines

The City shall provide the space and facilities necessary for the auditor to conduct the examination. In addition, all information, data, reports, and records necessary for carrying out the work shall be furnished to the Auditor, and the City shall cooperate with

the Auditor in every reasonable way to ensure timely completion of the audit. The auditor will also be provided with access to one telephone line, photocopying facilities and FAX machine.

F. Report Preparation

1. CAFR:

The City assumes full responsibility for printing and binding the CAFR, five copies of which will be furnished to the Auditor.

2. Management Letter, if necessary:

The Auditor will prepare and print the management letter, 10 hard copies and a pdf electronic file of which will be furnished to the City.

3. Single Audit:

The Auditor will prepare and print the single audit report, 10 copies and a pdf electronic file of which will be furnished to the City.

4. Communication with the Finance/Audit Committee

The Auditor will prepare and print the required communications with the Finance/Audit Committee, 15 copies and a pdf electronic file of which will be furnished to the City.

V. PROPOSAL REQUIREMENTS

A. General Requirements

1. Inquiries

Request for information about this RFP should be referred to:

Primary:
Pamela Hodges, Controller
1945 E. Jackson Road
Carrollton, Texas 75006
(972) 466-3113
pamela.hodges@cityofcarrollton.com

Secondary:
Bob Scott, Assistant City Manager/Chief Financial Officer
(972) 466-3103
bob.scott@cityofcarrollton.com

Please copy Vince Priolo on any email to the financial staff per instructions in the cover letter.

2. Submission of Proposals

- a. To simplify the review process and obtain the maximum degree of comparison, the proposals should be organized in the following manner:

i. Title Page:

Show the RFP subject, the name of the proposer's firm, local address, telephone number, name of contact person, and the date.

ii. Table of Contents:

Include a clear identification of the material by section and by page number.

iii. Letter of Intent:

A signed letter of intent briefly stating the proposer's understanding of the work to be done and a positive commitment to perform the work within the time period required, should also state why the firm believes itself to be best qualified to perform the engagement and that the proposal is a firm and irrevocable offer for 60 days.

iv. Detailed Proposal

The detailed proposal should follow the order set forth in Section V.B. of this request for proposals.

- b. Proposers should submit 7 copies of the completed proposal to the Purchasing Department, by 2:00 p.m. on April 28, 2016 at the following address. Please mark the "Original" bid as such:

Mailing: Purchasing Department
City of Carrollton
P.O. Box 110535
Carrollton, Texas 75011-0535

Delivery: Purchasing Department
2nd Floor
1945 E. Jackson Road
Carrollton, Texas 75006

If the proposal will be submitted by mail, it must arrive in the Purchasing Department's office no later than the date and time set out above. Hand-carried proposals may be delivered between 8:00 a.m. and 5:00 p.m. Monday

through Thursday and between 8:00 a.m. and 11:00 a.m. on Friday at the address above until the date and time set out above. All proposals, however, must be in a sealed envelope with the proposer's name, address and RFP title shown on the outside.

B. Proposal

The purpose of the proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to undertake an independent audit of the City in conformity with the requirements of this request for proposals. As such, the substance of proposals will carry more weight than their form or manner of presentation. The proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It should also specify an audit approach that will meet the request for proposals requirements.

The proposal should address all the points outlined in the Request for Proposals. The proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the Request for Proposals.

Interested firms are encouraged to use their own preferred style and format in preparing a proposal. However, it is suggested that the proposal include at least the following arranged accordingly.

1. Independence

The firm should provide an affirmative statement that it is independent of the City as defined by the U.S. General Accounting Office's Government Auditing Standards as to relationships between the City and its management and members of your firm, and with regard to any other work performed by the firm for the City which might impair your firm's independence and objectivity.

The firm should also list and describe its professional relationships involving the City or any of its agencies for the past five (5) years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed audit.

2. License to Practice in Texas

An affirmative statement should be included indicating that the firm and all assigned key professional staff are properly licensed to practice in Texas.

3. A statement should be included describing your firm's commitment to Equal Employment Opportunity.

4. Firm Qualifications and Experience

The proposal should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on a full-time and a part-time basis. State whether your firm is local, regional, national or international. State the number of partners, managers, supervisors, seniors and other professional staff employed at the local office. Describe the range of activities performed by the local office such as auditing, accounting, tax service or management advisory services. Describe the local office's capability to audit computerized systems, including the number and classification of personnel skilled in information technology who will work on the audit.

The firm should demonstrate, both locally and firm-wide, a commitment to governments by participation in Special Review Committees of the GFOA Certificate of Achievement and/or other active participation in the governmental accounting standards process.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable.

The Auditor is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

The Auditor shall also provide information on the results of any federal or state desk reviews or field reviews of its local office audits during the past three (3) years. In addition, the Auditor shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations. Please identify any litigation involving the local office.

Indicate the strengths of your firm in general, and more specifically, your local office. Being specific, indicate how your audit philosophy differs from that of other firms. Indicate the strategy for the future of your local office and in what areas you will be investing resources.

Indicate which major clients and local government clients (regardless of size) you have gained/lost in the local office in the past three (3) years and why they were lost. Describe the rate of audit staff turnover in the local office due to resignations or terminations in the past 24 months.

Describe why the City would be important to your firm and to the local office as a client. Discuss your policies regarding staff education and development. Indicate which universities is the major source of new staff for local office.

5. Partner, Supervisory and Staff Qualifications and Experience

The firm should identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement and indicate whether each such person is licensed to practice as a Certified Public Accountant in Texas. Indicate areas of specialty - audit, tax and management advisory services. Indicate the ratio of audit managers and other staff to audit partners in the local office. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit. Include resumes as an appendix. Clearly indicate what specific responsibility each individual will have. Provide information as to what time commitment or workload is presently assigned to each person who will be working on this engagement. The firm should also indicate how the quality of staff over the term of the agreement will be assured.

Indicate your firm's policy in rotating partners and managers. Indicate what commitments your firm will make with respect to accessibility of the partners and managers assigned to our engagement to the City's management and financial employees.

6. Assignment of Auditing Staff and Changes in Assigned Staff

It is understood by the City that the individuals specified in the auditor's proposal are the individuals who will actually do the work associated with the City's audit. The City reserves the right to approve or deny any change to the assigned staff named in the proposal, whether such change occurs prior to or during the engagement. The City shall be provided with a resume of any proposed substitute and shall be given the opportunity to interview that person prior to its decision to approve or disapprove.

7. Similar Engagements with Other Governmental Entities

For the firm's office that will be assigned responsibility for the audit, list all local government audit engagements performed in the last three years. These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, number of years served and manager assigned for most recent year, total hours, whether you continue to serve as auditor, and the name and telephone number of the principal client contact.

8. Specific Audit Approach

Proposers will be required to provide the following information on their audit approach:

- a. Proposed segmentation of the engagement
- b. Level of staff and number of hours to be assigned to each proposed segment of the engagement

- c. Sample sizes and the extent to which statistical sampling is to be used in the engagement
- d. Extent of use of software in the engagement
- e. Type and extent of analytical procedures to be used in the engagement
- f. Approach to be taken to gain and document an understanding of the City's internal control structure including the data processing structure
- g. Approach to be taken in determining laws and regulations that will be subject to audit test work
- h. Approach to be taken in drawing audit samples for purposes of tests of compliance

9. Electronic Data Analysis

Based on the City's desired electronic data analysis as described in Section II. B., proposers should include information on prior experience with electronic data analysis and explain how this could be incorporated as part of the audit process. Information should include how the analysis data would be presented and provided to the City.

10. Additional Information

Any additional information the proposer considers essential to the proposal should be included in this section. If there is no additional information to present, state, "There is no additional information we wish to present."

11. Contractual Arrangements

The contract to be awarded by the City for audit services, as identified in this RFP, will be for a period of three years plus optional two one-year extensions, subject to: 1) an annual review, 2) the satisfactory negotiation of terms (including a price acceptable to both the City and the selected firm) and 3) the annual availability of an appropriation approved by City Council.

