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**CITY OF PEARLAND, TEXAS**

**FEDERAL SINGLE AUDIT REPORT**

**For the Year Ended September 30, 2023**

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*CPAs and Professional Consultants*



# CITY OF PEARLAND, TEXAS

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the <i>Uniform Guidance</i>	3
Schedule of Findings and Questioned Costs	6
Schedule of Expenditures of Federal Awards	8
Notes to Schedule of Expenditures of Federal Awards	9
Summary Schedule of Prior Audit Findings	10
Corrective Action Plan	11



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pearland, Texas (the "City"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 24, 2024.

**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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2023-001, that we consider to be a significant deficiency.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City’s Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City’s response to the finding 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 City’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control and compliance. Accordingly, this communication is not suitable for any other purposes.



Houston, Texas  
June 24, 2024

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

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

**Report on Compliance for Each Major Federal Program**

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

We have audited City of Pearland, Texas’ (the “City”) 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, 2023. 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, 2023.

***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.

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

### ***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.



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

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 the City as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 24, 2024, which contained unmodified opinions on those 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.



Houston, Texas  
June 24, 2024

**CITY OF PEARLAND, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended September 30, 2023**

**I. Summary of Auditors' Results**

**Financial Statements**

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Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	#2023-001
Noncompliance material to financial statements noted?	No

**Federal Awards**

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

**Identification of major programs:**

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number (ALN)</u>
U.S. Department of Transportation	
<i>Highway Planning and Construction - McHard Road (TR1405)</i>	20.205
<i>Highway Planning and Construction - Hughes Ranch Road (TR1201)</i>	20.205
<i>Highway Planning and Construction - Shadow Creek Ranch Trails</i>	20.205
<i>Highway Planning and Construction - Safe Routes to Schools</i>	20.205
U.S. Department of Treasury	
<i>ARPA - Community Health - Mental Health Facilities (Covid-19)</i>	21.027
<i>ARPA - Revenue Loss Recovery - General Government (Covid-19)</i>	21.027
<i>ARPA - Public Health Emergency Response (Covid-19)</i>	21.027
<i>ARPA - Program Administration (Covid - 19)</i>	21.027
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
Auditee qualified as low risk auditee?	No

**CITY OF PEARLAND, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended September 30, 2023**

**II. Financial Statement Findings**

**Finding 2023-001**

**Significant Deficiency in Internal Control over Financial Reporting—Capital Assets**

*Criteria:* 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.

*Condition:* The City’s process for tracking capital assets did not allow for timely reporting of capital assets and related disclosures.

*Context:* A material weakness in internal controls over financial reporting was reported in fiscal year 2022 related to capital assets (see finding #2022-001). The City’s previous corrective action plan was as follows:

*As part of the Corrective Action plan, beginning in FY23, the City has implemented several measures. First, a monthly reconciliation of capital asset data between the asset accounting module and the general ledger is conducted. Additionally, continuous training is provided to all City personnel responsible for capital assets, aiming to enhance their understanding of the asset accounting module and ensure accurate recording and recognition of capital assets. Quarterly communications are also established with project managers to ensure that projects are appropriately transferred to depreciable asset categories once they are completed and operational. Furthermore, a comprehensive review of all open projects is conducted to ensure proper closure and accurate capitalization of assets.*

The City has implemented the aforementioned correction action and the comprehensive review. However, certain issues were identified in fiscal year 2023 related to reconciling capital asset detail reports to the general ledger. These issues noted were less severe than in the previous year and notable improvements were made to the process to identify potential material misstatements in a timely manner.

*Effect or Potential Effect:* Until consistent capital asset reconciliation procedures are implemented, misstatements could still occur and not be detected within a timely basis.

*Cause:* The City has experienced significant growth over the past decade and turnover in the Finance Department has prevented adequate development of procedures in this area.

*Recommendation:* Management and the City Council should continue to build on the corrective action efforts and should seek assistance from individuals with expert knowledge in this area, if necessary.

