

# DRAFT

## Management Letter

May 5, 2023

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

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the City. Accordingly, the City's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of 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 Montgomery, Texas (the "City") as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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 discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness. There is also a new pronouncement we wanted to bring to your attention.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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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 findings and additional comments are as follows:

## ***CURRENT YEAR MATTERS***

### ***Material Weakness:***

#### **2022.001 MONTH END CLOSING PROCEDURES**

##### **Finding**

It appears the City lacked a formal process for closing the books at the end of each month. A large number of adjustments were required at year end during the audit process to correct general ledger account balances.

##### **Recommendation**

The City should develop formal closing processes at month end including reviewing supporting subsidiary ledgers and other supporting documents to determine their accuracy, to ensure the general ledger is appropriately adjusted, and the financial statements are accurate.

### ***Future Matters That May Subsequently Warrant Attention:***

#### **2022.002 IMPLEMENTATION OF GASB STANDARD NO. 96 – SBITAs**

##### **Background**

Governmental Accounting Standards Board (GASB) Statement 96, *Subscription-Based Information Technology Arrangements* (SBITAs), is effective for the year ending September 30, 2023 and, accordingly, the City has less than one year to implement GASB 96. GASB 96 defines a SBITA as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 96 essentially requires that all SBITAs should be reported on the balance sheet as a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability, much like GASB 87, *Leases*, accounting for lease transactions. Unlike many new accounting standards, GASB 96 may require preplanning and changes in the way the City does business. Implementation of GASB 96 will generally require centralized document management; in-depth review of SBITA documents; recording and tracking of multiple data points per agreement, which may necessitate new software based on the volume of arrangements; and development of new controls, reconciliations, and policies and procedures.

##### **Recommendation**

The City needs to begin making initial assessments immediately to determine the lead time and resources needed. The City needs to identify all SBITAs in which the term initially exceeded 12 months. Based on the aggregate value of SBITAs and materiality, the City should determine a cutoff for exclusion of insignificant arrangements. If the City's number of SBITAs approaches 10, it may be beneficial for the City to procure and implement software to aid in the task. The City should establish the goal of being fully implemented 60 days prior to year end to provide for a sufficient buffer to safeguard against delay in issuing the City's September 30, 2023 financial statements.

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This communication is intended solely for the information and use of management, the City Council, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank the City Council and the City's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

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