

City of Tomball, Texas

Compliance Report

For the Fiscal Year Ended September 30, 2021

City of Tomball, Texas
Compliance Report
For the Fiscal Year Ended September 30, 2021
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City of Tomball, TexasSchedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2021

Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Grant Funds Expended
U.S. Department of Housing and Urban Development			
Passed through Texas General Land Office Community Development Block Grant - Disaster Recovery Program	14.228	19-076-029-8386	<u>\$ 1,523,566</u>
Total U.S. Department of Housing and Urban Development			<u>1,523,566</u>
U.S. Department of Treasury			
Passed through Harris County, Texas COVID 19 - Coronavirus Relief Fund	21.019	n/a	<u>646,855</u>
Total U.S. Department of Treasury			<u>646,855</u>
U.S. Department of Homeland Security			
Passed Through Texas Department of Emergency Management FEMA Disaster Grants - Public Assistance	97.036	4332DRTXP0000001	<u>763</u>
Total U.S. Department of Homeland Security			<u>763</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,171,184</u></u>

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

City of Tomball, Texas

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2021

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Tomball, Texas (the "City") under programs of the federal government for the year ended September 30, 2021. The information in this 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). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City. Expenditures reported on the Schedule are presented on the modified accrual basis of accounting. This basis of accounting recognizes expenditures in the accounting period in which the liability is incurred, if measurable. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2. Indirect Cost Rate

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

Note 3. Relationship to Federal Financial Reports

Grant expenditure reports 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.

Note 4. Expenditures Incurred in a Prior Year

The City recognized \$763 in the Schedule for FEMA Disaster Grants – Public Assistance (Assistance Listing Number 97.036) which represents reimbursements for expenditures incurred in a prior year.

**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, 2021, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2022.

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) as a basis for designing 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 entity'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 was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001 that we consider to be a material weakness.

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 financial statements. 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*.

Weaver and Tidwell, L.L.P.
4400 Post Oak Parkway Suite 1100 | Houston, Texas 77027
Main: 713.850.8787

The Honorable Mayor and
Members of City Council
City of Tomball, Texas

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. 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.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
June 27, 2022



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Tomball, Texas' (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 program for the year ended September 30, 2021. The City's major federal program is 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; 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, 2021.

The Honorable Mayor and
Members of City Council
City of Tomball, Texas

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.

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
Members of City Council
City of Tomball, 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 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, 2021 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 27, 2022, 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
June 27, 2022

City of Tomball, Texas

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2021

Section 1. Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes, 2021-001 |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditor's report issued on compliance with major programs | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 7. Identification of major programs: | |
| a. 14.228 – Community Development Block Grant - Disaster Recovery Program | |
| 8. Dollar threshold used to distinguish between Type A and Type B federal programs | \$750,000 |
| 9. Auditee qualified as a low-risk auditee? | No |

City of Tomball, Texas

Schedule of Findings and Questioned Costs - Continued
For the Fiscal Year Ended September 30, 2021

Section 2. Financial Statement Findings

Finding 2021-001

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, and intra-entity transactions.

Cause

The above condition is 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 during the fiscal year due to understaffing and personnel changes in the accounting and finance department. We noted that there were several changes in the City's key accounting personnel during the fiscal year, and also after fiscal year end. These changes ultimately resulted in increased personnel resources dedicated to the accounting function; however, the timing of personnel changes contributed to the condition due to periods of insufficient staffing. Furthermore, the City's current dedicated personnel assumed their roles subsequent to the end of the fiscal year, with limited time to complete the close process and address the existing condition prior to financial close.

Effect or Potential Effect

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.

Recurring Finding

Yes (2020-001)

Recommendation

We recommend that City personnel continue to review and improve internal controls and procedures in place with respect to the financial statement close process.

Views of Responsible Officials

See Corrective Action Plan.

Section 3. Federal Award Findings and Questioned Costs

None reported.



City of Tomball

Lori Klein Quinn
Mayor

David Esquivel
City Manager

Summary Schedule of Prior Audit Findings

Finding 2020-001

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

Status

Partially corrected. This is a recurring finding 2021-001 in the current year.

City staff recognizes that this is a recurring finding and has taken necessary corrective action. Due to staff turnover from late fiscal year 2021 into early fiscal year 2022, there was a lack of financial reporting oversight for fiscal year-end 2021. Since that time, City staff has implemented and continues to implement internal controls and process improvements to the financial reporting process. Staff expects that Finding 2020-001 will be fully corrected in fiscal year 2022.

Finding 2020-002

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

Status

Completed.

Finding 2020-003

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

Status

Completed.



City of Tomball

Lori Klein Quinn
Mayor

David Esquivel
City Manager

Finding 2021-001

Material Weakness in Internal Control over Financial Reporting: Financial Statement Close (Recurring)

Corrective Action Plan

City staff recognizes that this is a recurring finding and has taken necessary corrective action. Staff has implemented and continues to implement internal controls and process improvements related to the financial reporting process. Policies and procedures are being reviewed and updated as necessary to ensure financial information is timely and accurate. Monthly bank reconciliations are completed timely and staff is preparing balance sheet reconciliations to verify account activity and balances. Financial statements are generated monthly and reviewed by the Finance Director and City Management for accuracy. Lastly, process improvements will be established for year-end close to ensure this finding is resolved for fiscal year 2022.

Person(s) Responsible

Katherine DuBose, Finance Director

Anticipated Completion Date

Implementation began in early fiscal year 2022 and is expected to be completed by September 30, 2022.