

CITY OF PEARLAND, TEXAS
FEDERAL SINGLE AUDIT REPORT
For the Year Ended September 30, 2018

CITY OF PEARLAND, TEXAS
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INDEPENDENT AUDITORS' 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

To the Honorable Mayor and
Members of City Council
City of Pearland, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pearland, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 25, 2019.

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 determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's 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 internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and
Members of City Council
City of Pearland, Texas

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 communication is not suitable for any other purposes.

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

Houston, Texas
March 25, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE *UNIFORM GUIDANCE***

To the Honorable Mayor and
Members of City Council
City of Pearland, Texas

Report on Compliance for Each Major Federal Program

We have audited City of Pearland, Texas' (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2018. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its awards applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards, and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

To the Honorable Mayor and
Members of City Council
City of Pearland, Texas

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and
Members of City Council
City of Pearland, Texas

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated March 25, 2019, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such 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 taken as a whole.

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

Houston, Texas
March 25, 2019

CITY OF PEARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended September 30, 2018

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	None

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
Highway Planning and Construction Cluster:	
Mykawa Road	20.205
Green Tee Trail	20.205
Shadow Creek Ranch Trail	20.205
Max Road	20.205
Fite Road	20.205
CDBG - Entitlement Grants Cluster:	
Community Development Block Grant	14.218
Dollar Threshold Considered Between Type A and Type B:	\$750,000
Auditee qualified as low risk auditee?	Yes

CITY OF PEARLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended September 30, 2018

II. Financial Statement Findings

There are no current year findings.

III. Federal Award Findings and Questioned Costs

There are no current year findings.

CITY OF PEARLAND, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct:			
<i>CDBG - Entitlement Grants Cluster:</i>			
Community Development Block Grant 2014	14.218	B-16-MC-48-0400	\$ 58,784
Community Development Block Grant 2015	14.218	B-17-MC-48-0400	142,661
<i>Total CDBG - Entitlement Grants Cluster</i>			<u>201,445</u>
Total U.S. Department of Housing and Urban Development			<u>201,445</u>
U.S. Department of Justice			
Direct:			
Organized Crime Drug Enforcement Task Force	16.000	N/A	3,198
Asset Forfeiture & Equitable Sharing Program	16.922	TX0201000	31,439
Passed-through the Texas Office of the Governor:			
Victims of Crime Act	16.804	23623-07	126,473
Total U.S. Department of Justice			<u>161,110</u>
U.S. Department of Transportation			
Passed-through the Texas Department of Transportation:			
<i>Highway Planning and Construction Cluster:</i>			
Mykawa Road	20.205	CSJ - 0912-00-543	317,993
Green Tee Trail	20.205	CSJ - 0912-31-291	225,368
Shadow Creek Ranch Trail	20.205	CSJ - 0912-31-292	44,258
Max Road	20.205	CSJ - 0912-31-273	4,038,177
Fite Road	20.205	CSJ - 0912-31-272	1,329,192
<i>Total Highway Planning and Construction Cluster</i>			<u>5,954,988</u>
Total U.S. Department of Transportation			<u>5,954,988</u>
U.S. Department of Treasury			
Direct:			
Asset Forfeiture & Equitable Sharing Program	21.016	N/A	36,561
Total U.S. Department of Treasury			<u>36,561</u>
U.S. Environmental Protection Agency			
Passed through Texas Water Development Board:			
<i>Drinking Water State Revolving Fund Cluster:</i>			
Drinking Water State Revolving Fund (DWSRF)	66.468	L1000612	7,087,131
<i>Total Drinking Water State Revolving Fund Cluster</i>			<u>7,087,131</u>
Total U.S. Environmental Protection Agency			<u>7,087,131</u>
U.S. Executive Office of the President			
Direct:			
High-Intensity Drug Trafficking Area (HIDTA)	95.001	N/A	11,801
Total U.S. Executive Office of the President			<u>11,801</u>
U.S. Department of Homeland Security			
Passed through Texas Department of Public Safety - Division of Emergency Management:			
Emergency Management Performance Grants	97.042	18TX-EMPG-0328	38,343
Total U.S. Department of Homeland Security			<u>38,343</u>
Total Expenditures of Federal Awards			<u><u>\$ 13,491,379</u></u>

CITY OF PEARLAND, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Basis of Accounting

The City accounts for awards under federal programs in the general and special revenue governmental funds.

In the governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets. The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2018. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Note 3 - Outstanding Loans

The City has outstanding loan commitments under the Clean Water State Revolving Loan Fund (CFDA #66.458) and Drinking Water State Revolving Loan Fund (CFDA #66.468) from the Texas Water Development Board, as a pass-through agency for the Environmental Protection Agency. As of September 30, 2018, the outstanding loan payable balances were:

Series	Fund	Outstanding Balances
2016B	Clean Water	\$ 8,635,000
2016C	Clean Water	46,380,000
2017A	Drinking Water	9,220,000
2017B	Drinking Water	11,685,000
2018A	Drinking Water	8,650,000

CITY OF PEARLAND, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2018

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None reported

CITY OF PEARLAND, TEXAS
CORRECTIVE ACTION PLAN
For the Year Ended September 30, 2018

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

I. Corrective Action Plan

Not applicable