

SINGLE AUDIT REPORTS

CITY OF LA MARQUE, TEXAS

**For the Year Ended
September 30, 2019**

CITY OF LA MARQUE, TEXAS

SINGLE AUDIT REPORTS

September 30, 2019

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

April 28, 2020

To the Honorable Mayor and
City Council Members of the
City of La Marque, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of La Marque, Texas (the "City"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



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

April 28, 2020

To the Honorable Mayor and
City Council Members of the
City of La Marque, Texas:

Report on Compliance for Each Major Federal Program

We have audited the City of La Marque, Texas' (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2019. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

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 each of its major federal programs for the year ended September 30, 2019.

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 each major federal program 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 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.

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 28, 2020 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.

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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CITY OF LA MARQUE, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2019

None

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2019

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of La Marque, Texas.
2. A significant deficiency in internal control was disclosed by the audit of the basic financial statements. A material weakness in internal control was disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for the City are reported in Part C of this schedule.
7. The program included as a major program is:

<u>CFDA Number</u>	<u>Program Title</u>
97.036	Disaster Grants - Public Assistance

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The City did not qualify as a low-risk auditee in the context of the Uniform Guidance.

B. FINDINGS – BASIC FINANCIAL STATEMENTS AUDIT

Material Weakness

2019.001. MONTH END PROCEDURES

Criteria

The City should ensure that there are formal procedures in place to reconcile balance sheet accounts to subsidiary ledgers.

Condition

It appeared the City lacked a formal process for reconciling balance sheet accounts to subsidiary ledgers/supporting documentation and closing the books at the end of each month. As a result, a large number of adjusting journal entries was required to accurately state account balances.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2019

Effect

The lack of consistent monthly procedures could lead to misstated account balances resulting in over/understated assets, liabilities, revenues, and expenditures.

Cause

The City has not established formal procedures to reconcile balance sheet accounts to detailed subsidiary ledgers.

Recommendation

The City should establish procedures in which management reviews and reconciles all detailed ledgers to the general ledger accounts on a monthly basis.

Views of Responsible Officials and Planned Corrective Action

See Corrective Action Plan.

Significant Deficiency

2019.002. TIMELY GRANT RECONCILIATIONS

Criteria

The City should ensure that timely reconciliations of grant related general ledger accounts are performed over all grant activities.

Condition

It was noted during the audit that the City was not completing reconciliations of grant related general ledger accounts in a timely manner. In addition, it was noted for the CDBG grants that the City was not consistently recognizing local matching expenditures and reimbursable grant expenditures within their designated general ledger accounts.

Effect

Single audit determination procedures were delayed as the City needed to finish reconciling CDBG grant activities.

Cause

There was inconsistent recognition of local funds and reimbursable grant funds among general ledger accounts. Part of the cause appears to be that the City did not coordinate with vendors to separately invoice grant related work which caused issues when the finance department started reconciling the grant activities. In addition, staff noted breakdowns in communication between the contracted grant administrators, public works department, and the finance department.

CITY OF LA MARQUE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2019

Recommendation

The City should ensure that all vendors providing grant related services are either invoicing those services separately or clearly identifying which services are grant related on invoices that include work for multiple projects. The City should also establish procedures to ensure the correct and consistent general ledger account coding of grant expenditures to aid in timely reconciliations. The City could consider issuing separate grant related checks instead of paying both grant and non-grant related expenditures with the same check. Reconciliations should be completed on a monthly basis.

Views of Responsible Officials and Planned Corrective Action

See Corrective Action Plan.

C. FINDINGS – FEDERAL AWARDS

None



CORRECTIVE ACTION PLAN

April 28, 2020

Finding

2019.001. Month End Procedures

Response

The Finance Department has been working with STW/Open Gov to correct some Utility Billing setup issues causing monthly discrepancies. In addition, proper procedures are being established to train operators performing certain tasks correctly.

Anticipated Completion Date

September 30, 2020

Contact Person

Suzy Kou, Finance Director

Finding

2019.002. Timely Grant Reconciliations

Response

The City will establish set detailed procedures and expectations for staff and outside contractors to adhere to. Failure to adhere will result in disciplinary actions. Outside contractors will be held accountable if they fail to meet City expectations.

Anticipated Completion Date

September 30, 2020

Contact Person

Suzy Kou, Finance Director



CITY OF LA MARQUE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2019

<u>Department/Pass-Through Agency/Program Name</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
<i>Pass-through Texas Department of Agriculture</i>			
Community Development Block Grant	14.228	72172520	\$ 251,750
<i>Pass-through Texas General Land Office</i>			
Community Development Block Grant	14.255	13-167-000-7268/DRS220094	181,256
Total U.S. Department of Housing and Urban Development			<u>433,006</u>
 U.S. Department of Homeland Security			
<i>Pass-through Texas Division of Emergency Management</i>			
Disaster Grants - Public Assistance	97.036	4332DRTXP0000001	644,261
Total U.S. Department of Homeland Security			<u>644,261</u>
Total Federal Award Expenditures			<u>\$ 1,077,267</u>

CITY OF LA MARQUE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2019

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards (the "Schedule") presents the activity of all federal financial assistance programs of the City of La Marque, Texas.

2. BASIS OF ACCOUNTING

The 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). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent, adjustments or credits made in the normal course to amounts reported as expenditures in prior years.

3. INDIRECT COST RATE

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