The primary purpose of the examination is to express an opinion on the financial statements. Conditions could be discovered which lead to the belief that material errors, defalcations, or other irregularities may exist which require extended services. Please state your understanding of these conditions as part of the proposal submission.

Include certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid and authorized to sign a contract with the City by including the following verbiage:

"I hereby certify that I have read all items of the RFP and fully understand the requirements listed herein. I further certify that I am an authorized agent of the proposing auditor empowered to submit the bid and authorized to sign a contract with the City of Carrollton."

A copy of this RFP, as well as the successful proposal, will be attached to the contract.

12. Compensation

a. Total Maximum Price (not including Electronic Data Analysis)

The proposal should contain all pricing information relative to performing the audit engagement as described in this request for proposal. The total maximum price is to contain all direct and indirect costs of performing the audit in conformance with applicable professional standards including all out-of-pocket expenses. A maximum price for each of the five years should be stated in the RFP response. This estimate for both the current and subsequent years should assume the following:

- i. Any professional standard whether accounting, auditing or regulatory in nature that has been issued as of the date of this RFP will take effect in the fiscal year of the required effective date. GASB pronouncements will be implemented one fiscal year prior to the effective date.
- ii. The impact of new professional standards issued subsequent to this RFP will be negotiable based on the significance of the additional audit hours required.
- iii. Pricing should be based on the assumption of no material weakness or reportable conditions.
- iv. Errors detected during the course of an audit that require the auditor to significantly (defined as a 5% or more impact to total hours) extend audit hours will be negotiable.
- v. Increased audit hours due to the inexperience of assigned personnel or turnover of personnel will not be negotiable.

b. The Total Maximum price should be expressed assuming 1) no internal audit assistance and 2) up to 100 hours of internal audit assistance.

c. The City will not be responsible for expenses incurred in preparing and submitting the proposal. Such costs should not be included in the proposal.

d. Rates by Partner, Specialist, Supervisory and Staff Level and Time Hours Anticipated for Each.

Include a schedule of professional fees and expenses that supports the total maximum price. The cost of special services described in this request for proposals should be disclosed as separate components of the total maximum price.

- e. A separate alternative price should for requested Electronic Data Analysis.
- f. Rates for Additional Professional Services

If it should become necessary for the City to request the auditor to render any additional services to either supplement the services requested in this request for proposals or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the City and the firm. Any such additional work agreed to between the City and the firm shall be performed at the same rates set forth in the schedule of fees and expenses.

13. Conflict of Interest Questionnaire and Certificate of Interested Parties.

The Conflict of Interest Questionnaire in appendix G, if applicable, and the Certificate of Interested Parties in Appendix H should be included. .

VI. EVALUATION PROCEDURES

A. Selection Process

Proposals submitted in response to the RFP, will be reviewed by City staff. Based on this review, interviews with the City Council Finance/Audit Committee, may be scheduled with the firms considered to be the best qualified. Interviews will not necessarily be scheduled with all firms responding to the RFP.

In all interviews held with the auditing firm, the proposed audit partner and manager for the City's engagement and the individual who will have on-site responsibility for the audit (if a person other than the partner or manager) should be present.

Final selection of the auditor will be made by the City Council Finance/Audit Committee and approved by City Council. Although not intended to be all inclusive, following is a list of factors in order of importance which will be considered in making the selection.

1. Extent and quality of the national and local office governmental auditing and accounting experience of the firm, local office and personnel to be involved (i.e., Engagement Team), based on information provided by the firm as well as references of former and present clients, and as evidenced by participation in the GFOA Certificate of Excellence review committee other GFOA, AICPA committees and the standards setting process (40%).
2. Auditor's ability and willingness to meet the requirements and needs of the City with respect to the audit as outlined in this RFP and as demonstrated in the proposal (15%).

3. Proven ability of the firm to meet work schedules, as well as existing and future time commitments of persons assigned to the project and ability to communicate effectively with government officials (20%).
4. Ability to provide additional electronic data analysis requested (10%).
5. Proposed cost as evidenced by billing rates and hours budgeted for each type of position. Although a significant factor, fees charged may not be the dominant factor (15%).

The award of any contract will be made to the firm, which in the opinion of the City Council Finance/Audit Committee, is best qualified based on the criteria listed above.

The City realizes that proposing firms may have local government audit and consulting expertise nationally. While this is important, the City is most interested in local government expertise available in the office from which the audit engagement will be managed and primarily staffed.

The contents of the proposal will be considered confidential information by the City but may be subject to open records requests if submitted.

B. Right to Reject

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the City and the firm selected.

The City reserves the right without prejudice to reject any and all proposals submitted without any obligation or payment for costs incurred by proposing firms. Proposals received late will not be considered. The City reserves the right, where it may serve the City's best interest, to request additional information or clarification from all proposers, to allow corrections of errors or omissions, or to discuss points in the proposal before and after submission, all of which may be used in forming a recommendation. The City reserves the right to waive any and all formalities contained within this request for proposal except for the deadline for filing. Proposals received late will not be considered.

At the discretion of the City, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The City reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected.

Appendix A
Single Audit Reports
Years ended September 30, 2013, 2014 and 2015



CARROLLTON
T E X A S

Schedules of Expenditures of Federal and State Awards and Reports of Independent
Certified Public Accountants

City of Carrollton, Texas

Year ended September 30, 2013

City of Carrollton, Texas

FEDERAL AND STATE FINANCIAL ASSISTANCE PROGRAMS

Year ended September 30, 2013

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**Report of Independent Certified Public Accountants on
Internal Control Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager
City of Carrollton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas, (the “City”) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated January 16, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (“internal control”) to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the City’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 City’s financial statements will not be prevented, or detected and corrected, on a timely basis.

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. Given these limitations, during our audit we did not identify any deficiencies in the City’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

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

GRANT THORNTON LLP

Dallas, Texas
January 16, 2014



Report of Independent Certified Public Accountants on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 and State of Texas Uniform Grant Management Standards Single Audit Circular

The Honorable Mayor, City Council and City Manager
City of Carrollton, Texas

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report on compliance for each major federal and state program

We have audited the compliance of the City of Carrollton, Texas (the “City”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s (*OMB Circular A-133 Compliance Supplement*) and the State of Texas *Single Audit Circular* (SAC) that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2013. The City’s major federal and state 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 the City’s federal and state programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for each of the City’s major federal and state 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas *Single Audit Circular*.

The above-mentioned standards and OMB Circular A-133 and SAC 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 each major federal and state 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on each major federal and state program

In our opinion, the City 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 and state programs for the year ended September 30, 2013.

Report on internal control over compliance

Management of the City is responsible for designing, implementing, 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 City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal and state program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and SAC, 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 or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 or state 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the City's 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 OMB Circular A-133 and SAC. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP

Dallas, Texas
January 16, 2014



**Report of Independent Certified Public Accountants
on the Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133 and
State of Texas Uniform Grant Management Standards Single Audit Circular**

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager
The City of Carrollton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and our report thereon dated January 16, 2014 expressed unmodified opinions on these financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*, and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 and Schedule of Expenditures of State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

GRANT THORNTON LLP

Dallas, Texas
January 16, 2014

City of Carrollton, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant – 2010	14.218	B10-MC-48-0037	\$ 13,775
Community Development Block Grant – 2011	14.218	B11-MC-48-0037	613,860
Community Development Block Grant – 2012	14.218	B12-MC-48-0037	<u>407,118</u>
Total U.S. Department of Housing and Urban Development			1,034,753
U.S. DEPARTMENT OF ENERGY			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-SC0002332	100,000
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Dallas Area Rapid Transit Bus and Bus-Related Facilities Projects	20.500	TX-04-0017	108,296
U.S. DEPARTMENT OF JUSTICE			
Justice Assistance Grant Program Cluster:			
Passed through the City of Dallas			
Edward Byrne Memorial Justice Assistance Grant Program – 2009	16.738	2009-DJ-BX-1444	480
Edward Byrne Memorial Justice Assistance Grant Program – 2010	16.738	2010-DJ-BX-0481	5,430
Edward Byrne Memorial Justice Assistance Grant Program – 2012	16.738	2012-DJ-BX-0199	12,052
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	2009-SB-TX-0969	<u>6,093</u>
Total Justice Assistance Grant Program Cluster			24,055
Other Programs:			
Federal Forfeited Property	16.xxx	n/a	37,660
Bulletproof Vest Partnership Program	16.607	2012-BO-BX-12061027	<u>2,958</u>
Total Other Programs			40,618
Total U.S. Department of Justice			64,673
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Texas Department of Public Safety			
Urban Area Security Initiative – 2010	97.008	10-SR-13024-01	16,211
Urban Area Security Initiative – 2011	97.067	11-SR-13024-01	<u>31,664</u>
Total U.S. Department of Homeland Security			47,875
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Passed through Texas State Library and Archives Commission			
Grants to States	45.310	475-13009	<u>9,230</u>
Total Federal Expenditures			<u>\$1,364,827</u>

The accompanying notes are an integral part of this schedule.

