

# **City of Pearland, Texas**

## **Single Audit Reports**

**September 30, 2022**



**City of Pearland, Texas**  
**September 30, 2022**

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**City of Pearland, Texas**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2022**

| Federal Grantor/Pass-through Grantor/<br>Program or Cluster Title                                  | Federal<br>Assistance<br>Listing Number | Pass-through Entity<br>Identifying Number | Passed Through<br>to Subrecipients | Total Federal<br>Expenditures |
|--|---|---|------------------------------------|-------------------------------|
| <b>U.S. Department of Housing and Urban Development</b>  |   |   |                                    |                               |
| Direct Programs  |   |   |                                    |                               |
| <i>CDBG – Entitlement Grants Cluster</i>   |   |   |                                    |                               |
| <i>Community Development Block Grants / Entitlement Grants (HUD PY 2018)</i>                       | 14.218                                  | <i>B-18-MC-48-0400</i>                    | \$ -                               | \$ 44,035                     |
| <i>Community Development Block Grants / Entitlement Grants (HUD PY 2019)</i>                       | 14.218                                  | <i>B-19-MC-48-0400</i>                    | 16,550                             | 16,550                        |
| <i>Community Development Block Grants / Entitlement Grants - COVID 19 Stimulus CV1 (HUD PY 20)</i> | 14.218                                  | <i>B-20-MW-48-0400</i>                    | -                                  | 21,657                        |
| <i>Community Development Block Grants / Entitlement Grants - COVID 19 Stimulus CV3 (HUD PY 20)</i> | 14.218                                  | <i>B-20-MW-48-0400</i>                    | 55,878                             | 67,017                        |
| <i>Community Development Block Grants / Entitlement Grants (HUD PY 2021 - CoP FY 2022)</i>         | 14.218                                  | <i>B-21-MC-48-0400</i>                    | 51,262                             | 230,363                       |
| Total CDBG – Entitlement Grants Cluster  |   |   | <u>123,690</u>                     | <u>379,622</u>                |
| Passed Through Texas General Land Office (GLO)   |   |   |                                    |                               |
| <i>Community Development Block Grants- Disaster Recovery Grants (CDBG-DR Buyouts)</i>              | 14.228                                  | <i>20-066-037-C245</i>                    | -                                  | 6,605                         |
| <i>Community Development Block Grants- Disaster Recovery Grants (CDBG-DR Infrastructure)</i>       | 14.228                                  | <i>20-065-106-C288</i>                    | -                                  | 6,605                         |
| <i>Community Development Block Grants- Disaster Recovery Grants (CDBG-DR Infrastructure)</i>       | 14.228                                  | <i>20-065-106-C288</i>                    | -                                  | 30,763                        |
| <i>Community Development Block Grants- Disaster Recovery Grants (CDBG-DR Infrastructure)</i>       | 14.228                                  | <i>20-065-106-C288</i>                    | -                                  | 7,876                         |
| <i>Community Development Block Grants- Disaster Recovery Grants (CDBG-DR Infrastructure)</i>       | 14.228                                  | <i>20-065-106-C288</i>                    | -                                  | 29,986                        |
| Total Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii    |   |   | <u>0</u>                           | <u>81,835</u>                 |
| <b>Total U.S. Department of Housing and Urban Development</b>                                      |   |   | <u>123,690</u>                     | <u>461,457</u>                |
| <b>U.S. Department of Justice</b>  |   |   |                                    |                               |
| Direct Program   |   |   |                                    |                               |
| <i>Equitable Sharing Program</i>   | 16.922                                  | TX0201000                                 | -                                  | 48,289                        |
| Passed Through Drug Enforcement Agency   |   |   |                                    |                               |
| <i>Organizational Crime Drug Enforcement Task Force</i>  | 16.111                                  | N/A                                       | -                                  | 3,289                         |
| Passed Through Texas Office of the Governor – Criminal Justice Division (CJD)                      |   |   |                                    |                               |
| <i>Victims of Crime Act</i>  | 16.575                                  | 23623-08                                  | -                                  | 119,213                       |
| <b>Total U.S. Department of Justice</b>  |   |   | <u>0</u>                           | <u>170,791</u>                |
| <b>U.S. Department of Transportation</b>   |   |   |                                    |                               |
| Passed Through Texas Department of Transportation  |   |   |                                    |                               |
| <i>Highway Planning and Construction Cluster</i>   |   |   |                                    |                               |
| <i>McHard Road (TR1405)</i>  | 20.205                                  | CSJ - 0912-31-290                         | -                                  | 10,243,228                    |
| <i>Hughes Ranch Road (TR1201)</i>  | 20.205                                  | CSJ - 0912-31-311                         | -                                  | 1,692,180                     |
| Total Highway Planning and Construction Cluster  |   |   | <u>0</u>                           | <u>11,935,408</u>             |
| <i>Highway Safety Cluster</i>  |   |   |                                    |                               |
| <i>DWI STEP COMP Grant</i>   | 20.600                                  | 2022-pearlaPD-S-IYG-00096                 | -                                  | 9,310                         |
| <i>DWI STEP CMV Grant</i>  | 20.600                                  | 2022-pearlaPD-S-CMV-00029                 | -                                  | 11,418                        |
| Total Highway Safety Cluster   |   |   | <u>0</u>                           | <u>20,728</u>                 |
| <b>Total U.S. Department of Transportation</b>   |   |   | <u>0</u>                           | <u>11,956,136</u>             |
| <b>U.S. Department of Treasury</b>   |   |   |                                    |                               |
| Direct Program   |   |   |                                    |                               |
| <i>American Rescue Plan Act - Public Health Emergency Response COVID-19</i>                        | 21.027                                  | SLT-0851                                  | -                                  | 72,958                        |
| <i>American Rescue Plan Act - Public Health Emergency Response COVID-19</i>                        | 21.027                                  | SLT-0851                                  | -                                  | 39,325                        |
| <i>American Rescue Plan Act - Payroll for Public Safety Response to COVID-19</i>                   | 21.027                                  | SLT-0851                                  | -                                  | 4,418,330                     |
| <i>American Rescue Plan Act - Program Administration COVID-19</i>                                  | 21.027                                  | SLT-0851                                  | -                                  | 60,286                        |
| Total Coronavirus State and Local Fiscal Recovery Funds  |   |   | <u>0</u>                           | <u>4,590,899</u>              |
| <b>Total U.S. Department of Treasury</b>   |   |   | <u>0</u>                           | <u>4,590,899</u>              |

