

SINGLE AUDIT REPORTS

**CITY OF
DICKINSON, TEXAS**

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

CITY OF DICKINSON, 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**

May 29, 2020

To the Honorable Mayor and
City Council Members of the
City of Dickinson, 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 units, each major fund, and the aggregate remaining fund information of the City of Dickinson, 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 May 29, 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 significant deficiency is a deficiency, or 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 items 2019.001 through 2019.005 to be significant deficiencies.

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

May 29, 2020

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

Report on Compliance for Each Major Federal Program

We have audited the City of Dickinson, 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 Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, 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 have issued our report thereon dated May 29, 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.

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 DICKINSON, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2019

Significant Deficiencies:

2018.001. POOLED CASH BALANCE

Background

The City uses a consolidated bank account; whereas, one bank account is maintained for all funds and each fund has an equity interest in the bank account. While consolidated bank accounts are highly efficient due to the automated nature, there is no formal approval necessary to advance funds to cover a shortage when a fund's equity in the bank account becomes a deficit.

Criteria

The City should ensure all equity in pooled cash accounts is properly recorded.

Condition

Pooled cash equity accounts were not being reconciled and/or adjusted.

Effect

The balance of the pooled cash account in fund 99 did not agree with the total amount of the cash accounts that comprise this account.

Cause

Turnover of accounting personnel and resulting crises management.

Recommendation

Fund 99 should be reconciled monthly to ensure that the sum of the claim on cash accounts of the other funds match with the corresponding account balance.

2018.002. DEFICIT IN CASH BALANCE

Criteria

The City should ensure that there are adequate funds available in the pooled cash account to satisfy the equity interest of all financial reporting funds.

Condition

Deficit cash balances were not being identified and/or brought to positive balance.

Effect

As of the end of the year, several funds reported negative cash balances totaling \$691,263.

Cause

Deficits in cash balances are not being monitoring by management.

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

Recommendation

The City should consider adopting a formal policy on how deficit balances will be communicated to management and City Council and if formal approval will be obtained before or after a fund has a negative balance.

2018.003. JOURNAL ENTRIES

Criteria

The City should ensure that there are adequate internal controls over the posting of journal entries.

Condition

During review and testing of journal entries, it was noted that several adjustments were made incorrectly or made as corrections for other adjustments.

Effect

The lack of management oversight of the journal entry process could increase the risk of misstated account balances.

Cause

The City has not established procedures for the review of journal entries by management.

Recommendation

The City should restrict an employee's ability to both enter and verify journal entries. The authorization of journal entries should be performed by management. With review of journal entries, there will be less chance for incorrect entries to occur.

2018.004. DUE TO AND DUE FROM BALANCES

Criteria

The City should ensure the appropriate use and accurate recording of all interfund transactions.

Condition

It was noted during the audit that cash collected in the general fund bank account was transferred to the same general fund in several due to accounts.

Effect

As a result of the lack of procedures, it was difficult to agree activity between funds.

Cause

The City has not established procedures in which management reviews and reconciles interfund activity.

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

Recommendation

The City should transfer the cash collected for other funds on a quarterly basis to the respective funds.

2018.005. CASH DEPOSITS

Criteria

The City should ensure that there are adequate controls and monitoring procedures over the deposit of cash collected.

Condition

It was noted during the audit that eight deposits were not deposited in a timely manner, the longest taking seven days after receipt to be deposited.

Effect

The lack of monitoring of the daily deposits leads to the noncompliance of the City's cash handling policy, as well as increases the risk of loss from fire, theft, or misappropriation.

Cause

Cash was not deposited daily as required by the City's cash handling policy.

Recommendation

The City should make deposits daily.

2018.006. BANK ACCOUNT RECONCILIATION

Criteria

The City should ensure that there are adequate internal controls over cash.

Condition

The bank reconciliation for the Hurricane Relief Fund has two outstanding items with the description of "check bank cleared twice" suggesting that the reconciliation either has an error or questionable uncorrected activity.

Effect

Lack of adequate internal controls could increase the risk of misappropriation of assets.

Cause

The City has not established procedures for the review of bank reconciliations by management.

Recommendation

The City should review the nature of these items and make any necessary adjustment.

CITY OF DICKINSON, 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 City of Dickinson, Texas.
2. A material weakness in internal control was not disclosed by the audit of the financial statements.
3. Significant deficiencies in internal control were disclosed by the audit of the financial statements.
4. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
5. No significant deficiencies in internal control over major federal award programs were disclosed by the audit.
6. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
7. No audit findings relative to the major federal award programs for the City are reported.
8. The programs included as major programs are:

<u>CFDA</u>	<u>Program Title</u>
10.923	Wet Debris Removal

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

B. FINDINGS – BASIC FINANCIAL STATEMENTS AUDIT

Significant Deficiencies:

2019-001. DEFICIT IN CASH BALANCE

Criteria

The City should ensure that there are adequate funds available in the pooled cash account to satisfy the equity interest of all financial reporting funds.