City of Carrollton, Texas

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year ended September 30, 2013

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>State Expenditures</u>
TEXAS DEPARTMENT OF TRANSPORTATION		
Passed through North Central Texas		
Council of Governments		
State Highway 121 Funds – Vandergriff Road	CSJ: 0918-47-022	\$ 357,462
TEXAS DEPARTMENT OF HEALTH		
Passed through North Central Texas Trauma		
Regional Advisory Council		
EMS/Trauma Care System Program	n/a	<u>7,794</u>
Total State Expenditures		<u>\$ 365,256</u>

The accompanying notes are an integral part of this schedule.

City of Carrollton, Texas

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND SCHEDULE OF
EXPENDITURES OF STATE AWARDS**

Year ended September 30, 2013

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards present the activity of all applicable federal and state awards of the City of Carrollton, Texas (the City). Direct federal and state awards and those federal and state awards passed through other government agencies are included in the schedules.

NOTE B - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards are presented using the accrual basis of accounting. 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 *Single Audit Circular*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE C - NON-CASH ASSISTANCE

The City has not received any non-cash assistance, such as commodities, food stamps, or surplus property; insurance provided by a federal or state agency, or federal loans and/or loan guarantees.

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2013

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal and State Awards

Internal controls over major programs:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

CFDA/Grant Numbers Name of Federal or State Program or Cluster

Major Federal Program: 14.218 Community Development Block Grant

Major State Program: CSJ: 0918-47-022 State Highway 121 Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000 for federal programs
\$300,000 for state programs

Auditee qualify as low-risk auditee? Yes

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2013

PART II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The audit disclosed no findings required to be reported.

PART III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AND STATE AWARDS

The audit disclosed no findings required to be reported.

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2013

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

Finding 2012-1

Federal Program: ARRA - Energy and Efficiency and Conservation Block Grant (EECBG)

CFDA: 81.128 Federal Award Number: DE-SC0002332

Award Year: 10/1/2011 – 9/30/2012

Type of Finding: Control Deficiency and Noncompliance - Equipment and Real Property Management

Compliance Requirement: Equipment and Real Property Management

Criteria: Under 2 CFR 215.34, the City is required to maintain equipment records accurately. A physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. An appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

Condition: Equipment purchased with grant expenditures that met the capitalization threshold were not capitalized in the City's fixed asset sub ledger. Therefore, the equipment was not tagged or inventoried.

Questioned Costs: None

Context: The City was unable to provide evidence of physical inventory of equipment.

Cause: The City did not properly review the invoice to determine if the grant expenditure was a capitalizable asset or not.

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2013

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS - CONTINUED

Effect: The absence of a documented physical inventory observation of equipment occurring at least once every two years could result in lost, damaged or destructed equipment going undetected in a timely manner. Lack of documented physical inventory of equipment could also result in the City not identifying equipment for reutilization, upgrades, repairs, or disposal in a timely manner.

Recommendation: We recommend that the City provide adequate training to all personnel responsible for equipment management in regard to this requirement to enforce procedures and ensure compliance with this requirement.

Management's Response: The additions have been properly added to the City's equipment records. These records include notation that these items are grant funded so they will be properly included in the grant related physical inventory observation of equipment occurring at least once every two years.

Current Year Update: All corrective actions were taken in the prior year, no further update.

Finding 2012-2

State Program: State Highway 121

CFDA: n/a State Award Number: CSJ: 0918-47-022

Award Year: 10/1/2011 – 9/30/2012

Type of Finding: Control Deficiency and Noncompliance – Suspension and Debarment

Compliance Requirement: Suspension and Debarment

Criteria: Per Article 12.3 of the Grant Agreement: "The Local Government is prohibited from making any award or permitting any award at any tier to any party with is debarred or suspended or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, Debarment and Suspension. The Local Government and its subcontractors shall include a statement of compliance with Federal and State Debarment and suspension regulations in all Third-party contracts."

Condition: During our testing of the State Highway 121 program, we noted the City did not have evidence that the vendor selected for testing was not suspended or debarred, either by the Excluded Parties List System (EPLS) search or by including vendor certification in the contract.

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2013

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS - CONTINUED

Questioned Costs:	None
Context:	The City was unable to provide evidence that the vendor was not suspended or debarred at the time of contract award.
Cause:	The failure to properly review and document the suspended and debarred parties occurred due to the fact that a city employee (not personnel) was not aware of the requirement.
Effect:	The City could contract with a suspended or debarred vendor.
Recommendation:	We recommend that management develop formal policies and procedures to ensure that the City does not contract with any person that is suspended, debarred, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal agency or that is debarred or suspended by the State. This can include any of three acceptable methods (1) checking the EPLS and clearly documenting this, (2) collecting certifications from vendors, or (3) adding a clause or condition to the covered transactions with vendors.
Management's Response:	The City does have a formal policy requiring Grant Administrators to check and document the EPLS before payment of vendors. The City will reiterate this requirement with all Grant Administrators.
Current Year Update:	The City's Internal Auditor has reiterated this requirement with all Grant Administrators.



CARROLLTON
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Schedule of Expenditures of Federal Awards and Reports of Independent
Certified Public Accountants

City of Carrollton, Texas

Year ended September 30, 2014

City of Carrollton, Texas

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Year ended September 30, 2014

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager
City of Carrollton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas, (the "City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 19, 2015.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 not identify any deficiencies in the City's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

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

GRANT THORNTON LLP

Dallas, Texas
January 19, 2015



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
COMPLIANCE FOR ITS MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

The Honorable Mayor, City Council and City Manager
City of Carrollton, Texas

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

Report on compliance for its major federal program

We have audited the compliance of the City of Carrollton, Texas (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2014. The City'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 the City's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned 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 on compliance for its major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on its major federal program

In our opinion, the City 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, 2014.

Report on internal control over compliance

Management of the City is responsible for designing, implementing, 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 City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on its major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in the City's 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP

Dallas, Texas
January 19, 2015



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/GrantThorntonUS)
twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager
The City of Carrollton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (the "City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and our report thereon dated January 19, 2015 expressed unmodified opinions on these financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

GRANT THORNTON LLP

Dallas, Texas
January 19, 2015

City of Carrollton, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant – 2011	14.218	B11-MC-48-0037	\$ 16,557
Community Development Block Grant – 2012	14.218	B12-MC-48-0037	535,763
Community Development Block Grant – 2013	14.218	B13-MC-48-0037	<u>689,152</u>
Total U.S. Department of Housing and Urban Development			1,241,472
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Dallas Area Rapid Transit Bus and Bus-Related Facilities Projects	20.500	TX-04-0017	73,230
Passed through the Texas Department of Public Safety STEP Impaired Driving Mobilization	20.601	584EGF6234	<u>9,968</u>
Total U.S. Department of Transportation			83,198
U.S. DEPARTMENT OF JUSTICE			
Justice Assistance Grant Program Cluster: Passed through the City of Dallas Edward Byrne Memorial Justice Assistance Grant Program – 2013	16.738	2013-H3945-TX-DJ	10,555
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Texas Department of Public Safety Urban Area Security Initiative – 2013	97.067	13-SR-13024-03	80,000
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Passed through Texas State Library and Archives Commission Texttreasures Grant Program	45.310	LS-00-13-0044-13	1,118
Interlibrary Loan Program – 2013	45.310	n/a	1,754
Interlibrary Loan Program – 2014	45.310	n/a	<u>2,399</u>
Total Institute of Museum and Library Services			<u>5,271</u>
Total Federal Expenditures			<u>\$1,420,496</u>

The accompanying notes are an integral part of this schedule.