**City of Pearland, Texas**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended September 30, 2022**

| Federal Grantor/Pass-through Grantor/<br>Program or Cluster Title                        | Federal<br>Assistance<br>Listing Number | Pass-through Entity<br>Identifying Number | Passed Through<br>to Subrecipients | Total Federal<br>Expenditures |
|--|---|---|------------------------------------|-------------------------------|
| <b>U.S. Environmental Protection Agency</b>  |   |   |                                    |                               |
| 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                                  | \$ -                               | \$ 35,268                     |
| Capitalization Grants for Drinking Water State Revolving Funds (SWP WA1605)              | 66.468                                  | L1000612                                  | -                                  | 57,869,113                    |
| Total Drinking Water State Revolving Fund (DWSRF) Cluster                                |   |   | <u>0</u>                           | <u>57,904,381</u>             |
| <b>Total U.S. Environmental Protection Agency</b>  |   |   | <u>0</u>                           | <u>57,904,381</u>             |
| <b>U.S. Department of Homeland Security</b>  |   |   |                                    |                               |
| Passed Through Texas Division of Emergency Management                                    |   |   |                                    |                               |
| <i>Disaster Grants - Public Assistance (Hurricane Ike)</i>                               |   |   |                                    |                               |
|  | 97.036                                  | TX-DR1791                                 | -                                  | 10,154                        |
| Passed Through Texas Water Development Board   |   |   |                                    |                               |
| <i>Flood Mitigation Assistance - Home Elevation Program</i>                              |   |   |                                    |                               |
|  | 97.029                                  | 1900012532                                | -                                  | 8,630                         |
| Direct Program   |   |   |                                    |                               |
| <i>Staffing for Adequate Fire and Emergency Response (SAFER)</i>                         |   |   |                                    |                               |
|  | 97.083                                  | EMW-2018-FH-00545                         | -                                  | 622,393                       |
| <b>Total U.S. Department of Homeland Security</b>  |   |   | <u>0</u>                           | <u>641,177</u>                |
| <b>Executive Office of the President</b>   |   |   |                                    |                               |
| Passed Through Drug Enforcement Agency   |   |   |                                    |                               |
| <i>High Intensity Drug Trafficking Areas Program</i>                                     |   |   |                                    |                               |
|  | 95.001                                  | G21HN0028A                                | -                                  | 12,242                        |
| <b>Total Executive Office of the President</b>   |   |   | <u>0</u>                           | <u>12,242</u>                 |
| <b>Total Federal Awards Expended</b>   |   |   | <u>\$ 123,690</u>                  | <u>\$ 75,737,083</u>          |

