

City of Pearland, Texas

Single Audit Reports

September 30, 2021

City of Pearland, Texas
September 30, 2021

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
Government Auditing Standards – 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..... 14

City of Pearland, Texas
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Assistance Listing 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		\$ -	\$ 334,959
Community Development Block Grants/Entitlement Grants - COVID 19 Stimulus	14.218.119		-	279,739
Total CDBG – Entitlement Grants Cluster			<u>-</u>	<u>614,698</u>
Passed through Texas Department of Housing and Community Affairs COVID-19 Tenant Base Rental Assistance	14.871.119		-	153,322
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>768,020</u>
U.S. Department of Justice				
Passed through Texas Office of the Governor – Criminal Justice Division (CJD)				
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.804	23623-08	-	98,463
Direct Program				
Equitable Sharing Program	16.922	TX0201000	-	47,752
Passed through Organized Crime Drug Enforcement Task Forces Coastal Impact Assistant Program	15.668		-	8,788
Total U.S. Department of Justice			<u>-</u>	<u>155,003</u>
U.S. Department of Transportation				
Passed through Texas Department of Transportation				
<i>Highway Planning and Construction Cluster</i>				
McHard Road (TR1405)	20.205	CSJ - 0912-31-290	-	10,479,231
Fite Road (TR1202)	20.205	CSJ - 0912-31-272	-	140,487
Hughes Ranch Road (TR1201)	20.205	CSJ - 0912-31-311	-	4,435,051
Green Tee Trails (PK1402)	20.205	CSJ - 0912-31-291	-	18,302
Shadow Creek Ranch Trails (PK1401)	20.205	CSJ - 0912-31-292	-	494,283
Total Highway Planning and Construction Cluster			<u>-</u>	<u>15,567,354</u>
Total U.S. Department of Transportation			<u>-</u>	<u>15,567,354</u>
U.S. Department of Treasury				
Passed through Texas Division of Emergency Management				
COVID-19 - Coronavirus Relief Fund	21.019	CRF20	863,572	991,396
Passed through Harris County, Texas				
COVID-19 - Coronavirus Relief Fund	21.019	N/A	-	288,035
Passed through Fort Bend County, Texas			-	-
COVID-19 - Coronavirus Relief Fund	21.019	N/A	-	56,155
Total Coronavirus Relief Fund			<u>863,572</u>	<u>1,335,586</u>
Total U.S. Department of Treasury			<u>863,572</u>	<u>1,335,586</u>

City of Pearland, Texas
Schedule of Expenditures of Federal Awards (continued)
Year Ended September 30, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
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	-	1,277,049
Capitalization Grants for Drinking Water State Revolving Funds (SWP WA1605)	66.468	L1000612	-	45,059,393
Total Drinking Water State Revolving Fund (DWSRF) Cluster			-	46,336,442
Total U.S. Environmental Protection Agency			-	46,336,442
U.S. Department of Homeland Security				
Passed through Texas Division of Emergency Management				
Emergency Management Performance Grants	97.042	EMT-2020-EP-00004	-	30,056
Hazard Mitigation Grant Program - Flood Buyouts/Acquisitions	97.039	039-56348-00	-	49,143
Total passed through Texas Division of Emergency Management			-	79,199
Direct Program				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2018-FH-00545	-	760,282
Total U.S. Department of Homeland Security			-	839,481
Executive Office of the President				
Passed through Drug Enforcement Agency				
High Intensity Drug Trafficking Areas Program	95.001	N/A	-	7,407
Total Executive Office of the President			-	7,407
Total Federal Awards Expended			\$ 863,572	\$ 65,009,293

City of Pearland, Texas
Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

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, 2021. 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 (TWDB), as a pass-through agency for the Environmental Protection Agency. As of September 30, 2021, the outstanding loan payable balances were:

Program Title	Assistance Listing Number	Loan Balance September 30, 2021
Clean Water State Revolving Funds: Series 2016 A	66.458	\$ 6,655,000
Clean Water State Revolving Funds: Series 2016 B	66.458	4,935,000
Clean Water State Revolving Funds: Series 2016 C	66.458	40,805,000
TWDB Drinking Water State Revolving Funds: Series 2017 A	66.468	6,190,000
TWDB Drinking Water State Revolving Funds: Series 2017 B	66.468	10,665,000
TWDB Drinking Water State Revolving Funds: Series 2018 A	66.468	7,780,000
TWDB Drinking Water State Revolving Funds: Series 2019 A	66.468	19,600,000
TWDB Drinking Water State Revolving Funds: Series 2020 A	66.468	104,010,000
TWDB Drinking Water State Revolving Funds: Series 2021 A	66.468	75,000,000

**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, 2021, 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 8, 2022, which contained an "Emphasis of Matter" paragraph for a change in accounting principles.