City of Carrollton, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2014

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards of the City of Carrollton, Texas (the City). Direct federal awards and those federal awards passed through other government agencies are included in the schedule.

NOTE B - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE C - NON-CASH ASSISTANCE

The City has not received any non-cash assistance, such as commodities, food stamps, or surplus property; insurance provided by a federal agency, or federal loans and/or loan guarantees.

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2014

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal controls over major programs:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

<u>CFDA/Grant Numbers</u>	<u>Name of Federal Program or Cluster</u>
Major Federal Program: 14.218	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualify as low-risk auditee?	Yes

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2014

PART II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The audit disclosed no findings required to be reported.

PART III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

The audit disclosed no findings required to be reported.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

The prior audit disclosed no findings required to be reported.



CARROLLTON
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Schedule of Expenditures of Federal Awards and Reports of Independent
Certified Public Accountants

City of Carrollton, Texas

Year ended September 30, 2015

City of Carrollton, Texas

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Year ended September 30, 2015

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

The Honorable Mayor, City Council and City Manager
City of Carrollton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas, (the “City”) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated January 26, 2016.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (“internal control”) to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the City’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 City’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 not identify any deficiencies in the City’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

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

GRANT THORNTON LLP

Dallas, Texas
January 26, 2016



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Mayor, City Council and City Manager
City of Carrollton, Texas

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report on compliance for its major federal program

We have audited the compliance of the City of Carrollton, Texas (the “City”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2015. The City’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 the City’s federal programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for the City’s major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned 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 on compliance for its major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on its major federal program

In our opinion, the City 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, 2015.

Report on internal control over compliance

Management of the City is responsible for designing, implementing, 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 City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on its major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in the City's 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP

Dallas, Texas
January 26, 2016



Grant Thornton

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4667
T 214.561.2300
F 214.561.2370
GrantThornton.com
linkd.in/GrantThorntonUS
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The Honorable Mayor, City Council and City Manager
The City of Carrollton, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and our report thereon dated January 26, 2016 expressed unmodified opinions on these financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

GRANT THORNTON LLP

Dallas, Texas
January 26, 2016

City of Carrollton, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant – 2013	14.218	B12-MC-48-0037	\$ 6,973
Community Development Block Grant – 2014	14.218	B13-MC-48-0037	<u>931,794</u>
Total U.S. Department of Housing and Urban Development			938,767
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the Dallas Area Rapid Transit Bus and Bus-Related Facilities Projects	20.500	TX-04-0017	15,564
Passed through the Texas Department of Transportation STEP Impaired Driving Mobilization – 2015	20.601	585EGF6366	<u>10,836</u>
Total U.S. Department of Transportation			26,400
U.S. DEPARTMENT OF JUSTICE			
Justice Assistance Grant Program Cluster:			
Passed through the City of Dallas Edward Byrne Memorial Justice Assistance Grant Program – 2014	16.738	2014-H1562-TX-DJ	10,262
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Texas Department of Public Safety			
Urban Area Security Initiative – 2013	97.067	13-SR-13024-02	44,915
Urban Area Security Initiative – 2014	97.067	14-SR 13024-01	36,706
State Homeland Security Program - 2013	97.067	13-SR 13024-01	<u>42,349</u>
Total U.S. Department of Homeland Security			123,970
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Passed through Texas State Library and Archives Commission			
Interlibrary Loan Program – 2015	45.310	n/a	2,078
Special Projects Grant Program	45.310	478-15002	<u>12,034</u>
Total Institute of Museum and Library Services			<u>14,112</u>
Total Federal Expenditures			<u>\$1,113,511</u>

The accompanying notes are an integral part of this schedule.

City of Carrollton, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2015

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards of the City of Carrollton, Texas (the City). Direct federal awards and those federal awards passed through other government agencies are included in the schedule.

NOTE B - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE C - NON-CASH ASSISTANCE

The City has not received any non-cash assistance, such as commodities, food stamps, or surplus property; insurance provided by a federal agency, or federal loans and/or loan guarantees.

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2015

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal controls over major programs:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA/Grant Numbers</u>	<u>Name of Federal Program or Cluster</u>
Major Federal Program: 14.218	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualify as low-risk auditee?	Yes

City of Carrollton, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2015

PART II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The audit disclosed no findings required to be reported.

PART III - FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

The audit disclosed no findings required to be reported.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

The prior audit disclosed no findings required to be reported.



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Appendix C
Bond Rating Analysis - Fitch and Standard & Poor's



CARROLLTON
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Fitch Rates Carrollton, TX's Series 2015 LTGOs 'AAA'; Outlook Stable

Fitch Ratings-Austin-April 16, 2015: Fitch Ratings has assigned an 'AAA' rating to the following Carrollton, Texas (the city) bonds:

--\$42.7 million limited tax general obligation (LTGO) improvement and refunding bonds, series 2015.

The bonds are scheduled for competitive sale the week of April 20. Proceeds will be used for street, traffic, drainage, parks, and public safety improvements as well as to refund certain outstanding maturities for annual debt service savings.

In addition, Fitch affirms the 'AAA' rating on approximately \$161.8 million in outstanding GO improvement bonds (pre-refunding).

The Rating Outlook is Stable.

SECURITY

The bonds are payable from a limited ad valorem tax pledge of \$2.50 per \$100 taxable assessed valuation (TAV) levied against all property within the city.

KEY RATING DRIVERS

DIVERSE ECONOMY: The city's economic base is diverse, led by large manufacturing and distribution concerns and complemented by healthcare and technology. Carrollton's economic base also benefits from its location within the fundamentally strong Dallas-Fort Worth (DFW) metro economy.

GOOD SOCIOECONOMIC INDICATORS: Residents' income and educational attainment levels are above state and national norms and the area continues to register strong job and labor force growth.

SOUND FINANCIAL POSITION: City finances are well managed, characterized by the maintenance of solid financial reserves over a sustained period of time, ample liquidity, strong management practices, and adherence to prudent fiscal policies.

STRENGTHENING AV: Assessed valuation continues to expand after a brief period of moderate, cumulative decline, providing stability in property tax revenues and debt affordability without pressuring tax rates.

MODERATELY HIGH DEBT BURDEN: Overall debt levels are above average for such a highly-rated credit. Future capital needs are manageable and debt is retired swiftly, but Fitch expects continued direct and overlapping debt issuance will keep city debt ratios elevated.

RATING SENSITIVITIES

The city's exemplary 'AAA' rating is most vulnerable to changes in its debt metrics and financial performance. The Stable Outlook reflects Fitch's opinion that such changes are unlikely.

CREDIT PROFILE

Carrollton is located northwest of Dallas along Interstate 35 East, in parts of Dallas, Denton, and Collin counties in the DFW metropolitan statistical area (MSA). The estimated 2015 population is approximately 124,400, a 13.5% increase from 2000 census levels.

DALLAS SUBURB WITH STRONG SOCIOECONOMIC PROFILE

Carrollton is accessible by three major highways and is home to a number of manufacturing, distribution, and service concerns, and serves as the national or regional headquarters for several companies.

The city's labor force exhibits educational attainment above the national standard as measured by the proportion of residents possessing a four-year college degree. Per capita income is about 22% above the state average and 13% above the national average. Full value per capita is strong at \$103,000.

Employment in Carrollton contracted during the recession but is now in its fifth consecutive year of growth. Strong employment growth of 5% in 2014 reduced the unemployment rate to 3.9% in January 2015, down from 5.1% the year prior and below the state and U.S. averages for the same time period (4.6% and 6.1% respectively).

