

City of Pearland, Texas

Single Audit Reports

September 30, 2020

City of Pearland, Texas
September 30, 2020

Contents

Schedule of Expenditures of Federal Awards.....	1
Notes to the Schedule of Expenditures of Federal Awards	3
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report.....	4
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 – Independent Auditor’s Report	6
Schedule of Findings and Questioned Costs.....	9
Summary Schedule of Prior Audit Findings.....	18

City of Pearland, Texas
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct Programs				
<i>CDBG – Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218		\$ -	\$ 11,562
Community Development Block Grants/Entitlement Grants	14.218		-	57,644
Total CDBG – Entitlement Grants Cluster			<u>-</u>	<u>69,206</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>69,206</u>
U.S. Department of Justice				
Passed through Office of the State Governor of Texas				
Victim of Crime Act (ZCJD20)	16.804	23623-08	-	142,797
Equitable Sharing Program	16.922	TX0201000	-	70,967
Total U.S. Department of Justice			<u>-</u>	<u>213,764</u>
U.S. Department of Transportation				
Passed through Texas Department of Transportation				
<i>Highway Planning and Construction Cluster</i>				
Max Road (TR1205)	20.205	CSJ - 0912-31-273	-	165,234
Hughes Ranch Road (TR1201)	20.205	CSJ - 0912-31-311	-	6,886,915
Green Tee Trails (PK1402)	20.205	CSJ - 0912-31-291	-	1,367,430
Shadow Creek Ranch Trails (PK1401)	20.205	CSJ - 0912-31-292	-	814,942
Total Highway Planning and Construction Cluster			<u>-</u>	<u>9,234,521</u>
Total U.S. Department of Transportation			<u>-</u>	<u>9,234,521</u>
U.S. Department of Treasury				
Passed through Texas Department of Emergency Management				
COVID-19 - Coronavirus Relief Fund	21.019	N/A	-	5,361,182
Direct Program:				
Equitable Sharing	21.016		-	70,967
Total U.S. Department of Treasury			<u>-</u>	<u>5,432,149</u>
U.S. Environmental Protection Agency				
Passed through Texas Water Development Board				
<i>Drinking Water State Revolving Fund (DWSRF) Cluster</i>				
Capitalization Grants for Drinking Water State Revolving Funds (Meter Change-out WA1702)	66.468	L1000612	-	5,975,386
Capitalization Grants for Drinking Water State Revolving Funds (SWP WA1605)	66.468	L1000612	-	17,851,162
Total Drinking Water State Revolving Fund (DWSRF) Cluster			<u>-</u>	<u>23,826,548</u>
Total U.S. Environmental Protection Agency			<u>-</u>	<u>23,826,548</u>

City of Pearland, Texas
Schedule of Expenditures of Federal Awards (continued)
Year Ended September 30, 2020

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Homeland Security				
Passed through Texas Department of Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	039-56348-00	-	1,506,618
Staffing for Adequate Fire and Emergency Response Program (SAFER)	97.083	EMW-2018-FH-00545	-	403,571
Total U.S. Department of Homeland Security			-	1,910,189
Executive Office of the President				
Passed through Drug Enforcement Agency High Intensity Drug Trafficking Areas Program	95.001	N/A	-	99
Total Executive Office of the President			-	99
U.S. Department of Interior				
Passed through from Office of National Drug Control Policy (ONDCP) Organized Crime Drug Enforcement Task Force	15.668	N/A	-	2,826
Total U.S. Department of Interior			-	2,826
Total Federal Awards Expended			\$ -	\$ 40,689,302

City of Pearland, Texas
Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

Note 1: Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Pearland, Texas (the City) under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the 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). 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.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or other applicable guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City reports expenditures of federal awards for amounts provided to subrecipients when paid in cash. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The City has outstanding loan commitments under the Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458) and Capitalization Grants for Drinking Water State Revolving Funds (CFDA 66.468) from the Texas Water Development Board, as a pass-through agency for the Environmental Protection Agency. As of September 30, 2020, the outstanding loan payable balances were:

Program Title	Federal CFDA Number	Loan Balance September 30, 2020
Clean Water State Revolving Funds: Series 2016 B	66.458	\$ 6,170,000
Clean Water State Revolving Funds: Series 2016 C	66.458	42,660,000
TWDB Drinking Water State Revolving Funds: Series 2017 A	66.468	7,200,000
TWDB Drinking Water State Revolving Funds: Series 2017 B	66.468	11,005,000
TWDB Drinking Water State Revolving Funds: Series 2018 A	66.468	8,070,000
TWDB Drinking Water State Revolving Funds: Series 2019 A	66.468	20,300,000
TWDB Drinking Water State Revolving Funds: Series 2020 A	66.468	107,600,000

**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**

Independent Auditor's Report

Audit Committee and City Council
City of Pearland, Texas
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 the City of Pearland, Texas (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 10, 2021, which contained an "Emphasis of Matter" paragraph regarding a prior period restatement.