*Views of Responsible Official(s) and Planned Corrective Actions:* The City agrees with the finding. See Corrective Action Plan for management’s response.

**III. Federal Award Findings and Questioned Costs**

There are no current year findings.

**CITY OF PEARLAND, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2023**

Federal Grantor/Pass-Through Grantor/Program Title	ALN	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>				
<b>Direct:</b>				
<i>CDBG/Entitlement Grants (HUD PY 2018)</i>	14.218	B-18-MC-48-0400	\$ -	\$ 51,036
<i>CDBG/Entitlement Grants (HUD PY 2022)</i>	14.218	B-22-MC-48-0400	42,174	131,872
<i>Total CDBG - Entitlement Grants Cluster (ALN 14.218)</i>			42,174	182,908
<b>Passed Through Texas General Land Office (GLO):</b>				
<i>CDBG- Disaster Recovery Grants (CDBG-DR Infrastructure)</i>	14.228	20-065-106-C288	-	28,224
<i>Total ALN 14.228</i>			-	28,224
<b>Total U.S. Department of Housing and Urban Development</b>			<b>42,174</b>	<b>211,132</b>
<b>U.S. Department of Justice</b>				
<b>Direct:</b>				
<i>Equitable Sharing Program</i>	16.922	TX0201000	-	82,553
<b>Passed-through Texas Office of the Governor - Criminal Justice Division (CJD):</b>				
<i>Victims of Crime Act</i>	16.575	23623-10	-	92,641
<b>Total U.S. Department of Justice</b>			-	<b>175,194</b>
<b>U.S. Department of Transportation</b>				
<b>Passed-through the Texas Department of Transportation:</b>				
<i>Highway Planning and Construction - McHard Road (TR1405)</i>	20.205	CSJ - 0912-31-290	-	6,881,359
<i>Highway Planning and Construction - Hughes Ranch Road (TR1201)</i>	20.205	CSJ - 0912-31-311	-	6,771
<i>Highway Planning and Construction - Shadow Creek Ranch Trails</i>	20.205	CSJ - 0912-31-292	-	65,421
<i>Highway Planning and Construction - Safe Routes to Schools</i>	20.205	CSJ - 0912-31-318	-	923,474
<i>Total ALN 20.205</i>			-	7,877,025
<b>Total U.S. Department of Transportation</b>			-	<b>7,877,025</b>
<b>U.S. Department of Treasury</b>				
<b>Direct:</b>				
<i>ARPA - Community Health - Mental Health Facilities (Covid-19)</i>	21.027	SLT-0851	540,418	540,418
<i>ARPA - Revenue Loss Recovery - General Government (Covid-19)</i>	21.027	SLT-0851	-	3,502,468
<i>ARPA - Public Health Emergency Response (Covid-19)</i>	21.027	SLT-0851	-	563,846
<i>ARPA - Program Administration (Covid - 19)</i>	21.027	SLT-0851	-	12,450
<i>Total ALN 21.027</i>			540,418	4,619,182
<b>Total U.S. Department of Treasury</b>			<b>540,418</b>	<b>4,619,182</b>
<b>U.S. Environmental Protection Agency</b>				
<b>Passed through Texas Water Development Board:</b>				
<i>DWSRF (Meter Change-out WA1702)</i>	66.468	L1000612	-	102,076
<i>DWSRF (SWP WA1605)</i>	66.468	L1000612	-	10,000,971
<i>Total Drinking Water State Revolving Fund (DWSRF) Cluster (ALN 66.468)</i>			-	10,103,047
<b>Total U.S. Environmental Protection Agency</b>			-	<b>10,103,047</b>
<b>U.S. Department of Homeland Security</b>				
<b>Direct:</b>				
<i>Staffing for Adequate Fire and Emergency Response (SAFER)</i>	97.083	EMW-2018-FH-00545	-	72,244
<b>Passed through Texas Division of Emergency Management:</b>				
<i>Hazard Mitigation Grant</i>	97.039	DR-4332-283	-	22,956
<b>Passed through Texas Water Development Board:</b>				
<i>Flood Mitigation Assistance</i>	97.029	1900012532	-	2,380
<b>Total U.S. Department of Homeland Security</b>			-	<b>97,580</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 582,592</b>	<b>\$ 23,083,160</b>