DIVERSE TAX BASE; TRANSIT-ORIENTED DEVELOPMENT CONTINUING

The city's tax base is comprised of about one-half residential and one-fourth each commercial and industrial properties. Assessed values were not immune to the economic downturn and contracted modestly in fiscal 2011 and 2012; however, tax base trends have steadily strengthened since then. TAV rose by nearly 8% to \$10.3 billion in fiscal 2015, bolstered by a variety of commercial/ industrial, retail and medical investment. Management projects 3% TAV growth in fiscal 2016, which appears reasonable to Fitch given development that has occurred and increased building permit trends.

In addition, development around three Dallas Area Rapid Transit (DART) light-rail stations located within the city is continuing. Carrollton's multiple rail lines are expected to facilitate the city's transition to becoming one of three mass transit rail hubs in the DFW MSA.

SOUND FINANCIAL PROFILE BUILT ON PRUDENT MANAGEMENT PRACTICES

Prudent financial policies, conservative budgeting practices, proactive long-term planning, and a responsive management team underpin the city's strong financial profile. Unrestricted/unreserved general fund balance has remained at or above 20% of spending for several years, despite revenue pressure that occurred with the economic downturn and modest fund balance draw-downs for pay-go capital needs.

The city relies significantly on property and sales tax (approximately 35% and 28% in fiscal 2014, respectively) to fund operations, although sales tax reliance is down slightly given the city's recent implementation of an operational funding cap. The capped fiscal 2014 amount of \$23.6 million equaled about 85% of the total sales tax revenue recorded in the general fund. Both revenue streams demonstrated some weakness over the recession, resulting in lower total revenues. However, management reduced expenditures during this period through a combination of furlough days, layoffs, a pay freeze for non-civil service personnel, careful monitoring of hiring, and departmental efficiencies.

SURPLUS RESULTS IN FISCAL 2014

Fiscal 2014 operations yielded a healthy \$2.4 million surplus after transfers (about 3% of spending) in line with prior projections, resulting in an unrestricted general fund balance of \$20.8 million or a solid 22.4% of spending. Notably, these results included about \$10 million in transfers out for capital expenditures.

Such transfers have been increased in recent years and they represented a sizable 8%-10% of budgeted outlays these past three years. Management budgets reserves in excess of its formal 60-day fund balance floor for one-time and/or capital initiatives. The modestly increased transfer in fiscal 2014 was supported by strong sales tax revenue growth of 9% year-over-year, which more than offset operating expenditure growth (before capital transfers) of 5% over fiscal 2013 spending levels.

In recognition of the growth in sales tax revenues and the greater economic sensitivity of this revenue stream relative to other revenue sources, management formally capped the level of sales taxes that are permitted to be used for general fund purposes. This policy requires sales tax revenues in excess of this cap (adjusted annually for inflation) to be transferred out of the general fund and used for non-recurring purposes. Fitch views this as a prudent budgeting strategy.

FAVORABLE REVENUE TRENDS YEAR TO DATE IN FISCAL 2015

The adopted \$88.7 million fiscal 2015 budget operating budget was structurally balanced and includes a manageable 5.5% increase in the level of recurring general fund expenditures from last year's budget. The budget incorporates a 1% net increase in full-time equivalents (FTEs), staff pay increases, higher health insurance costs, and stable pension contributions. The increased spending is supported by increased property tax revenues due to the TAV growth as well as sales tax growth. Management is currently projecting surplus general fund results, after transfers out for non-recurring purposes, due to solid year-to-date revenue performance (sales taxes are up 6% over fiscal 2014 actuals).

MODERATE DEBT BURDEN; RAPID AMORTIZATION

Fitch considers Carrollton's overall debt burden to be elevated on a per capita basis at \$4,605 but moderate relative to full value at 4.5%. The overall debt load stems mainly from the large amount of debt from two local school districts. Inclusive of the current offering, the city maintains a rapid pace of principal amortization (73% retired in 10 years), which Fitch views as a credit strength.

The city has \$62 million in remaining GO authorization, comprised mostly of \$54 million approved by voters in November 2013. The remaining bonds will be structured to limit the peak debt service tax rate to a moderate \$0.226 per \$100 TAV, compared to the current rate of \$0.198, reasonably assuming 1%-3% TAV growth each year through the life of the bonds.

PENSION/OPEB LIABILITIES NOT A CREDIT PRESSURE

The city contributes to the Texas Municipal Retirement System (TMRS), an agent multiple-employer plan. The city's actuarially determined contribution to the plan (\$6.5 million) consumed a manageable 4.8% of fiscal 2014 governmental expenditures. Recent structural and actuarial changes to TMRS have continued to benefit the city's funded position, which now stands at 92% as of the Dec. 31 2013 actuarial valuation compared to 73.2% as of Dec. 31 2009 (using an estimated 7% investment return for both years).

The cost of other post-employment benefits (OPEB) makes up a nominal 0.3% of fiscal 2014 governmental spending, and management took action to reduce its long-term OPEB cost by closing this benefit in fiscal 2009. Only existing employees meeting the age/years of service requirement were allowed to remain in the city-subsidized retiree health plan. Combined debt, pension, and OPEB costs are a manageable 19.4% of fiscal 2014 governmental expenditures and are not expected to further pressure the budget given the modestly descending debt service schedule projected with this issuance and a closed OPEB plan.

Contact:

Primary Analyst
Rebecca C. Moses
Director
+1-512-215-3739
Fitch Ratings, Inc.
111 Congress Ave, Suite 2010
Austin, TX 78701

Secondary Analyst
Leslie Cook
Analyst
+1-212-908-0507

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, the Texas Municipal Advisory Council, and IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

RatingsDirect®

Summary:

Carrollton, Texas; General Obligation

Primary Credit Analyst:

Jennifer K Garza (Mann), Dallas (1) 214-871-1422; jennifer.garza@standardandpoors.com

Secondary Contact:

James M Breeding, Dallas (1) 214-871-1407; james.breeding@standardandpoors.com

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Carrollton, Texas; General Obligation

Credit Profile

US\$42.695 mil GO imp and rfdg bnds ser 2015 dtd 05/01/2015 due 08/15/2035

<i>Long Term Rating</i>	AAA/Stable	New
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Carrollton GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Carrollton, Texas' series 2015 general obligation (GO) improvement and refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term and underlying ratings (SPUR) on the city's existing GO bonds. The outlook is stable.

The bonds are secured by the GO pledge of an ad valorem tax levied within the limits prescribed by law on all taxable property within the city. The city's total tax rate is limited to \$2.50 per \$100 of assessed value (AV) per state statute. At 61.54 cents per \$100 of AV for the total tax rate and 41.74 cents of AV for the operating tax rate, the 2015 tax rate is well below the state's limitations. Bond proceeds will finance various capital improvement projects and refund existing parity debt purely for present value savings.

The rating reflects our assessment of the following factors for the city, specifically its:

- Strong economy, which benefits from participation in the broad and diverse Dallas-Fort Worth metropolitan statistical area (MSA);
- Very strong budgetary flexibility, with 2014 audited reserves at 25% of general fund expenditures;
- Strong budgetary performance;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions with strong policies in place;
- Weak debt and contingent liabilities position, driven mostly by the city's high net direct debt; and
- Strong institutional framework.

Strong economy

We consider Carrollton's economy to be strong with access to the broad and diverse employment base of the Dallas-Fort Worth MSA. The city is located just 14 miles north of Dallas and 10 miles northeast of the Dallas-Fort Worth international airport and has a foreign trade zone designation. The city has three industrial parks and two office parks. The economy encompasses finance, insurance, real estate, construction, technology, manufacturing, and regional/national headquarters. Furthermore, the city is the only city in the North Texas area with a foreign trade zone designation. The city has more than 9,000 businesses and a labor force of more than 70,000. Traditionally, unemployment has tracked below state and national levels; the 2013 rate was 5.9%. Under our criteria, the unemployment rate reflects the weighted average of Denton, Dallas, and Collin counties' unemployment rates based

on the percentage of population in each county. The city's projected per capita effective buying income (EBI) is 124% of the U.S. at 124%, which is in line with the current per capita EBI. Per capita market value improved to \$82,641 from \$78,154 for fiscal 2014, indicating stronger market value growth than population growth. After two years of decline, the city's assessed value (AV) rose 2.3% in fiscal 2013, 5% in 2014, and 7.6% in 2015, to \$10.3 billion. The increase in AV is attributable to recovery of the economy and an increase in economic development. With approximately 545 acres of vacant land ready for development, including 483 acres currently zoned for commercial and industrial use, we expect to see AV grow at a similar pace during the next two years. In our view, the tax base is diverse, with the top 10 taxpayers representing 5.7% of 2015's AV.

