

City of League City, Texas

Single Audit Report

September 30, 2018

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Independent Auditor's 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
City Council Members of the
City of League City, 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, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of League City, Texas (the City), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 25, 2019. Our report includes an "emphasis of matter" paragraph about a change in accounting principle.

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.

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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be material weaknesses: 2018-001 and 2018-002.

The Honorable Mayor and
City Council Members of the
City of League City, Texas

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*.

The City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion of it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 25, 2019

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited the City of League City, Texas's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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, 2018.

The Honorable Mayor and
City Council Members of the
City of League City, Texas

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item: 2018-003. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's responses was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-003, which we consider to be a material weakness.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

The Honorable Mayor and
City Council Members of the
City of League City, Texas

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 25, 2019, which contained unmodified opinions on those financial statements. Our report includes an "emphasis of matter" paragraph about a change in accounting principle. 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 25, 2019

City of League City, Texas
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes X None reported

An unmodified opinion was issued on compliance for major programs.

- Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance X Yes No

Identification of major program:

97.036

Disaster Grants – Public Assistance

- Dollar threshold used to distinguish between type A and type B programs? \$750,000
- Auditee qualified as low-risk auditee? X Yes No

City of League City, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2018

Section II – Financial Statement Findings

2018-001: Improper revenue recognition

Type of finding: Material weakness in internal control over financial reporting

Criteria: The City's revenue recognition policy described in the notes to the basic financial statements states that the City recognizes revenue when it is both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 120 days of the end of the current fiscal period.

Condition: During the fiscal period ended September 30, 2018, the City improperly recognized revenue from grant funding and an interlocal reimbursement that were earned but not collected within 120 days of the end of the current fiscal period.

Cause: The City did not identify these revenue sources as being improperly recognized during their financial statement close process. Because this error was not detected prior to the information being provided for audit, there is an indication that the City is not following the stated revenue recognition policy.

Effect or Potential Effect: A material misstatement of the City's financial statements was not prevented, or detected and corrected, by the City's systems of internal control, requiring an adjustment to correct the misstatement identified during the audit. Failure to follow the City's established revenue recognition policy will allow possible misstatements to exist and continue without notice.

Recommendation: We recommend that the City implement procedures to timely evaluate uncollected earned revenues to ensure they meet the criteria for recognition based on the City's established policy.

Views of Responsible Officials and Planned Corrective Action: See corrective action plan.

2018-002: Inadequate bank reconciliations

Type of finding: Material weakness in internal control over financial reporting

Criteria: The City is responsible for preparing and reviewing bank reconciliations timely and identifying amounts outstanding and in-transit at period end.

Condition: During the month ended September 30, 2018, the City did not identify electronic fund transfers (EFTs) that were initiated prior to fiscal year-end and did not clear the bank statement until subsequent to year-end, resulting in the overstatement of accounts payable and the overstatement of cash balances at September 30, 2018.

Cause: The City did not properly review the EFT payments to ensure they are recorded in the proper period.

Effect or Potential Effect: A material misstatement of the City's financial statements was not prevented, or detected and corrected, by the City's systems of internal control, requiring an adjustment to correct the misstatement identified during the audit.

City of League City, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2018

Recommendation: We recommend that the City implement procedures to include all bank transactions in the monthly reconciliation process to identify any payments initiated prior to period end to ensure bank reconciliations are prepared properly and reconciled to the general ledger.

Views of Responsible Officials and Planned Corrective Action: See corrective action plan.

Section III – Federal Award Findings and Questioned Costs

2018-003 Improper review of supporting documentation

Federal Program: Disaster Grants – Public Assistance

Federal Agency: U.S. Department of Homeland Security

CFDA: 97.036

Pass-through Entity: Texas Department of Public Safety

Compliance requirements: Allowable cost activities and cost principles, Cash management, and Reporting

Type of finding: Material weakness in internal control over compliance and noncompliance

Criteria: Eligible costs for reimbursement should be supported with adequate documentation, reviewed for accuracy and approved by management.