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

**Note 1 – Summary of Significant Accounting Policies**

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

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

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2023. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

**Note 3 – 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 - Outstanding Loans**

The City has outstanding loan commitments under the Clean Water State Revolving Loan Fund (ALN #66.458) and Drinking Water State Revolving Loan Fund (ALN #66.468) from the Texas Water Development Board, as a pass-through agency for the Environmental Protection Agency. As of September 30, 2023, the outstanding loan payable balances were:

<u>Program Title</u>	<u>ALN</u>	<u>Loan Balance as of September 30, 2023</u>
Clean Water State Revolving Funds, Series 2016A	66.458	\$ 5,770,000
Clean Water State Revolving Funds, Series 2016B	66.458	2,465,000
Clean Water State Revolving Funds, Series 2016C	66.458	37,405,000
TWDB Drinking Water State Revolving Funds, Series 2017A	66.468	4,155,000
TWDB Drinking Water State Revolving Funds, Series 2017B	66.468	9,980,000
TWDB Drinking Water State Revolving Funds, Series 2018A	66.468	7,205,000
TWDB Drinking Water State Revolving Funds, Series 2019A	66.468	18,200,000
TWDB Drinking Water State Revolving Funds, Series 2020A	66.468	96,835,000
TWDB Drinking Water State Revolving Funds, Series 2021A	66.468	70,745,000
		<u>\$ 252,760,000</u>

**CITY OF PEARLAND, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended September 30, 2023**

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

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

**I. Prior Audit Findings**

**Finding #2022-001 Capital Assets**

**Material Weakness in Internal Control over Financial Reporting—Capital Assets**

The corrective action plan has been implemented and the material weakness has been resolved.

**Finding #2022-002**

**Material Weakness in Internal Control over Financial Reporting – Accrued Revenues and Liabilities**

The corrective action plan has been implemented and the material weakness has been resolved.

**Finding #2022-003**

**Material Weakness in Internal Control over Financial Reporting – Restricted Assets and Net Position Classification**

The corrective action plan has been implemented and the material weakness has been resolved.

**CITY OF PEARLAND, TEXAS**  
**CORRECTIVE ACTION PLAN**  
***For the Year Ended September 30, 2023***

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

**I. Corrective Action Plan**

See the City’s corrective action plan on the following pages.



# Memo

To: Trent Epperson, City Manager  
From: Kendra Murphy, Deputy Finance Director  
CC: Victor Brownlees, Assistant City Manager, Interim CFO  
Date: June 7, 2024  
Re: Corrective Action Plan

Following the conclusion of the FY 2023 Comprehensive and Single Audit, the staff presented a Corrective Action Plan in response to the one (1) finding identified by the independent auditors, Whitley Penn LLP. The Corrective Action Plan involved the establishment and implementation of several internal accounting policies and procedures starting in FY 2023 to rectify the identified issues. This finding, originally identified in FY 2022, has carried over to FY 2023, necessitating ongoing corrective actions.

The staff has developed and implemented internal accounting policies that specifically target and resolve each of the findings, thereby completing the implementation of the Corrective Action Plan. These policies and procedures have undergone thorough review by the Audit Committee.

## **2023-001 Significant Deficiency in Internal Control over Financial Reporting—Capital Assets:**

- 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.
  - Quarterly meetings with City personnel to identify closed projects and assets to be capitalized.
  - Quarterly meetings with the Audit Committee for the purpose of providing updates and addressing any potential concerns.
  - Additional support from Whitley Penn LLP: We have sought additional support from Whitley Penn LLP to implement strategies to improve our internal processes for the timely reporting and capitalization of assets.
  - Quarterly Reporting: Whitley Penn LLP will provide a quarterly report to the City Manager regarding progress on the corrective actions and any areas not being addressed satisfactorily.



