

City of Tomball, Texas

Government Auditing Standards Report
For the Fiscal Year Ended September 30, 2020

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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
Members of City Council
City of Tomball, Texas

We have audited, in accordance with 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 Tomball, Texas (the City) as of and for the year ended September 30, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 11, 2021.

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 over financial reporting 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 Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and 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 *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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2020-001 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-002 and 2020-003 to be significant deficiencies.

To the Honorable Mayor and
Members of City Council
City of Tomball, 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 is described in the accompanying Schedule of Findings and Responses. 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 on 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
August 11, 2021

City of Tomball, Texas

Schedule of Findings and Responses
For the Fiscal Year Ended September 30, 2020

Finding 2020-001

Material Weakness in Internal Control over Financial Reporting: Financial Statement Close

Criteria

Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition

During the course of our audit we identified a number of misstatements in the City's financial records, which resulted in a number of material corrections needed to present the financial statements fairly in accordance with accounting principles generally accepted in the United States (US GAAP). Certain misstatements affected the balances of net position or fund balance previously reported and resulted in adjustment of these previously-reported balances. Additional material misstatements were concentrated in the areas of accounting for accruals, bond issuances, intra-entity transactions, and capital assets.

We also observed that the City's bank reconciliation process was significantly delayed; the City's September 30, 2020 general operating account bank reconciliation was not complete until March 2021 and several general ledger accounts were unreconciled prior to the commencement of our audit fieldwork in January 2021. Errors in these unreconciled accounts were identified, and corrected, during the course of our audit.

Cause

The above conditions are indicative of a material weakness in the City's internal controls over financial reporting as the City's controls over financial statement closing were not sufficient to ensure that financial statements were accurate, nor provide for the timely identification and correction of errors.

Implementation of an effective financial statement closing process requires dedicated personnel resources with sufficient time and experience to complete this function, and such resources did not exist due to understaffing in the accounting and finance department at the time of our audit.

Effect or Potential Effect

The City's staff were not able to timely reconcile the bank accounts, nor provide complete capital asset ledgers, resulting in delays in the financial statement close process and ultimately requiring the outsourcing of these functions.

The deficiency in internal controls allowed material misstatements of the City's financial statements to occur which were not prevented, or detected and corrected, by the City's system of internal control. Failure to address the deficiency will allow possible irregularities to exist and continue without detection.

Recommendation

We recommend that the City improve the financial reporting function by providing additional resources to the accounting and finance department, through training and hiring additional experienced personnel.

City of Tomball, Texas

Schedule of Findings and Responses - Continued

For the Fiscal Year Ended September 30, 2020

City's Response:

Staff recognizes the described deficiencies and has taken several steps to address the needs of the finance department. Errors in the setup of the accounting software have been found and corrected. The process to identify these errors are continuing. Additionally an experienced municipal accountant consultant has been retained to assist the staff with the daily workload and assess our procedures including the staff workload distribution. Implementation of the consultant's recommendations are in the process. The current vacancy of the senior accountant is being addressed by utilizing existing staff to train and cross train across the department to ensure continuation of operations. Consultants are also being used to complete the reconciliation to our main pool cash account. We are now current on all bank reconciliations. As of now, we will continue to outsource the bank reconciliation of our Consolidated Operating Account. Our staff has become more proficient with Incode10 facilitating accounting processes and working on streamlining procedures while collaborating with the consultant to ensure procedures are performed in accordance with GASB.

Finding 2020-002

Significant Deficiency in Internal Control over Financial Reporting: Reconciliation of Restricted Funds

Criteria

The Governmental Accounting Standards Board (GASB) requires governmental entities to utilize fund accounting for purposes of accountability for public resources and compliance with any restrictions on the use of the resources. Resources obtained through the issuance of bonds are restricted based on the purpose of the bond issuance.

Condition

The City maintains a Capital Projects Fund as a governmental fund, in accordance with GASB requirements. This fund accounts for the expenditures associated with capital projects and the resources used to fund those expenditures. The resources are comprised of two primary sources: the restricted proceeds from bonds issued for capital purposes, and additional resources from unrestricted sources which are transferred to this fund by the City.

During our audit we noted that the City primarily uses a pooled cash general operating account for expenditures. The pooled cash account is funded by the City's unrestricted (cash) resources, and restricted resources are generally maintained in a separate external investment pool account. However, expenditures associated with both restricted and unrestricted resources are funded through the pooled cash account, without timely reconciliation between restricted and unrestricted resources. As a result, the balances present in the City's restricted external investment pool account are not representative of the actual unexpended balance of the restricted resources because the restricted resources have been expended through the general operating account.

Cause

Utilization of a pooled cash account, without timely reconciliation.

Effect or Potential Effect

Maintaining restricted resources in a separate account, while utilizing a pooled, unrestricted account for the expenditures of those restricted resources without timely reconciliation, results in a condition where the actual balance present in that restricted account is not representative of the remaining available restricted resources. This condition could result in over-expenditure of restricted resources, if timely information is not available regarding the remaining balance of such resources.

City of Tomball, Texas

Schedule of Findings and Responses - Continued
For the Fiscal Year Ended September 30, 2020

Recommendation

We recommend that the City timely reconcile all bank accounts. The balance of the restricted external investment pool account should be reviewed and the restricted resources that have been expended should be transferred out of this account to provide for a meaningful segregation of restricted and unrestricted resources. We further recommend that the City consider limiting the use of a pooled cash account to only unrestricted resources and expenditures.

City's Response

Staff is taking the steps to identify the steps needed to move separating the restricted funds from the unrestricted funds. Discussions with the city depository bank are planned and the separation of the funds will be done once the proper procedure is reviewed and approved.

Finding 2020-003

Significant Deficiency in Internal Control over Financial Reporting and Noncompliance: IRS Reporting

Criteria

The IRS establishes requirements for payment of employer payroll taxes and informational reporting. As an employer, the City is subject to IRS requirements.

Condition

The City has received notifications from the IRS concerning errors in the City's reports filed and payments made to the IRS. Such errors were identified over a period of time, concerning either separate instances of deficiencies or recurring deficiencies that were not correctly remediated.

During the course of our audit, we identified a payment to the IRS for underpayments, penalties and interest of approximately \$13 thousand, related to the City's June 30, 2020 tax period.

Cause

Inaccuracies in the City's IRS reporting which were not prevented, or remediated timely, indicate a deficiency in internal controls around this process.

Effect or Potential Effect

Noncompliance with IRS requirements results in the assessment of penalties and interest.

Recommendation

We recommend that the City review its internal control procedures over IRS reporting. Controls should be established to ensure accurate reporting and timely remediation of any deficiencies.

City's Response

When staff became aware of the problem and determined it was a deficiency in understanding Incode 10 procedures and a lack of tax knowledge. All HR employees have been trained to understand both the software and the requirements of the tax code. Procedures were also implemented to review payroll tax deposits each time to ensure accuracy and that the payments are done in a timely manner.