

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

SINGLE AUDIT

CITY OF BROWNSVILLE, TEXAS

September 30, 2006

CITY OF BROWNSVILLE, TEXAS

SINGLE AUDIT

September 30, 2006

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FEDERAL SINGLE AUDIT

**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**

The Honorable Mayor and Members of the City Commission
City of Brownsville, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brownsville, Texas (City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2007. 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 the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated February 28, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 28, 2007.

This report is intended solely for the information and use of the City Commission, management, and applicable Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Long Chilton LLP".

LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
February 28, 2007

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

The Honorable Mayor and Members of the City Commission
City of Brownsville, Texas:

Compliance

We have audited the compliance of the City of Brownsville, Texas (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended September 30, 2006. The City's 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 the City's management. Our responsibility is to express an opinion on the City's 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 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City 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, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item FCF 2006-1 and FCF 2006-2.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the City's internal control over compliance with 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.

We noted an instance involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item ICF 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Commission, management, and applicable Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
February 28, 2007

CITY OF BROWNSVILLE, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS
Year Ended September 30, 2006

Source and Title of Grant	Federal CFDA Number	Grant Number	Program Expenditures	
			Grantee	Grantor
Federal Financial Assistance:				
Department of Housing and Urban Development Direct Programs:				
Community Planning and Development:				
Metropolitan Entitlement	14.218	B-05-MC-48-0501	\$	\$ 2,867,783
Metropolitan Entitlement	14.218	B-04-MC-48-0501	\$	\$ 2,172,282
Metropolitan Entitlement	14.218	B-03-MC-48-0501		892,744
Metropolitan Entitlement	14.218	B-01-MC-48-0501		4,699
Total Metropolitan Entitlements			\$	\$ 5,937,508
Emergency Shelter Grants Program	14.231	S-05-MC-48-0501	\$	\$ 147,106
Total Emergency Shelter Grants Program			\$	\$ 147,106
HOME Investment Partnership Program	14.239	M-03-MC-48-0501	\$	\$ 362,975
HOME Investment Partnership Program	14.239	M-02-MC-48-0501		122,750
Total HOME Investment Partnership Program			\$	\$ 485,725
Subtotal			\$	\$ 6,570,339
Pass-through Texas Department of Housing and Community Affairs:				
Emergency Shelter Grants Program	14.231	423386 (06-07)	\$	\$ 13,902
Total Emergency Shelter Grants Program			\$	\$ 13,902
Total Department of Housing and Urban Development			\$	\$ 6,584,241
Department of Justice:				
Office of Justice Programs:				
Justice Assistance Grant		2005-DJ-BX-0291		57,348
Total Justice Assistance Grants			\$	\$ 57,348
Office of Juvenile Justice and Delinquency:				
Juvenile Accountability Incentive Block Grants	16.523	ED-03-J21-16731-03	8,361	12,606
Juvenile Accountability Incentive Block Grants	16.523	ED-03-J21-16731-03	1,862	2,793
Juvenile Accountability Incentive Block Grants	16.523	ED-03-J20-16731-01	14,010	19,433
Juvenile Accountability Incentive Block Grants	16.523	ED-03-J20-16731-01	1,736	2,604
Juvenile Accountability Incentive Block Grants	16.523	ED-03-J20-16731-01	0	29,782
Total Juvenile Accountability Incentive Block Grants			\$	\$ 25,969
Bureau of Justice Assistance:				
Office of National Drug Policy:				
Operation Cash Flow & Firewall	16.58		\$	\$ 3,779
Total Office of National Drug Policy			\$	\$ 3,779
Federal Financial Assistance, Cont'd:				
Department of Justice, Cont'd:				
Pass-through Drug Enforcement Agency:				
Executive Office for Weed and Seed	16.595	2004-SW-Q4-0069	8,626	34,819
Executive Office for Weed and Seed	16.595	2004-SW-Q4-0069	9,835	40,792
Executive Office for Weed and Seed	16.595	2005-WS-Q5-0268	7,224	28,649
Executive Office for Weed and Seed	16.595	2006-WS-Q6-0097	11,405	47,517
Total Office for Weed and Seed			\$	\$ 37,091
Total Department of Justice			\$	\$ 66,839
Department of Transportation:				
Federal Transit Administration:				
Operating Assistance Grant	20.507	TX-90-X672	\$	\$ 1,899,825
Operating Assistance Grant	20.507	TX-90-X713	\$	\$ 0
Total Operating Assistance			\$	\$ 1,899,825