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) as a basis for designing 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 entity'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.

Audit Committee and City Council
City of Pearland, Texas

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, 2020-003 and 2020-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pearland, Texas'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 financial statements. 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*.

City's Response to the Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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

BKD, LLP

Houston, Texas
May 10, 2021

**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**

Independent Auditor's Report

Audit Committee and City Council
City of Pearland, Texas
Pearland, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Pearland, Texas's (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, 2020. 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 federal awards applicable to its 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.

Audit Committee and City Council
City of Pearland, Texas

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.

Opinion on Each 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 programs for the year ended September 30, 2020.

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 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 requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. 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.

Audit Committee and City Council
City of Pearland, Texas

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pearland, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City’s basic financial statements. We issued our report thereon dated May 10, 2021, which contained an unmodified opinion on those financial statements and an “Emphasis of Matter” paragraph regarding a prior period restatement. Our audit was conducted for the purpose of forming 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 additional 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 as a whole.

BKD, LLP

Houston, Texas
May 10, 2021

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

8. The threshold used to distinguish between Type A and Type B federal programs was \$1,220,679.
9. The Organization qualified as a low-risk auditee? *Yes* *No*

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2020-001	<p>Finding: Accrued Revenues and Liabilities</p> <p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that all accrued revenues and liabilities are properly recorded. Accounting principles generally accepted in the United States of America (US GAAP) that address the proper recognition and accounting of accrued revenues and liabilities include:</p> <ul style="list-style-type: none"> • Governmental Accounting Standards Board (GASB) Statement No. 34, <i>Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments</i> • GASB Statement No. 33, <i>Accounting and Financial Reporting for Nonexchange Transactions</i> • GASB Statement No. 62, <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 23</i> • GASB Statement No. 10, <i>Accounting and Financial Reporting for Risk Financing and Related Insurance Issues</i> (GASB Cod. sec. C50), as amended by GASB Statement No. 30, <i>Risk Financing Omnibus, an amendment of GASB Statement No. 10</i> and GASB Statement No. 66, <i>Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62</i> • Various implementation guidance issued by GASB <p>Condition: Several issues were noted with the reconciliations, review, and recording of year-end accruals including:</p> <ul style="list-style-type: none"> • Unbilled accounts receivable for the Solid Waste Fund was overstated by approximately \$758 thousand in the prior year. An adjustment was proposed and recorded by the City to correct beginning net position of the Solid Waste Fund. • The City did not record a liability for unpaid claims and health claims incurred but not reported claims of approximately \$499 thousand and \$487 thousand as of September 30, 2020 and 2019, respectively. Audit adjustments were proposed and recorded by the City to record the liabilities, including the prior period restatement. • Grants receivable was understated by approximately \$5.8 million and \$3.1 million as of September 30, 2020 and 2019, respectively. Audit adjustments were proposed and recorded by the City to record the receivables, including the prior period restatement. <p>Effect: The conditions noted above resulted in restatements of prior year balances and also adjustments to current year ending balances as indicated above.</p> <p>Cause:</p> <ul style="list-style-type: none"> • Unbilled solid waste receivables were incorrectly accrued at the same rate as unbilled water and wastewater receivables as of September 30, 2019. Because the period of usage for solid waste service differs from the water and wastewater period of usage, this resulted in an overstatement of unbilled solid waste receivables. • The City’s year-end close procedures did not include consideration of accruals related to unpaid health claims and health claims incurred but not reported.