**City of Pearland, Texas**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**September 30, 2022**

**Note 1: Basis of Presentation**

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, 2022. 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.

**Note 2: Summary of Significant Accounting Policies**

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.

**Note 3: Indirect Cost Rate**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 4: Federal Loan Programs**

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, 2022, the outstanding loan payable balances were:

| Program Title  | Federal Assistance Listing Number | Loan Balance September 30, 2022 |
|--|-----------------------------------|---------------------------------|
| Clean Water State Revolving Funds: Series 2016 A         | 66.458                            | \$ 6,210,000                    |
| Clean Water State Revolving Funds: Series 2016 B         | 66.458                            | 3,700,000                       |
| Clean Water State Revolving Funds: Series 2016 C         | 66.458                            | 39,105,000                      |
| TWDB Drinking Water State Revolving Funds: Series 2017 A | 66.468                            | 5,175,000                       |
| TWDB Drinking Water State Revolving Funds: Series 2017 B | 66.468                            | 10,325,000                      |
| TWDB Drinking Water State Revolving Funds: Series 2018 A | 66.468                            | 7,490,000                       |
| TWDB Drinking Water State Revolving Funds: Series 2019 A | 66.468                            | 18,900,000                      |
| 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                            | 73,275,000                      |



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**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 (*Government Auditing Standards*), 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, as of and for the year ended September 30, 2022, 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 16, 2023, except as to Note 19, which is as of October 16, 2023, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle and restatements of the prior year and previously issued current year financial statements.

***Report on 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 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001, 2022-002 and 2022-003, that we consider to be material weaknesses.

### ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City'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*.

### ***The City's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

### ***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.

**FORVIS,LLP**

Houston, Texas  
May 16, 2023, except as to Note 19 and Finding 2022-003, which is as of October 16, 2023.



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**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**

***Opinion on Each Major Federal Program***

We have audited City of Pearland, Texas's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, The City complied, in all material respects, with the 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, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.



### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

### **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 City of Pearland, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated May 16, 2023, except as to Note 19, which is as of October 16, 2023, which contained an unmodified opinion on those financial statements and "Emphasis of Matters" paragraphs regarding a change in accounting principle and restatements of prior year and previously issued current year financial statements. 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.

**FORVIS,LLP**

Houston, Texas  
May 16, 2023

**City of Pearland, Texas**  
**Schedule of Findings and Questioned Costs**  
**Year Ended September 30, 2022**

**Section 1 – Summary of Auditor's Results**

*Financial Statements*

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

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

2. Internal control over financial reporting:

Significant deficiency(ies) identified?       *Yes*       *None reported*

Material weakness(es) identified?       *Yes*       *No*

3. Noncompliance material to the financial statements noted?       *Yes*       *No*

*Federal Awards*

4. Internal control over major federal awards programs:

Significant deficiency(ies) identified?       *Yes*       *None reported*

Material weakness(es) identified?       *Yes*       *No*

5. Type of auditor's report issued on compliance for major federal awards programs:

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

6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)?       *Yes*       *No*

7. Identification of major federal programs:

| <b>Assistance Listing Number</b> | <b>Name of Federal Program or Cluster</b>           |
|----------------------------------|---|
| 21.027                           | Coronavirus State and Local Fiscal Recovery Funds   |
| 66.468                           | Drinking Water State Revolving Fund (DWSRF) Cluster |