CITY OF BROWNSVILLE, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS
Year Ended September 30, 2006

Source and Title of Grant	Federal CFDA Number	Grant Number	Program Expenditures	
			Grantee	Grantor
Capital Equipment Grant	20.516	TX-37-X018	\$ 13,808	\$ 13,808
Capital Equipment Grant	20.507	TX-90-X468	26,638	114,555
Capital Equipment Grant	20.507	TX-90-X546	1,651	6,605
Capital Equipment Grant	20.507	TX-90-X586	18,078	72,310
Capital Equipment Grant	20.507	TX-90-X635	168,226	67,801
Capital Equipment Grant	20.507	TX-90-X672	12,249	48,950
Capital Equipment Grant	20.507	TX-90-X713	268,730	1,074,916
Capital Equipment Grant	20.513	51521F7199 ED 0501 (21) 42	14,540	58,096
Capital Equipment Grant	20.500	51421F7187 VCR 0401 (21) 624	3,370	13,481
Capital Equipment Grant	20.500	TX-03-0254-00	22,903	91,612
Capital Equipment Grant	20.500	TX-03-0261-00	75	302
Capital Equipment Grant	20.514	TX-26-X7013	1,113	0
Total Capital Equipment			\$ 551,381	\$ 1,562,436
Planning Grant	20.507	TX-90-X713	2,420	9,681
Planning Grant	20.507	TX-90-X672	1,691	6,761
Planning Grant	20.507	TX-90-X635	969	3,874
Total Planning Assistance			\$ 5,080	\$ 20,316
Total Federal Transit Administration			\$ 2,456,286	\$ 2,788,835
Highway Planning and Construction:				
Urban Transportation Study (Sec. 8)	20.205	50-5XXF0021	0	204,948
Urban Transportation Study (Sec. 8)	20.205	50-4XXF0021	0	45,293
Total Highway Planning and Construction			\$ 0	\$ 250,241
Federal Aviation Administration:				
Airport Improvement Program	20.106	3-48-0031-20-01	27,274	252,879
Airport Improvement Program	20.106	3-48-0031-22-02	145,213	315,912
Airport Improvement Program	20.106	3-48-0031-24-03	4,204	44,839
Airport Improvement Program	20.106	3-48-0031-26-04	30,485	356,484
Airport Improvement Program	20.106	3-48-0031-27-05	249,250	1,504,548
Airport Improvement Program	20.106	3-48-0031-31-06	468	8,888
Total Airport Improvement Program			\$ 456,894	\$ 2,483,550
Federal Financial Assistance, Cont'd:				
Department of Transportation, Cont'd:				
National Highway Traffic Safety Administration:				
State and Community Highway Safety:				
Texas Department of Transportation:				
Traffic Signal Maintenance and Operation Provisions	20.600	6152-88-001	\$ 0	\$ 2,565
Traffic Signal Maintenance and Operation Provisions	20.600	6120-060-001	0	30,085
Texas Department of Highways:				
National Maximum Speed Limit - S.T.E.P. Wave	20.600	582XXF6052	\$ 16,617	\$ 59,244
Click It or Ticket - S.T.E.P.	20.600	585XXF6177	2,047	7,753
Click It or Ticket - S.T.E.P.	20.600	585XXF6127	1,718	6,796
Total State and Community Highway Safety			\$ 20,382	\$ 106,443
Total Department of Transportation			\$ 2,933,562	\$ 5,629,069
U.S. Environmental Protection Agency:				
Federal Emergency Management Agency:				
Office of National Preparedness:				
Pass-through Texas Department of Public Safety's				
Division of Emergency Management				
Emergency Management Performance Grants	97.042	2006-EM-E6-0026	\$ 0	\$ 23,853
Emergency Management Performance Grants	97.042	EMT-2005-GE-0025	\$ 0	\$ 23,853
Emergency Management Performance Grants	97.042	EMT-2003-GM-023	0	28,069
Total Federal Emergency Management Agency			\$ 0	\$ 75,775

SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS
Year Ended September 30, 2006

Source and Title of Grant	Federal CFDA Number	Grant Number	Program Expenditures	
			Grantee	Grantor
Department of Health and Human Services:				
Office of Border Health:				
Pass-through Texas Department of Health:				
Border Health	93.000	7460004223B-2001	\$ 0	\$ 160
Total Department of Health and Human Services			\$ 0	\$ 160
Department of Commerce:				
Economic Development Administration:				
Grants for Public Works and Economic Development				
Facilities - Palo Alto National Park	11.300	08-01-03659	\$ 0	\$ 0
World Birding Center	11.300	08-01-03631	6,719	8,552
Total Department of Commerce			\$ 6,719	\$ 8,552
Department of Agriculture:				
Forest Service:				
Urban Forestry Partnership Grant	10.664	02-09-09	\$ 20,778	\$ 20,778
Total Department of Agriculture			\$ 20,778	\$ 20,778
Total Federal Awards Expended				
			\$ 3,027,898	\$ 12,623,399
State Financial Assistance (Note 5):				
Texas Department of Transportation:				
Texas Automobile Theft Prevention Authority		SA-T01-10041-06	294,348	447,683
Texas Automobile Theft Prevention Authority		SA-T01-10041-07	27,775	38,158
U.S. 77/83 - ROW Acquisition		0039-16-059	3,099	96,873
Operating Assistance Grant		51621F7045-URB 0601	\$ 0	\$ 593,637
Total Texas Department of Transportation			\$ 325,222	\$ 1,176,351
Texas Commission on Environmental Quality:				
Solid Waste Education Grant		05-21-G12	119	6,039
Total Texas Commission on Environmental Quality			\$ 119	\$ 6,039
Texas Water Development Board:				
Water Grant - STATE		2002-483-447	0	3,835
			\$ 0	\$ 3,835
Texas State Library & Archives Commission:				
Gates "Staying Connected" Grant		431-06003	\$ 4,607	\$ 9,222
Lone Star Libraries Grant		442-06059	5,840	11,758
Total Texas State Library & Archives Commission			\$ 10,447	\$ 20,980
U.S. Department of Homeland Security:				
Texas Security Administration:				
Supporting Host Agency FY 06		DTSA20-03-P-01415	\$ 0	\$ 50,188
Supporting Host Agency FY 05		DTSA20-03-P-01415	0	35,811
Supporting Host Agency FY 04		DTSA20-03-P-01415	0	33,902
Supporting Host Agency FY 03		DTSA20-03-P-01415	0	13,243
Supporting Host Agency FY 03		DTSA20-02-P-50111	0	27,037
Supporting Host Agency FY 02		DTSA20-02-P-50111	0	16,696
Total Texas Security Administration			\$ 0	\$ 176,877
Texas Department of Public Safety:				
Texas Engineering Extension Service:				
State Homeland Security Grant FY 06		2004-LETPP-10768	\$ 0	\$ 88,202
State Homeland Security LETPP & SHSP FY 06		2004-SHSP-10768	0	266,587
State Homeland Security SHSP FY 07		2005-HSGP-10768	0	191,113
Total Texas Engineering Extension Service			\$ 0	\$ 545,903
Office of the Comptroller:				
Comptroller of Public Accounts				
Tobacco Compliance FY 05			0	5,961
Total Texas Engineering Extension Service			\$ 0	\$ 5,961

CITY OF BROWNSVILLE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL/STATE AWARDS

Year Ended September 30, 2006

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal/State Awards presents the activity of federal/state expenditures of programs of the City of Brownsville, Texas (City), except for programs administered by the Public Utilities Board of the City of Brownsville, Texas. The City of Brownsville reporting entity is defined in Note 1(a) to the City's basic financial statements.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal/state awards is presented using the modified accrual basis of accounting for federal/state awards reflected in the City's governmental fund types and the accrual basis of accounting for federal/state awards reflected in the City's proprietary fund types.

NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal/state award expenditures as reported in the accompanying schedule of expenditures of federal/state awards are reflected in the City's financial statements as expenditures with respect to governmental funds and expenses or capital asset additions with respect to proprietary funds.

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related Federal and state financial reports filed with the grantor agencies because of the effect of accruals made in the schedule.

NOTE 5 - TEXAS DEPARTMENT OF TRANSPORTATION MATCHING GRANTS

The following state contracts provide the grantor matching contributions and expenditures for the Federal Transit Administration grants noted:

<u>State Contract #</u>	<u>Federal Transit Administration Grant Number</u>	<u>Grantor Program Expenditures</u>
51621F7045	TX-90-X635 (Operating Assistance)	\$ 593,637

CITY OF BROWNSVILLE, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2006

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes 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 No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
14.239	HOME Investment Partnerships Program
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs \$ 469,539

Auditee qualified as low-risk auditee? Yes No

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Reportable Conditions in Internal Control

No matters were reported.

B. Compliance Findings

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants CFDA #14.218

Program Income

FCF 2006-1

Finding:

A control deficiency exist within the City's Planning and Community Development Department and it's loan receipts and reconciliation process. Loan payments are received on a daily basis and posted through the City's cash receipting system to an escrow account. However, the method of recognizing program income and posting to individual loan accounts is a manual process and is only done on a quarterly basis. This limits management's ability to assess the availability of program income and to identify loan non-payments or other deficiencies on a timely basis.

Recommendation:

The City's should implement internal controls that require monthly loan reconciliation process.

Department of Housing and Urban Development
Community Development Block Grants/Entitlement Grants CFDA #14.218

Program Income

FCF 2006-2

Finding

The Community Development Corporation of Brownsville (CDCB) transferred several notes to be maintained by the City at different times throughout the year. The program income derived from loan payments during the period prior to the transfer of the notes was not passed on to the City. The amount of program income owed to the City is yet to bet determined.

Recommendation

The City is currently pursuing a resolution to the reported finding in the prior the prior year. See FCF 2005-1.

Procurement/Suspension/Debarment

ICF 2006-1

Finding

The City has not implemented any internal controls to ensure that contracted parties receiving awards of \$25,000 or more are not suspended or debarred by verifying the U.S General Services Administration's Excluded Party System (EPLS).

Recommendation

Implement procedures that document the verification of contracted parties status on the EPLS system.

CITY OF BROWNSVILLE, TEXAS

CORRECTIVE ACTION PLAN
Year Ended September 30, 2006

FCF 2006-1

Finding:

A control deficiency exist within the City's Planning and Community Development Department and it's loan receipts and reconciliation process. Loan payments are received on a daily basis and posted through the City's cash receipting system to an escrow account. However, the method of recognizing program income and posting to individual loan accounts is a manual process and is only done on a quarterly basis. This limits management's ability to assess the availability of program income and to identify loan non-payments or other deficiencies on a timely basis.

Corrective Action Plan

The City will work closely with the MIS and Finance Department to correct this finding. The City Planning and Community Development Department will purchase Loanbase software that will address all of the concerns regarding control deficiency. The city will obtain this software by the end of the fiscal year. The Planning and Community Development Department has also hired a staff person to monitor these accounts and work with the Finance Department on a daily basis on accounting for all program income.

FCF 2006-2

Finding

The Community Development Corporation of Brownsville (CDCB) transferred several notes to be maintained by the City at different times throughout the year. The program income derived from loan payments during the period prior to the transfer of the notes was not passed on to the City. The amount of program income owed to the City is yet to be determined.

