

City of Tomball, Texas

Compliance Report

For the Fiscal Year Ended September 30, 2023

City of Tomball, Texas
Compliance Report
For the Fiscal Year Ended September 30, 2023
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City of Tomball, TexasSchedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2023

Grantor/Program Title	Assistance Listing Number	Pass- Through Entity Identifying Number	Grant Funds Expended
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
Small Rural Tribal Body Worn Camera Program	14.228	n/a	\$ 18,257
TOTAL U.S. DEPARTMENT OF JUSTICE			18,257
U.S. DEPARTMENT OF TREASURY			
Direct Program			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	n/a	1,364,097
TOTAL U.S. DEPARTMENT OF TREASURY			1,364,097
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,382,354

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, 2023

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, 2023. 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.

**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, 2023, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 1, 2024.

Report on 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001, that we consider to be a material weakness.

Report on 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*.

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

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other 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.

The Woodlands, Texas
May 1, 2024



**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

Opinion on Each Major Federal Program

We have audited the City of Tomball's (the City) compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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, 2023 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 1, 2024, 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.

The Woodlands, Texas
May 1, 2024

City of Tomball, Texas

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2023

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, 2023-001 |
| 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:
21.027 – COVID 19 Coronavirus State and Local Fiscal Recovery Funds | |
| 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, 2023

Section 2. Financial Statement Findings

Finding 2023-001 (Recurring)

Material Weakness in Internal Control: Information Technology Security

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, including its information technology (IT) infrastructure used in the preparation of financial statements.

Condition

In December 2022, the City fell victim to a breach in its information technology security by a third-party strain of ransomware, which resulted in the City's systems, including enterprise resource planning (ERP), utility systems and backup data being inaccessible.

Cause

The City did not have sufficient IT security protocols in place, leaving their systems at risk.

Effect or Potential Effect

The above condition is indicative of a material weakness in the City's internal controls over financial reporting since the event was pervasive and resulted in a halt to most of the City's operations. The City developed alternative methods of conducting daily operations while rebuilding its IT environment. The recovery of encrypted information may result in missing source documentation and/or unanticipated corrections to the financial statements.

Perspective Information

Due to the timing of occurrence for the ransomware event, this finding was reported for fiscal year ending September 30, 2022 and is a recurring finding for fiscal year ending September 30, 2023.

Recommendation

We recommend that City's management should:

- Obtain the recommendations and final status of the recommendations from recovery partners;
- Establish an incident response policy;
- Establish a process to document incidents and the activities through the completion of an "Incident Summary and Investigation";
- Ensure IT general control processes, security administration, change management, backup and recovery, interface management, physical security, patch management are in place and documentation is maintained to support the processes;
- Perform periodic user access reviews;
- Ensure that administrator access is restricted to appropriate personnel, and where segregation of duties conflicts exist, that sufficient monitoring controls are in place, and;
- Review the City's cybersecurity insurance policy and ensure required processes are in place.

City's Response - Views of Responsible Officials

See corrective action plan.

Section 3. Federal Award Findings and Questioned Costs

None reported.

City of Tomball, Texas

Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended September 30, 2023

Finding 2022-001

Material Weakness in Internal Controls: Information Technology Security

Responsible Parties

Doug Tippey – IT Director

Ben Lato – Senior IT Specialist

Corrective Action Plan

- Obtain the final status from remediation vendor
- Compile documentation from all vendors
- Complete an incident response policy
- Document existing periodic user reviews
- Review the City's cybersecurity insurance to verify requirements
- Utilize detection and response software for 24x7 monitoring of data
- Deploy patch management and inventory systems
- Create documentation for all IT processes, security administration, change management, patch management, inventory, and backups

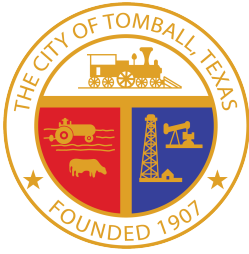
Status

The following corrective actions have been completed:

- Obtain the final status from remediation vendor
- Compile documentation from all vendors
- Document existing periodic user reviews
- Review the City's cybersecurity insurance to verify requirements
- Utilize detection and response software for 24x7 monitoring of data
- Deploy patch management and inventory systems

The following corrective actions have not been completed or have only been partially completed:

- Complete an incident response policy
- Create documentation for all IT processes, security administration, change management, patch management, inventory, and backups



City of Tomball

Lori Klein Quinn
Mayor

David Esquivel, PE
City Manager

Current Year Findings

Finding 2023-001

Material Weakness in Internal Control: Information Technology Security

Corrective Action Plan

- Obtain the final status from remediation vendor
- Compile documentation from all vendors
- Complete an incident response policy
- Document existing periodic user reviews
- Review the City's cybersecurity insurance to verify requirements
- Utilize detection and response software for 24x7 monitoring of data
- Deploy patch management and inventory systems
- Create documentation for all IT processes, security administration, change management, patch management, inventory, and backups

Person(s) Responsible

Tom Wilson – IT Director

Ben Lato – Senior IT Specialist

Anticipated Completion Date

The anticipated completion date is September 30, 2024.