8. Dollar threshold used to distinguish Type A and Type B federal programs: \$2,272,112

9. Auditee qualified as a low-risk auditee?       *Yes*       *No*

**City of Pearland, Texas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended September 30, 2022**

**Section II – Financial Statement Findings**

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

**2022-001 Finding: Capital Assets**

**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:

- GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*
- GASB Statement No. 37, *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*
- Various implementation guidance issued by GASB

**Conditions:**

Completed Projects not Capitalized:

The City did not capitalize several construction projects when completed resulting in an understatement of accumulated depreciation in Governmental Activities. An audit adjustment was proposed and recorded by the City to restate beginning of year net position by approximately \$2.3 million to properly reflect beginning of year accumulated depreciation, and to record depreciation expense of approximately \$1.6 million for the year ended September 30, 2022.

The City did not capitalize several construction projects when completed resulting in an understatement of accumulated depreciation in business type activities and the water and sewer fund. An audit adjustment was proposed and recorded by the City to restate beginning of year net position by approximately \$4.6 million to properly reflect beginning of year accumulated depreciation, and to record depreciation expense of approximately \$2.6 million for the year ended September 30, 2022.

Completed Projects not Capitalized Timely:

The City understated depreciation expense and accumulated depreciation in government type activities for projects placed in service during the current year by approximately \$786,000 for the year ended September 30, 2022.

Beginning net position of government type activities, business type activities, and the water and sewer fund is overstated by approximately \$2 million, \$451,000, and \$451,000, respectively, as a result of understated depreciation amounts in the prior year. The understatements are the result of the City placing all completed projects during the year into service as of the last day of the fiscal year, rather than the specific date that the project was completed during the year.

**City of Pearland, Texas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended September 30, 2022**

**Section II – Financial Statement Findings (Continued)**

| Reference Number | Finding  |
|------------------|--|
| 2022-001         | <p><b>Finding: Capital Assets (Continued)</b></p> <p><u>Capital Asset Tracking:</u><br/> The City's subsidiary ledger for capital assets does not agree to the City's trial balance amounts, some differences are due to entries into the system made in implementation of the capital asset subledger in prior years.</p> <p><u>Capital Projects:</u><br/> The City incorrectly reported \$5.1 million in capital project costs. An audit adjustment was proposed and recorded by the City to capitalize the project costs.</p> <p><u>Governmental Activities:</u><br/> The City uses fund 810 to capture capital asset activity related to Governmental Activities during the year. The City was unable to reconcile capital outlay expenditures in the governmental funds to the fund 810 additions during the year, resulting in an unlocated difference of \$2.7 million.</p> <p><b>Effect:</b> The conditions noted above resulted in adjustments as indicated above.</p> <p><b>Cause:</b> The City experienced significant changes in staffing in the finance department.</p> <p><b>Finding is a repeat finding; see prior year Finding 2021-002.</b></p> <p><b>Recommendation:</b> We recommend the City reconcile the capital asset data within the asset accounting module to the general ledger on at least a 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 communication 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. Should the City experience future significant changes in the finance department, we recommend that the City consider extending the year-end close timeline to allow time for City staff to review balances and supporting reconciliations prior to beginning the financial statement audit.</p> <p><b>Views of Responsible Officials:</b> The City agrees with the finding. See separate report for planned corrective actions.</p> |
| 2022-002         | <p><b>Finding: Accrued Revenues and Liabilities</b></p> <p><b>Criteria or Specific Requirement:</b> 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 the following.</p>   |