Very strong budget flexibility

In our opinion, budgetary flexibility remains very strong, with reserves above 15% of expenditures and in compliance with the city's formal policy of a 60-day reserve for the past several years. The city anticipates reserves for 2015 will improve to 66 days, or about 22% of recurring expenditures. For audited fiscal 2014, reserves grew to \$20.8 million, or 25% of expenditures. The city has historically transferred reserves in excess of its reserve policy to the capital projects funds. There is additional flexibility given that the city could transfer the unrestricted portion of the capital projects funds, at about \$45 million per fiscal 2014 audit, should a contingency arise. The city intends to comply with its 60-day reserve policy, according to its multiyear forecast. The city implemented a sales tax cap policy in fiscal 2013 as a budgeting tool where it views sales tax revenues above the 2013 level (\$23,225,400) and adjusted annually for inflation as nonrecurring revenue that will be transferred to the capital projects funds at year-end. According to management, this sales tax policy helps it prepare and budget frugally in the event of another economic downturn.

Strong budgetary performance

The city's budgetary performance has been strong overall with a 2.9% surplus for the general fund in fiscal 2014, and a surplus of 10% for the total governmental funds (after adjusting for recurring transfers from enterprise funds into the governmental funds for direct and indirect cost reimbursements and adjusting out one-time capital expenditures funded with one-time revenue sources). The city is projecting break-even results for the general fund for fiscal 2015, primarily due to transfers of fund balance in excess of reserve policy, in accordance with its financial policies.

Sales taxes decreased a cumulative 7.1 % from 2008 to 2010, but increased a cumulative 37.8% during fiscal 2011-2014. Year-to-date sales tax receipts are 10.9% over the budget and 5.8% over the prior year's actual amount. Based on recent performance, we do not view the city's sales tax revenues as a significantly volatile revenue stream. We anticipate the city's budgetary performance will remain strong during the next two years and that any decline in net performance will be a result of transfers of excess funds to the capital projects fund.

Very strong liquidity

Very strong liquidity supporting the city's finances, with total government available cash to total governmental fund expenditures and to debt service above 100%. We believe the city has strong access to external liquidity. The city has issued GO bonds, revenue bonds, and combination tax and revenue-supported debt during the past 20 years. In addition, the city has not issued any privately placed or direct purchase loans.

Very strong management

We view management conditions as very strong with "strong" financial practices. The city utilizes extensive planning

and historical trend analysis to project revenues and expenditures. Management has been willing to make intrayear corrections to improve structural budget gaps due to a formalized budget contingency plan, and reports budget performance monthly to the governing body. A formal long-term financial plan includes five-year revenue modeling to identify potential expenditure pressures. The city also maintains a five-year capital improvement program that addresses project needs and resources on an annual basis. The formal investment management policy mirrors state regulations and calls for quarterly reporting of performance to elected officials. The formal reserve policy identifies specific budgetary reserves in the amount of 60 days' annual budgeted general fund expenditures.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is weak, with total governmental funds debt service at 17% of total governmental funds expenditures and net direct debt at 134% of total governmental funds revenue and slated to rise. The expected issuance of about \$42.7 million of debt in the next two years will bring net direct debt to roughly 168% of total governmental funds revenue. The overall net debt burden is 5.6%. Debt amortization is rapid, with 69% of the total principal due to be retired in 10 years.

The city participates in the Texas Municipal Retirement System, which is self-managed; the city has historically made at least 100% of its annual contribution to the pension system. During fiscal 2014, the city contributed \$7 million or 104% of its annual required contribution (ARC). The city's plan was 92% funded as of December 2013, resulting in an unfunded accrued actuarial liability of \$27.9 million. The city provides postemployment medical care benefits to so-called grandfathered retirees through a single-employer, defined-benefit medical plan on a pay-as-you-go basis. This plan was closed in 2009 and replaced with a defined-contribution plan for non-grandfathered employees. Carrollton made 49%, or \$549,000, of its annual required contribution in fiscal 2014. The pension ARC and other postemployment benefit (OPEB) contribution amounted to just 6% of the total governmental funds budget in fiscal 2014.

Strong institutional framework

We consider the institutional framework score for Texas cities strong.

Outlook

The stable outlook reflects the fundamental strength of Carrollton's broad and diverse economy, combined with the city's strong financial management practices and very strong budgetary flexibility. In addition, the outlook reflects our view that overall debt and pension and OPEB obligations will likely remain manageable. We do not anticipate changing the rating in the next two years as we believe the city will consistently maintain very strong budgetary flexibility. While unlikely, a significant deterioration in the debt profile, economic indicators, and financial characteristics could result in a lower rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of April 17, 2015)

Carrollton GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Appendix D
Biographies of Key Officials

CITY MANAGER - Leonard Martin has served as City Manager for the City of Carrollton, Texas since 2001. He is well-known as an influential business strategist with an innovative approach for managing cities as service businesses. With a career in city management that spans nearly four decades, Martin has developed a well-earned reputation for transforming organizational cultures and providing citizens with the highest quality services at the best value.

He holds B.A. and M.A. degrees in Political Science from Midwestern State University, and began his career as a management analyst in his hometown of Wichita Falls, Texas. Martin was recognized as City Manager of the Year in both Missouri and Oklahoma and received the American Society of Public Administration Administrator of the Year Award for the State of Oklahoma.

In recent years, his focus has turned to the issue of affordable healthcare. Martin is Chairman of the Board and a founding member of the Public Employee Benefits Alliance (PEBA), which generates savings for public employers through group buying power. His strong engagement in healthcare issues and visionary leadership has created additional savings for member organizations as the PEBA model continues to grow nationwide.

ASSISTANT CITY MANAGER/CFO - Robert B. (Bob) Scott has served as Chief Financial Officer/Assistant City Manager for over twenty years during which the city has won various awards for financial management. In 2001, he served as Interim City Manager for a five-month period during the recruitment of the current city manager.

He holds a Masters degree in Accounting and a Bachelor of Science degree in Political Science from Texas Tech University. Mr. Scott, a CPA, began his career in public accounting ultimately serving as an audit manager with responsibility for a large number of governmental clients. While in public accounting, he was designated by his firm as a specialist in state and local government and served a two-year practice fellowship with the Governmental Accounting Standards Boards.

Mr. Scott is an active member and speaker for the Government Finance Officers Association, the American Institute of CPA's and has also authored several professional journal articles and an AICPA course of pension accounting. He currently serves on the Streamline Sales Tax (SST) State and Local Government Advisory Committee (SLAC) Steering Committee, the Post-Employment Benefits Taskforce of GASB and the AICPA State and Local Government Expert Panel.

CITY TREASURER - Claudia Gallegos, a CPA, holds a Master Degree in Business Administration with an emphasis in Finance from the University of Dallas, and a Bachelor's degree in Public Accounting from ITESM –Mexico. Ms. Gallegos began her career in public accounting and in internal audit in the private sector. Ms. Gallegos was appointed City Treasurer in April 2015. She has worked for the City of Carrollton since 2007 serving as Senior Accountant for Accounts Payable, Capital Projects and Fixed Assets.

CONTROLLER - Pamela Hodges serves as the Controller for the City overseeing the areas of Accounting, Utility Customer Service, Tax and Revenue Collection, Purchasing and Budget and Management Analysis. Pamela came to the City in March 1995 as the Chief Accountant managing the Accounting Division of Finance. In 1997, her title was changed to Controller and the annual budget process added to her responsibilities. In 2000, her duties were further expanded to include managing Utility Customer Service,

Tax and Revenue Collection and Purchasing. She served as acting Finance Director for five months during 2001.