Condition: During our audit, we tested 12 employees' total payroll costs submitted for reimbursement and identified 12 discrepancies out of 202 days tested that did not agree to the underlying timesheets. The amount charged to the grant in excess of the supporting timesheets totaled \$610 for the population tested.

Cause: The City contracted with a third party consultant to accumulate reimbursable costs for the program and prepare reimbursement requests. The City did not adequately review the information provided by the third party consultant to ensure accuracy of the data.

Effect or Potential Effect: The City submitted reimbursement for costs that were not accurate or adequately supported.

Questioned Costs: \$610 of known questioned costs

Context: Of the \$1,903,857 of costs charged to the grant tested, \$610 of expenditures were noted to be improperly calculated and reported. The sampling method utilized was not, and was not intended to be, a statistically valid sample.

Recommendation: We recommend that the City review all information provided by the third party consultant to ensure costs are accurate and adequately supported prior to submitting for reimbursement.

Views of Responsible Officials and Planned Corrective Action: See corrective action plan.

Section IV – Schedule of Prior Audit Findings and Questioned Costs

None



Finance Department
300 W Walker
League City, TX 77573

Main: 281.554.1000
Direct: 281.554.1367
Fax: 281.554.1348

www.leaguecity.com

March 25, 2019

Finding:

2018-001 Improper revenue recognition

Response:

Management will evaluate uncollected earned revenue on a timely basis to ensure the City meets the criteria for recognition based on the City's established policy of 120 days.

Anticipated completion date: September 30, 2019

Contact Person:

Angie Steelman, Director of Budget and Project Management and Interim Director of Finance

Finding:

2018-002 Inadequate bank reconciliation

Response:

Management will ensure the bank reconciliation process is followed so transactions are recorded in the proper period.

Anticipated completion date: September 30, 2019

Contact Person:

Angie Steelman, Director of Budget and Project Management and Interim Director of Finance

Finding:

2018-003 Improper review of supporting documentation

Response:

Management will ensure the bank reconciliation process is followed so transactions are recorded in the proper period.

Anticipated completion date: September 30, 2019

Contact Person:

Angie Steelman, Director of Budget and Project Management and Interim Director of Finance

City of League City, Texas
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2018

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures, Indirect Costs and Refunds
U.S. DEPARTMENT OF JUSTICE			
Direct Award			
Joint Law Enforcement Operations Task Force	16.999	N/A	\$ 2,140
Organized Crime Drug Enforcement Task Force	16.999	N/A	<u>18,042</u>
Total			20,182
Equitable Sharing Program	16.922	N/A	<u>4,866</u>
Total			4,866
Pass-through Texas Office of the Governor - Criminal Justice VA-Victims of Crime Act Formula Grant Program	16.575	VA-16-V30-25069-06	<u>81,021</u>
Total			<u>81,021</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			106,069
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through Texas Department of Public Safety			
Emergency Management Performance Grant	97.042	18TX-EMPG-0344	36,854
Disaster Grants - Public Assistance	97.036	FEMA -4332-DR-TX	<u>1,919,245</u>
Total			<u>1,956,099</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			1,956,099
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Award			
Community Development Block Grant	14.218	N/A	<u>104,967</u>
Total			104,967
Pass-through Texas General Land Office Disaster Recovery Program Round 2.2	14.228	DRS220096/13-179-000-7292	<u>146,911</u>
Total			<u>146,911</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			251,878
U.S. INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Pass-through Texas State Library and Archives Commission			
Interlibrary Loan Program	45.310	LS-00-17-0044-17	<u>14,321</u>
Total			<u>14,321</u>
TOTAL U.S. INSTITUTE OF MUSEUM AND LIBRARY SERVICES			<u>14,321</u>
TOTAL FEDERAL GRANT FUNDS			<u><u>\$ 2,328,367</u></u>

City of League City, Texas

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Reporting Entity

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of League City, Texas. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in this schedule. The information on this schedule is prepared 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).

Note 2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. Expenditures reported on the schedule 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. The City has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Relationship to Federal Financial Reports

Grant expenditure reports as of September 30, 2018, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.