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Audit Committee and City Council
City of Pearland, Texas

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
March 8, 2022

**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, 2021. 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, 2021.

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, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated March 8, 2022, which contained an unmodified opinion on those financial statements and an "Emphasis of Matter" paragraph regarding a change in accounting principles. 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
March 8, 2022

City of Pearland, Texas
Schedule of Findings and Questioned Costs
Year Ended September 30, 2021

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

- Unmodified* *Qualified* *Adverse* *Disclaimer*

2. The independent auditor's report on internal control over financial reporting disclosed:

- Significant deficiency(ies)? *Yes* *None reported*
 Material weakness(es)? *Yes* *No*

3. Noncompliance considered material to the financial statements was disclosed by the audit?

- Yes* *No*

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

- Significant deficiency(ies)? *Yes* *None reported*
 Material weakness(es)? *Yes* *No*

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

- Unmodified* *Qualified* *Adverse* *Disclaimer*

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

- Yes* *No*

7. The City's major programs were:

Cluster/Program	Assistance Listing Number
Coronavirus Relief Fund	21.019
Drinking Water State Revolving Fund (DWSRF) Cluster	66.468

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2021

8. The threshold used to distinguish between Type A and Type B federal programs was \$1,950,279.

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, 2021

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2021-001	<p>Finding: Grant Revenues</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 are properly recorded. Accounting principles generally accepted in the United States of America (US GAAP) that address the proper recognition and accounting of grant revenues include:</p> <ul style="list-style-type: none"> • GASB Statement No. 33, <i>Accounting and Financial Reporting for Nonexchange Transactions</i> • Various implementation guidance issued by GASB <p>Condition: The City received Coronavirus State and Local Fiscal Recovery Funds (American Rescue Plan Act of 2021) in advance and improperly recognized the grant revenue before eligible expenditures had been incurred. Grant revenue was overstated by approximately \$5.9 million as of September 30, 2021. An audit adjustment was proposed and recorded by the City to report the unspent grant funding as unearned revenue.</p> <p>Effect: The condition noted above resulted in an adjustment to current year grant revenue as indicated above.</p> <p>Cause: New funding was received by the City and therefore its policies and procedures did not include specific accounting guidance as to how the funding should be reported.</p> <p>Recommendation: We recommend the City establish processes and controls to ensure the newly written establish policies and procedures over grant reporting is properly being followed.</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, 2021

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
2021-002	<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"> • Construction in progress was understated by approximately \$7.1 million as of September 30, 2021. Audit adjustments were proposed and recorded by the City. • The City did not place into service a \$572 thousand project that was completed during fiscal year 2021. Audit adjustments were proposed and recorded by the City. • Capital projects costing approximately \$63 million were completed and placed into operation during fiscal year 2019 and 2020; however, the City did not capitalize and begin depreciating the assets until fiscal year 2021. As a result, beginning and ending net position of the City’s governmental type activities, business type activities and enterprise fund were overstated. <p>Effect: The conditions noted above resulted in adjustments as indicated above.</p> <p>Cause: The City has written and implemented a procedure for capital asset reconciliations. Management noted the findings identified above, are the remainder of issues that were identified in prior year.</p> <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</p>

City of Pearland, Texas
Schedule of Findings and Questioned Costs (continued)
Year Ended September 30, 2021

Reference Number	Finding
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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.

Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.

City of Pearland, Texas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2021

Reference Number	Summary of Finding	Status
2020-001	Finding: Accrued Revenues and Liabilities	The City has written and implemented policies for fiscal year-end revenue and expenditure accruals, solid waste accounts receivable, self-insurance accounting, and grant accounting. Resolved.
2020-002	Finding: Preparation of Schedule of Expenditures of Federal and State Awards	The City has written and implemented a policy for preparation of schedule of expenditures of federal awards. Resolved.
2020-003	Finding: Capital Assets	The City has written and implemented a procedure for capital asset reconciliations. Partially resolved – see finding 2021-002.
2020-004	Finding: Preparation of Financial Statements – Internal Service Fund Activities	The City has written and implemented a policy for financial reporting for internal service funds. Resolved.



**City of Pearland, Texas
Corrective Action Plan
Year Ended September 30, 2021**

Finding and Corrective Action Plan

2021-001 - Finding: Grant Revenues

Status: Corrective action in progress.

Corrective Action: The City will review the current policy on grant revenues and revise where necessary.

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

Implementation Date: 8/31/2022

2021-002 - Finding: Capital Assets

Status: Corrective action in progress.

Corrective Action: The City has implemented a policy on recording and reconciling capital assets. Training with all City personnel with responsibilities over capital assets will continue to ensure the proper recording and recognition of capital assets placed into operations.

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

Implementation Date: 8/31/2022