**City of Pearland, Texas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended September 30, 2022**

**Section II – Financial Statement Findings (Continued)**

| Reference Number | Finding   |
|------------------|---|
| 2022-002         | <p><b>Finding: Accrued Revenues and Liabilities (Continued)</b></p> <p>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</i>, paragraph 23, 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>, and various implementation guidance issued by GASB</p> <p><b>Condition:</b> Misstatements of various accrued revenues and liabilities as of September 30, 2022, included:</p> <ul style="list-style-type: none"> <li>• Unbilled accounts receivable for the Solid Waste Fund was overstated by approximately \$500,000 in the prior year. An adjustment was proposed and recorded by the City to correct beginning net position of the Solid Waste Fund.</li> <li>• The City did not record grants receivable for eligible expenditures incurred through year-end. An audit adjustment of approximately \$5.8 million was proposed and recorded by the City to accrue grant revenues for eligible grant expenditures incurred through year-end.</li> <li>• The City did not record compensated absences liabilities for the Water and Sewer Fund and for the Internal Service Funds. Audit adjustments of approximately \$856 thousand and \$50 thousand, respectively, were proposed and recorded by the City to record the liabilities.</li> <li>• The City recorded retainage payables for the Water and Sewer Fund (Business-type Activities) projects in Governmental Activities. An audit adjustment of \$8.4 million was proposed and recorded by the City to remove the retainage payables from Governmental Activities, and to record them in the Water and Sewer Fund and Business-type Activities.</li> <li>• The City recorded transactions related to the payroll for the pay period ended September 30, 2022, and paid on October 7, 2022, as a reduction of cash as of September 30, 2022. An audit adjustment of approximately \$1.5 million was proposed and recorded by the City to record the transactions as accrued payroll as of year-end, and to adjust cash.</li> <li>• The City understated incurred but not reported health care claims by approximately \$412,000 as of September 30, 2022. An audit adjustment was proposed and recorded by the City to correct the balance.</li> </ul> <p><b>Effect:</b> The conditions noted above resulted in proposed audit adjustments as indicated above.</p> <p><b>Cause:</b> The City experienced significant changes in staffing in the finance department.</p> |

**City of Pearland, Texas**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended September 30, 2022**

**Section II – Financial Statement Findings (Continued)**

| Reference Number | Finding   |
|------------------|---|
| 2022-002         | <p><b>Finding: Accrued Revenues and Liabilities (Continued)</b></p> <p><b>Recommendation:</b> We recommend that the City establish policies and procedures over year-end accruals of both revenue and liabilities and create comprehensive year-end checklists to be followed. Should the City experience future significant changes in the finance department staffing, we recommend that the City consider extending the year-end close timeline to allow time for City staff to reconcile accounts, prepare year-end workpapers and also for internal review of the reconciliations and workpapers prior to beginning the financial statement audit.</p> <p><b>Views of Responsible Officials:</b> The City agrees with the finding. See separate report for planned corrective actions.</p>   |
| 2022-003         | <p><b>Finding: Restricted Assets and Net Position Classification</b></p> <p><b>Criteria or Specific Requirement:</b> 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 financial statement balances are properly classified. Accounting principles generally accepted in the United States of America (US GAAP) that address the proper classification of proprietary fund restricted assets and net position include:</p> <p style="padding-left: 40px;"><i>Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments, and various implementation guidance issued by GASB</i></p> <p><b>Condition:</b> The City misstated the amounts previously reported for cash, restricted cash, investments, restricted investments, net investment in capital assets, restricted net position and unrestricted net position in the business-type activities and an enterprise fund financial statements as of September 30, 2022.</p> <p><b>Effect:</b> The conditions noted above resulted in restatements as indicated above.</p> <p><b>Cause:</b> The City experienced significant changes in staffing in the finance department.</p> <p><b>Recommendation:</b> We recommend that the City establish policies and procedures over the review of financial statements to ensure balances are properly classified prior to issuance of the financial statements.</p> <p><b>Views of Responsible Officials:</b> 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, 2022**

**Section III – Federal Award Findings and Questioned Costs**

| <b>Reference Number</b> | <b>Finding</b> |
|-------------------------|----------------|
|-------------------------|----------------|

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No matters are reportable.



**City of Pearland, Texas**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended September 30, 2022**

| <b>Reference<br/>Number</b> | <b>Summary of Finding</b> | <b>Status</b>                             |
|-----------------------------|---------------------------|---|
| 2021-001                    | Finding: Grant Revenues   | Resolved                                  |
| 2021-002                    | Finding: Capital Assets   | Unresolved<br>See Repeat Finding 2022-001 |