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Reference Number	Finding
	<ul style="list-style-type: none">• Key City finance personnel left during preparation of financial statements and year-end audit fieldwork, because there was a lack of written policies and procedures regarding year-end grant receivables reconciliations the City’s remaining finance staff had incomplete records and documented procedures to complete the grant receivables reconciliation, resulting in further adjustments after year-end. <p>Recommendation: We recommend the City update its process and accounting policies to properly address the nature and accounting of solid waste accounts receivable. We also recommend the City establish a self-insurance accounting policy and include in its year-end accrual review/checklist, accrued claims liabilities. We recommend that the City establish policies and procedures over grant reporting, including reporting of accrued revenues.</p> <p>Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.</p>

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Reference Number	Finding
2020-002	<p>Finding: Preparation of Schedule of Expenditures of Federal and State Awards</p> <p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over federal and state awards that provides reasonable assurance that the City is managing federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards.</p> <ul style="list-style-type: none"> • Title 2 U.S. <i>Code of Federal Regulations</i> (CFR) Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance) §200.510(b) <p>Condition: Errors were noted during our review of the Schedule of Expenditures of Federal and State Awards (SEFSA) including:</p> <ul style="list-style-type: none"> • The City understated expenditures of federal awards by approximately \$4.1 million and overstated expenditures of state awards by approximately \$1.4 million. <p>Effect: As a result, additional audit work was required to be performed to audit the additional federal program expenditures that were originally not reported on the SEFSA, and additional time was spent in audit procedures on a major state program that was originally overstated on the SEFSA but below the threshold for audit after an adjustment to correct the overstatement was made..</p> <p>Cause:</p> <ul style="list-style-type: none"> • The City did not have clear guidance regarding eligible expenditures for the Coronavirus Relief Fund until February 2021, causing staff to go back to fiscal year 2020 for eligible expenditures, which were not approved by City Council until April 2021. • The major state program revenues were not properly accrued in fiscal year ended 2019 due to lack of written policies and procedures. <p>Recommendation: We recommend the City establish a financial reporting policy to address preparation of the schedule of expenditures of federal and state awards.</p> <p>Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.</p>

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Reference Number	Finding
2020-003	<p>Finding: Capital Assets</p> <p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that all capital assets are complete, properly recorded and reported in the proper period. Accounting principles generally accepted in the United States of America (US GAAP) that address the proper recognition and accounting of capital assets include:</p> <ul style="list-style-type: none"> • GASB Statement No. 34, <i>Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments</i> • GASB Statement No. 37, <i>Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34</i> • Various implementation guidance issued by GASB <p>Condition: Several issues were noted with the reconciliations, review, and recording processes of capital assets including:</p> <ul style="list-style-type: none"> • Governmental activities capital assets were overstated due to motor pool internal service fund capital assets being reported twice as of September 30, 2019. Audit adjustments of approximately \$1.1 million were proposed and recorded by the City to remove the duplicate assets from beginning net position. • Construction in progress as reported in the water and sewer fund was understated by approximately \$538 thousand as of September 30, 2019. An audit adjustment was proposed and recorded by the City to correct beginning net position. • The City understated depreciation expense by approximately \$387 thousand during the year ended September 30, 2020. An audit adjustment was proposed and recorded by the City to record depreciation expense and adjust the amount of accumulated depreciation. • There were approximately \$330 thousand of capital assets that were misclassified between enterprise funds (business-type activities) and governmental activities in fiscal year 2019. Audit adjustments were proposed and recorded by the City to correct beginning net position. • A capital project costing approximately \$9.9 million was completed and placed into operation during fiscal year 2018, however, no depreciation was recorded in the City's financial statements during the year ended September 30, 2018 or 2019. An audit adjustment was proposed and recorded by the City resulting in a restatement of beginning net position of approximately \$2 million and an adjustment to depreciation expense for the year ended September 30, 2020 of approximately \$983 thousand. <p>Effect: The conditions noted above resulted in restatements of prior year balances and also adjustments to current year ending balances as indicated above.</p> <p>Cause:</p> <ul style="list-style-type: none"> • The motor pool was a new internal service fund created during fiscal year 2019. When the year-end government-wide conversion adjustments were prepared the capital assets were erroneously recorded twice.