Corrective Action Plan

The City is working with HUD, consulting attorneys and staff to correct this finding. HUD and the City will be meeting in early May 2007 to discuss the status of this finding. The City's OMB A-133 auditing firm will finalize the program income owned by CDCB. This final information will be included in the prepared agreements by our attorney and submitted to the U.S. Department of Housing and Urban Development for approval.

ICF 2006-1

Finding

The City has not implemented any internal controls to ensure that contracted parties receiving awards of \$25,000 or more are not suspended or debarred by verifying the U.S General Services Administration's Excluded Party System (EPLS).

Corrective Action Plan

The City, through its Purchasing Department has implemented the practice of including federally approved forms that bid respondents must execute affirming that they are not on the federal listing of suspended or debarred firms. Formerly the bid documents stated that firms must not be on suspended or debarred lists in order to be eligible for contract award. Respondents attested that they were eligible in their execution of the entire bid document submittal.

CITY OF BROWNSVILLE, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended September 30, 2006

FCF 2005-1

Finding:

The Community Development Corporation of Brownsville (CDCB) transferred several notes to be maintained by the City at different times throughout the year. The program income derived from loan payments during the period prior to the transfer of the notes was not passed on to the City. The amount of program income owed to the City is yet to be determined.

Corrective Action Taken:

The finding is still in the process of being resolved.

ICF 2005-1

Finding:

The City originally submitted the Financial Status Report (FSR) for the World Birding Center Project for fiscal year 2005 using expenditure amounts which included various other projects. The FSR's for the fiscal years 2004 and 2005 were subsequently amended, however the expenditures reported were completed with incorrect information. The final expenditures amounts have not been formalized by the lead engineer in charge of the project as of March 8, 2006.

Corrective Actions Taken:

The City implemented internal controls to ensure the accuracy of the reporting process. There were no findings of non-compliance in the current year.

STATE SINGLE AUDIT

**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**

The Honorable Mayor and Members of the City
Commission City of Brownsville, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brownsville, Texas (City), as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2007. 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 the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated February 28, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 28, 2007.

This report is intended solely for the information and use of the City Commission, management, and applicable Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
February 28, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH STATE OF TEXAS SINGLE AUDIT CIRCULAR**

The Honorable Mayor and Members of the City Commission
City of Brownsville, Texas:

Compliance

We have audited the compliance of the City of Brownsville (City) with the types of compliance requirements described in the *State of Texas Single Audit Circular* that are applicable to each of its major State programs for the year ended September 30, 2006. The City's major State 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 State programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's 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 State of Texas Single Audit Circular, *Audits of Local Governments and Organizations Which are Providers Expending any State Awards Under Federal Block Grants*. Those standards and State of Texas Single Audit Circular 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 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major State 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 State of Texas Single Audit Circular.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in

relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of State Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2006, which collectively comprise the City's basis financial statements and have issued our report thereon dated February 28, 2007.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of State awards is presented for purposes of additional analysis as required by State of Texas Single Audit Circular and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Commission, management, and applicable State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
February 28, 2007

CITY OF BROWNSVILLE, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2006**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

State Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes 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 the State Circular? Yes No

Identification of major programs:

<u>Grant Number(s)</u>	<u>Name of State Program or Cluster</u>
10768	State Homeland Security Grant
SA-T01-10041-06/07	South Texas Auto Theft

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

Auditee qualified as low-risk auditee? Yes No

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Reportable Conditions in Internal Control

No matters were reported.

B. Compliance Findings

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS FOR STATE AWARDS

No matters were reported.

CITY OF BROWNSVILLE, TEXAS

**CORRECTIVE ACTION PLAN
Year Ended September 30, 2006**

No matters were reported in the current fiscal year.

CITY OF BROWNSVILLE, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended September 30, 2006

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from the prior audit's Summary of Prior Audit Findings.