**Finding and Corrective Action Plan**

**2023-001 Significant Deficiency in Internal Control over Financial Reporting—Capital Assets:**

**Status:** Corrective action in progress.

**Corrective Action:** As part of the Corrective Action plan, beginning in FY23, the City has implemented several measures:

- Monthly reconciliation of capital asset data between the asset accounting module and the general ledger.
- Continuous training for all City personnel responsible for capital assets to enhance their understanding of the asset accounting module and ensure accurate recording and recognition of capital assets.
- Quarterly communications with project managers to ensure projects are appropriately transferred to depreciable asset categories once they are completed and operational.
- Comprehensive reviews of all open projects to ensure proper closure and accurate capitalization of assets.
- **Requested Additional Support from Whitley Penn LLP:** We have requested further assistance from Whitley Penn LLP to develop and implement strategies aimed at enhancing our internal processes for the timely reporting and capitalization of assets. This includes providing a quarterly report to the City Manager on the progress of corrective actions and identifying any areas that are not being satisfactorily addressed.

To further address this finding and enhance our internal controls, we have included additional measures in our corrective action plan to be implemented in collaboration with Whitley Penn LLP. Their expertise will be invaluable as we work to refine our processes and ensure the timely reporting and capitalization of our assets. The specific actions we will take include:

- **Enhanced Training Programs:** Continuing comprehensive training for all personnel responsible for capital assets, ensuring a deep understanding of the asset accounting module and the importance of accurate recording and recognition of capital assets.
- **Monthly Reconciliation:** Strengthening our monthly reconciliation process between the asset accounting module and the general ledger to ensure all capital asset data is accurate and up-to-date.
- **Quarterly Reviews:** Maintaining quarterly communications with project managers to ensure projects are correctly transferred to depreciable asset categories once they are completed and operational.
- **Expert Consultation:** Working closely with Whitley Penn LLP to review and enhance our current procedures, identifying and implementing best practices in capital asset management and reporting.



- Once entries are posted, reconcile the accounts to ensure that all capital outlay accounts for the governmental and proprietary funds are zero. Run the New World Cross Fund Report that is saved called 'Govt Capital Outlay Rec' and 'Proprietary Capital Outlay Rec'. Verify that the accounts are zero on the last page. The contra accounts (Fund 810) should offset the regular capital outlay accounts.
- Work with department heads and the Budget office to ensure that CIP balances are closed timely and transferred to fixed assets when completed.

#### **Asset Management Module**

- Additions – Once a project is complete and all costs have been incurred, the asset should be added to the Asset Management module in New World. All costs associated with getting that asset in place and ready for its intended use should be included and capitalized with the asset.
- Disposals/Retirements – Items that are sold via online auction or other means should be retired from the fixed asset register in the month in which it was sold. Any proceeds should be applied to the book value of the asset and the difference recorded as a gain or loss in the general ledger.
- The Fixed Asset register (Asset Management module) in New World should be reconciled quarterly with the general ledger to ensure assets are properly accounted for.

#### **Audit & Other Reports**

Run/obtain the following reports:

- Fixed Asset Summary
- Additions Report
- Disposals/Retirements Report
- Acceptance of Infrastructure - this is infrastructure that is given to the City from a developer once complete. This comes from Engineering and needs to be requested by the Controller after fiscal year end. The data received will be in miles, feet, or some other unit of measure. This will need to be converted into dollar amounts by the Controller. Use spreadsheet 'Average Cost for Mass Assets' to calculate the dollar amount as needed. The values used are reviewed annually by Engineering.
- Completed Projects – These are all the CIP projects that are completed during the fiscal year and are added to fixed assets. The Budget office will prepare the initial draft of the worksheet and once final the completed projects are added by the Controller or designee to the fixed assets module.
- Adjustments – Any necessary adjustments during the year.

We are confident that these actions will significantly improve our internal control processes and help us achieve timely and accurate financial reporting. We appreciate your continued support and oversight as we implement these enhancements.

Thank you for your attention to this matter.