

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 units, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas as of and for the year ended September 30, 2010, which collectively comprise City of Lufkin, Texas' basic financial statements and have issued our report thereon dated February 3, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

**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***

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*.

This report is intended solely for the information and use of management, the audit committee, 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
February 3, 2011

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

Honorable Mayor and City Council
City of Lufkin, Texas

Compliance

We have audited City of Lufkin, Texas' compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Lufkin, Texas' major federal programs for the year ended September 30, 2010. 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. 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 could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

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

Internal Control Over Compliance

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 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 City of Lufkin, Texas' internal control over compliance.

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

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

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

Alexander, Lankford & Hiers, Inc.

ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
February 3, 2011

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

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/State's Program and Non-Entitlement Grants in Hawaii	14.228	710082	\$ 26,675
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	728251	182,421
Total CFDA Number 14.228			<u>209,096</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>209,096</u>
U. S. Department of Justice:			
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009DJBX1095	24,021
ARRA- Edward Byrne Memorial Justice Assistance Grant Program-Grants to Units of Local Government	16.804	2009SBB92838	98,750
Passed through State of Texas Office of the Governor - Criminal Justice Division:			
ARRA-Violence Against Women Formula Grants	16.588	EF09V302300701	10,961
ARRA-Edward Byrne Memorial Justice Assistance Grant Program-Grants to States and Territories	16.803	SU09A102258201	48,559
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>182,291</u>
U. S. Department of Homeland Security:			
Passed through Governor's Division of Emergency Management-Texas Department of Public Safety:			
Disaster Grants - Public Assistance	97.036	1791-DR-TX	10,979
Disaster Grants - Public Assistance	97.036	1606-DR-TX	86,093
Total CFDA Number 97.036			<u>97,072</u>
Passed through Deep East Texas Council of Governments and Economic Development District:			
State Homeland Security Program	97.073	2008-GE-T8-0034	39,667
Law Enforcement Terrorism Prevention Program	97.074	2007 GE	3,571
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>140,310</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 531,697</u></u>

CITY OF LUFKIN, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2010

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, 2010

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>
14.228	U.S. Department of Housing and Urban Deveopment: Passed through Office of Rural Community Affairs, Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

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, 2010

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:

<u>PROGRAM</u>	<u>FINDING/NONCOMPLIANCE</u>	<u>QUESTIONED COSTS</u>
None	None	\$ -

CITY OF LUFKIN, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2010

Prior Audit Finding / Recommendation / Current Status

There were no prior audit findings relating to federal awards.