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Reference Number	Finding
	<ul style="list-style-type: none">• It was discovered in 2020 that capital assets had not been reconciled by the prior City staff for several years due to lack of written policies and procedures. When the current City staff completed the reconciliations in 2020 errors were identified resulting in restatements.• Capital projects staff did not close out the project when construction was complete, leaving it open during the warranty period as there is a lack of written policies and procedures to determine when to close a capital project provided by the prior independent auditor. Capital assets had not been reconciled by prior staff for several years due to lack of written policies and procedures after key personnel left, resulting in restatements when current staff completed the reconciliations. Capital projects staff did not close out the project when construction was complete, leaving it open during the warranty period as there is a lack of written policies and procedures to determine when to close a capital project.
	<p>Recommendation: We recommend the City reconcile the capital asset data within the asset accounting module to the general ledger on a monthly or quarterly basis. Training should also continue for all City personnel with responsibility over capital assets to ensure an understanding of the asset accounting module and proper recording and recognition of capital assets. We also recommend that communication be conducted with the project managers at least quarterly to ensure projects are properly transferred to a depreciable asset category once the project is complete and placed in operations.</p>
	<p>Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.</p>

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Reference Number	Finding
2020-004	<p>Finding: Preparation of Financial Statements – Internal Service Fund Activities</p> <p>Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that financial statements are properly reported. Accounting principles generally accepted in the United States of America (US GAAP) that address financial reporting include:</p> <ul style="list-style-type: none"> • GASB Statement No. 34, <i>Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments</i> • GASB Statement No. 37, <i>Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34</i> • Various implementation guidance issued by GASB <p>Condition: Several issues were noted during preparation of the draft financial statements including:</p> <ul style="list-style-type: none"> • In prior years the City did not allocate net pension liability or total other postemployment benefits liability and related deferred outflows and inflows of resources to internal service funds with employees. Adjustments were proposed and recorded by the City to adjust beginning net position to reflect the allocation of a portion of net pension liability and total other postemployment benefit liabilities and related deferred outflows and inflows of resources to the internal service funds for approximately \$121 thousand. • In prior years all internal service fund activities were reported as governmental activities. Adjustments were proposed and recorded by the City to allocate \$1.9 million of internal service fund activities from governmental activities to business-type activities. <p>Effect: The conditions noted above resulted in restatements of prior year balances and also adjustments to current year ending balances as indicated above.</p> <p>Cause:</p> <ul style="list-style-type: none"> • When the year-end government-wide conversion adjustments were prepared allocations of internal service fund activity to business-type activities were not reported. The City did not identify the requirement for the allocation when the funds were created. • When the year-end net pension and other-postemployment benefit liabilities adjustments were prepared the liabilities were not allocated to internal service funds with employees. The City did not identify the requirement for the allocation when the funds were created. <p>Recommendation: We recommend the City establish a financial reporting policy to address financial reporting of the internal service funds.</p> <p>Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.</p>

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2020

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
-----------------------------	----------------

No matters are reportable.

City of Pearland, Texas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2020

Reference Number	Summary of Finding	Status
-----------------------------	---------------------------	---------------

No matters are reportable.



**City of Pearland, Texas
Corrective Action Plan
Year Ended September 30, 2020**

Finding and Corrective Action Plan

2020-001 - Finding: Accrued Revenues and Liabilities

Status: Corrective action in progress.

Corrective Action: The City will update its process and accounting policies to properly address the nature and accounting of solid waste accounts receivable. The City will establish a self-insurance accounting policy and include in its year-end accrual review/checklist, accrued claims liabilities. The City will establish policies and procedures over grant reporting, including reporting of accrued revenues.

Person(s) Responsible for Implementing: Deputy Finance Director and Controller

Implementation Date: 8/31/2021

2020-002 - Finding: Preparation of Schedule of Expenditures of Federal and State Awards

Status: Corrective action in progress.

Corrective Action: The City will establish a financial reporting policy to address preparation of the schedule of expenditures of federal and state awards.

Person(s) Responsible for Implementing: Deputy Finance Director and Controller

Implementation Date: 8/31/2021

2020-003 - Finding: Capital Assets

Status: Corrective action in progress.

Corrective Action: Starting in FY21, the City reconciles the capital asset data within the asset accounting module to the general ledger on a monthly basis. Continuous training is provided for all City personnel with responsibility over capital assets to ensure an understanding of the asset accounting module and proper recording and recognition of capital assets. Communications are conducted with the project managers at least quarterly to ensure projects are properly transferred to a depreciable asset category once the project is complete and placed in operations.

Person(s) Responsible for Implementing: Deputy Finance Director and Controller

Implementation Date: 8/31/2021

2020-004 - Finding: Preparation of Financial Statements - Internal Service Fund Activities

Status: Corrective action in progress.

Corrective Action: The City will establish a financial reporting policy to address financial reporting of the internal service funds.

Person(s) Responsible for Implementing: Deputy Finance Director and Controller

Implementation Date: 8/31/2021