Prior to coming to the City, Pamela worked in public accounting with KPMG Peat Marwick for six years serving several governmental clients in the Dallas area, including City of Dallas, City of Plano and Collin County. Pamela holds a bachelor's degree from Southwest Texas State University. She is a Certified Public Accountant and is active in the Government Financial Officers Association at the state and national level.

INTERNAL AUDITOR – Muh-Ing Lee is the Internal Auditor for the City of Carrollton. She is responsible for developing and implementing a risk-based internal audit function at the City and provides consulting support to the managers. She chairs the Grant Review Committee and works with departments to ensure grant compliance. Muh-Ing came to the City in October 2007. Prior to coming to the City, she worked for Electronic Data Systems as an Internal Auditor for 10 years. She has extended experience in conducting financial, compliance, process, performance, general IT control environment reviews. At EDS, she also worked with the Fraud Investigation Department on various high profile fraud investigations.

Muh-Ing holds a BS/MS Accounting/Internal Audit Degree and MBA Finance degree from the University of North Texas. She is a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Information System Auditor (CISA) and Certified Management Accountant (CMA).

SENIOR ACCOUNTANT - Diana Salas is the Senior Accountant for the City responsible for general ledger and payroll areas. Diana started with the city in December 1994 on a part time basis. She was hired full time in September 1995 as a staff accountant who prepared reconciliations for cash and other accounts. In October 1996, Diana was promoted to the Capital Projects Accountant responsible for tracking capital project expenditures and budgets. Another responsibility was to update and track fixed asset activity in the City where Diana assisted with GASB 34 requirements for infrastructure during 2001-2002. She also supervised the Accounts payable staff while she was the capital projects accountant. In August 2005, Diana was promoted to the Senior Accountant position. She supervises the staff for payroll and general ledger.

Prior to working in Carrollton, Diana worked in the oil and gas industry for nine years with Mobil Oil Corporation. Diana has a bachelor's degree in accounting from the University of Texas at Dallas.

SENIOR ACCOUNTANT – Jean Piasecki serves as Senior Accountant for the City overseeing Accounts Payable and Capital Project Accounting. Jean started with the the City in June 2015. Prior to coming to the City, Jean worked for Stewart Enterprises, Inc. as the Controller for over 25 years. Jean holds a bachelor's degree in Accounting from Northern Michigan University and is a certified public accountant.

Appendix E
Internal Audit Work Plan
Fiscal Years 2013 to 2016

2013

- City wide Risk Assessment
- Engineer Department Review
- Fleet Contract Review
- Grant Review – 7 grants
- Various small projects – Consulting, issue review, fraud inquiry, franchise fee audit coordination etc.
- Library Discretionary Hours Review

2014

- 8 grants (Federal, State, private grants) were reviewed.
- Procurement compliance activities both grant and non-grant related – various projects.
- Fleet Contract Review.
- Fire department overtime expenses Review
- UBS segregation of duties review
- Detention officer's overtime expenses review.
- Provided various consulting services to the Departments when they seek advices
- Work with Utility Billing Service to improve the compliance of SW haulers and fee monitoring.

2015

- Grant Review and compliance activities. 12 grants (Federal, State, private grants) were reviewed.
- Completed City Wide Risk Assessment.
- Procurement compliance activities.
 - Environmental – CDBG Gazebo project.
 - FEMA disaster grants activities.
 - New grant rules: 2CFR compliance related activities.
- Planning Department's Fee Handling Audit.
- PD detention officer overtime expense management project.
- Completed 9 departments' P-card expense and process reviews.
- Various small projects or consulting services.

2016

- Park Department's P-card review and vendor review – in progress (waiting for management response.)

Planned –

- Grant reviews – As needed
- P-card reviews – 4 Departments
- Accounting Department – Segregation of duties review
- City-wide procurement compliance review/assessment
- Special projects as needed



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Appendix F
Financial Policies Adopted by the City Council
Fiscal Year 2015 Final Results

The Carrollton City Council first adopted the following financial standards in August of 1985.

Operating Funds Standards

Current operating expenditures will not exceed current locally generated revenues.

Comment: Generally, the city should not, in any given fiscal period, spend more than it reasonably expects to receive in income. Excess cash balances should be reserved for unforeseen emergencies and capital expenditures of a non-recurring nature. Routine replacement of capital equipment should be treated as an operating expense for purposes of this standard.

Bonded debt will not be used to fund current expenditures.

Comment: Long-term debt should only be used to finance assets with useful lives equal to or greater than the term of the debt. Exceptions to this general rule are the initial outlays for equipment, fixtures, furniture, etc., required for a new facility. It is also appropriate to capitalize certain operational costs, such as engineering or architectural design, as a part of a facilities construction cost. The payment of legal and fiscal fees associated with a bond issue out of the proceeds of the sale is also appropriate.

Enterprise fund revenues will be sufficient to cover all costs of providing service including indirect cost allocations.

Comment: The city of Carrollton maintains separately a Utility Fund, a Golf Course Fund and a Solid Waste Fund to finance these operations. Each should be self-supporting from revenue sources dedicated to their use.

Transfers out of these funds to the General Fund are budgeted annually to cover the costs of services through a prescribed and established allocation (such as supervision, financial administration, data processing, payroll and benefits management).

Debt Management Funds Standards

No capital project or asset will be financed for a period in excess of the useful life of the asset.

Comment: The city should not pay for any project or equipment item from which it no longer derives benefit or use.

Debt service on net direct debt will be monitored towards a goal of 20-30% of operating revenues.

Comment: Net direct debt is that portion of the City's long-term obligations that are supported by ad valorem tax revenues. Debt that is self-supporting with a pledged non-tax revenue source is excluded from this definition (i.e., Water & Sewer Revenue Bonds). A debt service requirement has the first claim on tax receipts and if that requirement demands a significant amount of total operating revenues, then expenditure flexibility will decline and may affect the City's ability to fund operational programs.

The City will maintain good communications with bond rating agencies about its financial condition.

The City will follow a policy of full disclosure on every financial report and bond prospectus.

Where possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

The City will not use long-term debt for current operations.

Financial Management and Practices

The City will make all capital improvements in accordance with an adopted capital improvement program.

The City will develop a multi-year plan for capital improvements and update it annually.

The City will enact an annual capital budget based on the multi-year capital improvement plan.

Development of the capital improvement budget will be coordinated with development of the operating budget.

The City staff will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the Council for approval.

The Carrollton City Council adopted the following financial standards in February of 2002, and amended them in August of 2006.

Target Fund Balance:

It is the desire of the City to maintain adequate Fund Balances to maintain liquidity and in anticipation of economic downturns. With this in mind, every effort is made to maintain established Target Fund Balances as follows:

<u>Fund</u>	<u>Target</u>
<i>General</i>	<i>60 days of operating expenditures</i>
<i>Utilities</i>	<i>90 days of operating expenditures</i>
<i>Golf</i>	<i>50% of annual debt service</i>
<i>Solid Waste</i>	<i>\$200,000</i>
<i>Risk</i>	<i>1 year of claims net of recoveries</i>
<i>Fleet</i>	<i>Break-even</i>

The Carrollton City Council adopted the following financial standard in February of 2013.

Excess Sales Tax:

Sales tax in excess of \$23,225,400 for fiscal year 2012-13 and adjusted annually for inflation will be transferred to capital projects funds for non-recurring, one-time uses.

Comment: Sales tax is the City of Carrollton's second largest General Fund revenue and also one of its most volatile. It has been the city's experience that rapid increases in sales tax revenues are often followed by rapid declines. Creating a "cap" for the amount of sales tax that can be used in a given year for operating purposes allows the city to manage this volatility, promotes a healthy pay as you go infrastructure re-investment program and protects the city from rapid revenue declines during times of economic downturns.

Informal Financial Policies

The following financial policy has been followed by the city for many years and have been regularly included in the Bond Rating Presentation but has not been formally adopted by the City Council.