Condition

Deficit cash balances were not being identified and/or brought to positive balance.

Effect

As of the end of the year, several funds reported negative cash balances totaling \$691,263.

Cause

Deficit in cash balances are not being monitoring by management.

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

Recommendation

The City should consider adopting a formal policy on how deficit balances will be communicated to management and City Council and if formal approval will be obtained before or after a fund has a negative balance.

Managements Response

The City will put into place policies and procedures to ensure a regular reconciliation of cash balances.

2019-002. DUE TO AND DUE FROM BALANCES

Criteria

The City should ensure the appropriate use and accurate recording of all interfund transactions.

Condition

It was noted during the audit that cash collected in the general fund bank account was transferred to the same general fund in several due to accounts.

Effect

As a result of the lack of procedures, it was difficult to agree activity between funds.

Cause

The City has not established procedures in which management reviews and reconciles interfund activity.

Recommendation

The City should transfer the cash collected for other funds on a quarterly basis to the respective funds.

Managements Response

The City will put into place policies and procedures to ensure a regular reconciliation of interfund activity.

2019-003. EDC BANK ACCOUNT

Criteria

The City should ensure the appropriate application of policies and procedures regarding the use of bank accounts.

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

Condition

It was noted during the audit that there was no formal policy or procedure currently in place with regards to the City's management of the EDC bank accounts.

Effect

There were several transfers between City and EDC accounts made without a policy in place.

Recommendation

The City should implement a service agreement with the EDC that outlines the proper policies and procedures for the use of EDC cash accounts and processing of expenditures.

Managements Response

The City will work with the EDC to adopt an administrative services agreement.

2019-004. DEFICIT FUND BALANCE

Criteria

The City should maintain balance or surplus fund balances in each fund.

Condition

The City presented a deficit fund balances in the FEMA Hurricane Harvey, VOCA, Special Revenue and Grants, CDBG Disaster Recovery, Bayou Lakes Public Improvement District No. 2, and Building Maintenance fund

Effect

As of the end of the year, several funds reported deficit fund balances.

Recommendation

The City should ensure all fund balances are reconciled at the end of the year. If a deficit balance exists, the City should transfer funds from another fund in order to clear the deficit.

Managements Response

The City will implement procedures to ensure fund balances are balanced at the end of each year to avoid deficits.

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

2019-005. GRANT ADMINISTRATION

Criteria

The City should reconcile and keep track of all grant activity with the federal government to ensure proper recognition of revenue and payment from applicable granting agencies.

Condition

The City has not kept detailed reconciliations or records related to several grants. This could lead to funding being denied or restricted from the City until these records are up to date.

Effect

FEMA receivables and deferrals were not reconciled or tied to adequate supporting documentation.

Recommendation

The City should work with granting agencies to reconcile and confirm that all outstanding amounts are correct, and that any grant funds that should be collected or remitted are done so.

Managements Response

The City will work to consult with all federal granting agencies and implement periodic reconciliations of federal awards.

C. FINDINGS – FEDERAL AWARDS

None

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

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
DEPARTMENT OF JUSTICE			
<i>Direct Award</i>			
Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies	16.922	N/A	\$ 174,910
<i>Pass-through Office of the Governor, Criminal Justice Division</i>			
Crime Victim Assistance	16.575	1890910	70,316
TOTAL DEPARTMENT OF JUSTICE			<u>245,226</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through Texas General Land Office</i>			
Community Development Block Grant - Disaster Recovery Round 2.2	14.228	GLO-13-128-000-7190	103,210
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>103,210</u>
DEPARTMENT OF HOMELAND SECURITY			
<i>Pass-through Texas Division of Emergency Management</i>			
Emergency Management Performance Grant	97.042	17TX-EMPG-0337	162,827
Request for Public Assistance, Hurricane Harvey	97.036	FEMA-TX-4332DR	594,786
TOTAL DEPARTMENT OF HOMELAND SECURITY			<u>757,613</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
<i>Pass-through Texas State Library and Archives Commission</i>			
Texas State Library and Archives Commission Impact Grant	45.310	475-16010	4,625
ILL Lending Reimbursement Program	45.310	LS-00-19-0044-16	349,498
TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES			<u>354,123</u>
DEPARTMENT OF AGRICULTURE			
<i>Direct Award</i>			
Wet Debris Removal	10.923	NR187442XXXXCO24	2,186,404
TOTAL DEPARTMENT OF AGRICULTURE			<u>2,186,404</u>
TOTAL FEDERAL AWARDS EXPENDED			<u><u>\$ 3,646,576</u></u>

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

4. INDIRECT COST RATE

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