

## **COMPLIANCE SECTION**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council  
City of Lufkin, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas as of and for the year ended September 30, 2009, which collectively comprise the City of Lufkin, Texas' basic financial statements and have issued our report thereon dated January 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Lufkin, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lufkin, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Lufkin, Texas' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS - CONTINUED*

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

*Alexander, Lankford & Hiers, Inc.*

ALEXANDER, LANKFORD & HIERS, INC  
Certified Public Accountants  
Lufkin, Texas  
January 27, 2010

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council  
City of Lufkin, Texas

Compliance

We have audited the compliance of City of Lufkin, Texas with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. City of Lufkin, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Lufkin, Texas' management. Our responsibility is to express an opinion on City of Lufkin, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Lufkin, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Lufkin, Texas' compliance with those requirements.

In our opinion, City of Lufkin, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of City of Lufkin, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Lufkin, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Lufkin, Texas' internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 - CONTINUED

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

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

*Alexander, Lankford & Hiers, Inc.*

ALEXANDER, LANKFORD & HIERS, INC  
Certified Public Accountants  
Lufkin, Texas  
January 27, 2010

**CITY OF LUFKIN, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2009**

GRANT/CONTRACT	FEDERAL CFDA NUMBER	CONTRACT NUMBER PASS - THROUGH GRANTOR'S NUMBER	TOTAL EXPENDITURES
U.S. Department of Housing and Urban Development:			
Passed through Office of Rural Community Affairs:			
Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii	14.228	DRS060052	\$ 27,614
Program and Non-Entitlement Grants in Hawaii	14.228	728251	<u>47,100</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>74,714</u>
U. S. Department of Justice:			
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2008DJBX0731	<u>19,013</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>19,013</u>
U. S. Department of Transportation:			
Passed Through Texas Department of Transportation:			
Highway Planning and Construction	20.205	0911-38-056	170,979
Passed through Texas Parks and Wildlife Department:			
Recreational Trails Program	20.219	-	<u>48,666</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>219,645</u>
U.S. Department of Health and Human Services			
Passed through Deep East Texas Council of Governments and Economic Development District:			
Social Services Block Grant	93.667	-	<u>11,432</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>11,432</u>
U. S. Department of Homeland Security:			
Direct program:			
Assistance to Firefighters Grant	97.044	EMW-2008-FO-01618	288,000
Passed through Governor's Division of Emergency Management-Texas Department of Public Safety:			
Disaster Grants - Public Assistance	97.036	1791-DR-TX	591,257
Disaster Grants - Public Assistance	97.036	1780-DR-TX	2,235
Disaster Grants - Public Assistance	97.036	1786-DR-TX	123,315
Hazard Mitigation Grant	97.039	1606-10-DR-TX	212,545
Passed through Deep East Texas Council of Governments and Economic Development District:			
State Homeland Security Program	97.073	-	<u>48,787</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>1,266,139</u>
U. S. Environmental Protection Agency:			
Passed Through Texas Water Development Board:			
Capitalization Grants for Drinking Water State Revolving Fund	66.468	60452	<u>1,215,000</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>1,215,000</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,805,943</u>

**CITY OF LUFKIN, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2009**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Lufkin, Texas and is presented on 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 represented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Note I to the financial statements for the City of Lufkin, Texas significant accounting policies.

**CITY OF LUFKIN, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended September 30, 2009**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal Control Over Financial Reporting:

Material weakness(es) identified?        Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

Noncompliance material to financial statements noted        Yes   X   No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified        Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

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

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

Identification of major programs:

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
97.036	U.S. Department of Homeland Security: Passed through Governor's Division of Emergency Management - Texas Department of Public Safety, Disaster Grants-Public Assistance
97.044	U. S. Department of Homeland Security-Assistance to Firefighters Grant

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

Auditee qualified as low-risk auditee?   X   Yes        No

**CITY OF LUFKIN, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**For the Year Ended September 30, 2009**

B. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards:

None

C. Findings and Questions Costs for Federal Awards:

PROGRAM	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
None	None	\$ -

**CITY OF LUFKIN, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year ended September 30, 2009**

Prior Audit Finding / Recommendations / Current Status

There were no prior audit findings relating to federal awards.