Operations to Debt Ratio:

Construction of City assets typically involves a significant commitment to maintain and operate. Accordingly, the City strives to maintain balance in its taxing structure reserving no more than 40% of the tax levy for servicing debt obligations.

Compliance

Staff has made every effort to comply with these policies in their entirety and it is our belief that the fiscal year 2015 results meets all legal and policy requirements except as noted below.

Golf Course Fund Balance – Due to the closure of the Golf Course in May 2015 due to catastrophic flooding, the fund balance for Golf Course Operating Fund fell below the target fund balance of 50% of annual debt service. The fund balance as of September 30 2015 was \$53,484, \$150,331 less than the target. Additionally, the Golf Course Operating Fund received a subsidy transfer of the remaining fund balance in the Golf Fleet Replacement Fund of \$441,640 during fiscal year 2015.



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Appendix G
CONFLICT OF INTEREST QUESTIONNAIRE

Effective January 1, 2006, Chapter 176 of the Texas Local Government Code went into effect which requires that any vendor or person considering doing business with a local government entity disclose in the Questionnaire Form CIQ, the vendor or person's affiliation or business relationship that might cause a conflict of interest with a local government entity. By law, this questionnaire must be filed with the City Secretary of the city of Carrollton not less than the 7th business day after the person becomes aware of facts that require the statement to be filed.

An amendment to this state law went into effect on September 1, 2007, which allows for two changes to the original statute:

1. The conflict of Interest Questionnaire only needs to be bulled out and returned with your bud if you or your company are aware of a conflict, and,
2. If the amount of the conflict exceed \$2,500

It is the responsibility of every vendor filling out and returning this bid to determine if there is a conflict meeting the parameters listed above. If so, **the City of Carrollton requires that this Questionnaire be completed and turned in with your bid.** If there is no conflict, or if the amount of the conflict is less than \$23,500, then you are not required to submit the Questionnaire with your bid.

See Section 176.006, Local Government Code which reads, "A person commits an offense if the person violated Section 176.006, Local Government Code. An offense under this section is a Class C misdemeanor."



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CONFLICT OF INTEREST QUESTIONNAIRE
For vendor doing business with local governmental entity

FORM CIQ

This questionnaire reflects changes made to the law by H.B. 23, 84th Leg., Regular Session.
 This questionnaire is being filed in accordance with Chapter 176, Local Government Code, by a vendor who has a business relationship as defined by Section 176.001(1-a) with a local governmental entity and the vendor meets requirements under Section 176.006(a).
 By law this questionnaire must be filed with the records administrator of the local governmental entity not later than the 7th business day after the date the vendor becomes aware of facts that require the statement to be filed. See Section 176.006(a-1), Local Government Code.
 A vendor commits an offense if the vendor knowingly violates Section 176.006, Local Government Code. An offense under this section is a misdemeanor.

OFFICE USE ONLY	
Date Received	

1 Name of vendor who has a business relationship with local governmental entity.

2 **Check this box if you are filing an update to a previously filed questionnaire.** (The law requires that you file an updated completed questionnaire with the appropriate filing authority not later than the 7th business day after the date on which you became aware that the originally filed questionnaire was incomplete or inaccurate.)

3 Name of local government officer about whom the information is being disclosed.

Name of Officer

4 Describe each employment or other business relationship with the local government officer, or a family member of the officer, as described by Section 176.003(a)(2)(A). Also describe any family relationship with the local government officer. Complete subparts A and B for each employment or business relationship described. Attach additional pages to this Form CIQ as necessary.

A. Is the local government officer or a family member of the officer receiving or likely to receive taxable income, other than investment income, from the vendor?

Yes No

B. Is the vendor receiving or likely to receive taxable income, other than investment income, from or at the direction of the local government officer or a family member of the officer AND the taxable income is not received from the local governmental entity?

Yes No

5 Describe each employment or business relationship that the vendor named in Section 1 maintains with a corporation or other business entity with respect to which the local government officer serves as an officer or director, or holds an ownership interest of one percent or more.

6 Check this box if the vendor has given the local government officer or a family member of the officer one or more gifts as described in Section 176.003(a)(2)(B), excluding gifts described in Section 176.003(a-1).

7

Signature of vendor doing business with the governmental entity

Date

CONFLICT OF INTEREST QUESTIONNAIRE
For vendor doing business with local governmental entity

A complete copy of Chapter 176 of the Local Government Code may be found at <http://www.statutes.legis.state.tx.us/Docs/LG/htm/LG.176.htm>. For easy reference, below are some of the sections cited on this form.

Local Government Code § 176.001(1-a): "Business relationship" means a connection between two or more parties based on commercial activity of one of the parties. The term does not include a connection based on:

- (A) a transaction that is subject to rate or fee regulation by a federal, state, or local governmental entity or an agency of a federal, state, or local governmental entity;
- (B) a transaction conducted at a price and subject to terms available to the public; or
- (C) a purchase or lease of goods or services from a person that is chartered by a state or federal agency and that is subject to regular examination by, and reporting to, that agency.

Local Government Code § 176.003(a)(2)(A) and (B):

(a) A local government officer shall file a conflicts disclosure statement with respect to a vendor if:

(2) the vendor:

(A) has an employment or other business relationship with the local government officer or a family member of the officer that results in the officer or family member receiving taxable income, other than investment income, that exceeds \$2,500 during the 12-month period preceding the date that the officer becomes aware that

(i) a contract between the local governmental entity and vendor has been executed;

or

(ii) the local governmental entity is considering entering into a contract with the vendor;

(B) has given to the local government officer or a family member of the officer one or more gifts that have an aggregate value of more than \$100 in the 12-month period preceding the date the officer becomes aware that:

(i) a contract between the local governmental entity and vendor has been executed; or

(ii) the local governmental entity is considering entering into a contract with the vendor.

Local Government Code § 176.006(a) and (a-1)

(a) A vendor shall file a completed conflict of interest questionnaire if the vendor has a business relationship with a local governmental entity and:

(1) has an employment or other business relationship with a local government officer of that local governmental entity, or a family member of the officer, described by Section 176.003(a)(2)(A);

(2) has given a local government officer of that local governmental entity, or a family member of the officer, one or more gifts with the aggregate value specified by Section 176.003(a)(2)(B), excluding any gift described by Section 176.003(a-1); or

(3) has a family relationship with a local government officer of that local governmental entity.

(a-1) The completed conflict of interest questionnaire must be filed with the appropriate records administrator not later than the seventh business day after the later of:

(1) the date that the vendor:

(A) begins discussions or negotiations to enter into a contract with the local governmental entity; or

(B) submits to the local governmental entity an application, response to a request for proposals or bids, correspondence, or another writing related to a potential contract with the local governmental entity; or

(2) the date the vendor becomes aware:

(A) of an employment or other business relationship with a local government officer, or a family member of the officer, described by Subsection (a);

(B) that the vendor has given one or more gifts described by Subsection (a); or

(C) of a family relationship with a local government officer.

Appendix H
CERTIFICATE OF INTERESTED PARTIES

A new law in the state of Texas went into effect on January 1, 2016, which requires your firm to submit a Form 1295 (Certificate of Interested Parties attached) through the Texas Ethics Commission's website, and a notarized original form as printed from the website to the Town prior to approval of the contract. More information can be found at the following link:

https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

This form must be notarized according to state law, and submitted with your bid response.

CERTIFICATE OF INTERESTED PARTIES

FORM 1295

Complete Nos. 1 - 4 and 6 if there are interested parties.
 Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

OFFICE USE ONLY

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the goods or services to be provided under the contract.

4 Name of Interested Party	City, State, Country (place of business)	Nature of Interest (check applicable)	
		Controlling	Intermediary

5 Check only if there is NO Interested Party.

6 **AFFIDAVIT** I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.

 Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said _____, this the _____ day of _____, 20 _____, to certify which, witness my hand and seal of office.

 Signature of officer administering oath Printed name of officer administering oath Title of officer administering oath

ADD ADDITIONAL PAGES AS NECESSARY