

City of South Houston, Texas

Single Audit Reports

September 30, 2022



City of South Houston, Texas
September 30, 2022

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City of South Houston, Texas
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
<i>Pass-through Texas General Land Office and Harris County, Texas CDBG/State's Program and Non-Entitlement Grants in Hawaii</i>	14.228	D2017-046	\$ -	\$ 2,406,070
Total U.S. Department of Housing and Urban Development			-	2,406,070
U.S. Department of Health and Human Services				
<i>Pass-through Texas Department of Aging and Disability Services Title III, Part B, Grants for Supportive Services and Senior Centers</i>	93.044	4600013878	-	141,259
Total U.S. Department of Health and Human Services			0	141,259
Total Expenditures of Federal Awards			\$ 0	\$ 2,547,329

City of South Houston, Texas
Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of City of South Houston, Texas (the City) under programs of the federal government for the year ended September 30, 2022. 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.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures 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.

Note 3: Indirect Cost Rate

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



2700 Post Oak Boulevard, Suite 1500 / Houston, TX 77056

P 713.499.4600 / F 713.499.4699

forvis.com

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*

Independent Auditor's Report

The Honorable Mayor and
Council Members of the City
of South Houston, 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of South Houston, Texas, (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 3, 2023, which contained emphasis of matter paragraphs regarding a change in accounting principle restatement of beginning of year net position..

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) 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.

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 described in the accompanying schedule of findings and questioned costs, we identified 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001, 2022-004, and 2022-005 to be material weaknesses.

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 questioned costs as items 2022-002 and 2022-003 to be significant deficiencies.

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 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 the response.

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 entity'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.

FORVIS,LLP

Houston, Texas
May 3, 2023



2700 Post Oak Boulevard, Suite 1500 / Houston, TX 77056

P 713.499.4600 / F 713.499.4699

forvis.com

Report on Compliance for The Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

The Honorable Mayor and
Council Members of the City
of South Houston, Texas

Report on Compliance for The Major Federal Program

Opinion on The Major Federal Program

We have audited the City of South Houston, Texas'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 the City's major federal program for the year ended September 30, 2022. 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.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2022.

Basis for Opinion on The 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 the 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.

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 the 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.

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.

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, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated May 3, 2023, which contained emphasis of matter paragraphs regarding a change in accounting principle and restatement of beginning of year net position. 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.

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.

FORVIS, LLP

Houston, Texas
May 3, 2023

City of South Houston, Texas
Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Section I – Summary of Auditor’s Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:

Significant deficiency(ies) identified? Yes None reported

Material weakness(es) identified? Yes No

3. Noncompliance material to the financial statements noted? Yes No

Federal Awards

4. Internal control over major federal awards programs:

Significant deficiency(ies) identified? Yes None reported

Material weakness(es) identified? Yes No

5. Type of auditor’s report issued on compliance for major federal program(s):

Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)? Yes No

City of South Houston, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022

7. Identification of major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
14.228	CDBG/State's Program and Non-Entitlement Grants in Hawaii

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

9. Auditee qualified as a low-risk auditee? Yes No

City of South Houston, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022

Section II – Financial Statement Findings

Reference Number	Finding
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2022-001 Finding: Year-end Close Procedures

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that all accrued revenues and liabilities are properly recorded.

Condition: Multiple account balances were misstated resulting in numerous adjusting journal entries.

Cause: Internal controls and review processes were not in place or were not followed to ensure all year-end close related activity was completed timely.

Effect or potential effect: Not reconciling accounts periodically and at year-end close increases the risk of misstatement of financial statement amounts.

Recommendation: We recommend that the City prepare written policies and procedures over year end close to expedite this process and to generate more accurate financial statements. Responsibility for specific year-end close procedures, related reviews and deadlines should also be included in the written policy. Additionally, because certain general ledger account balances are not reconciled to their supporting detail, many carryforward variances exist. To expedite the year end closing procedures and to generate more accurate financial statements throughout the year, reconcile the accounts receivable and accounts payable subledger to the general ledger monthly. Additionally, all other general ledger accounts should be reviewed monthly for reasonableness.

Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.

City of South Houston, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022

**Reference
Number Finding**

2022-002 Finding: Outstanding Checks

Criteria or Specific Requirement: The Texas unclaimed property law requires government entities to report to the state any personal property they are holding that is considered abandoned (*i.e.*, no contact between the holder and the owner) for periods ranging from one to 15 years, depending on the type of abandoned property.

Condition: At September 30, 2022, the City had outstanding checks totaling approximately \$54.4 thousand that were over one year old.

Cause: The City does not have a formal, clearly defined policy for disposition of uncashed checks. Because no such policy exists, long-outstanding checks are not handled in a timely manner.

Effect or potential effect: Noncompliance with state law regarding unclaimed property.

Recommendation: We recommend that management establish a formal, written policy concerning uncashed checks based on current State escheat laws. Such a policy should specify aging milestones with required actions. For example, this policy might specify that when checks are past 60 days old, the payee should be contacted. After 90 days, the checks should be moved to a suspense or written off.

Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.

City of South Houston, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022

Reference

Number Finding

2022-003 Finding: Balance Sheet Account Support

Criteria: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that all amounts as reported in the financial statements are accurate.

Condition: The City does not have records supporting the balance of mowing fees receivable or municipal court bonds payable as reported in the City's general ledger.

Cause: The balances were supported by paper files in previous years and not converted to electronic files after transition in staffing.

Effect or potential effect: The lack of supporting detail for balance sheet accounts increases the risk of misstatement of financial statement amounts.

Recommendation: We recommend that the City perform the research necessary to determine the listing and balances owed related to liens and municipal court bonds and reconcile the balance to the City's general ledger on a monthly basis.

Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.

City of South Houston, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022

**Reference
Number Finding**

2022-004 Finding: Cash Receipts Segregation of Duties

Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that there is segregation of duties in areas such as cash receipts.

Condition: There is a lack of segregation of duties in cash receipts as the City's bookkeeper has access to cash receipts, post entries to record cash receipts in the general ledger and perform bank reconciliations.

Cause: The City has a smaller staff size, limiting ability to segregate duties.

Effect or potential effect: The possibility of errors or fraud going undetected in the normal course of business.

Recommendation: We recommend the City limit, to the extent possible, performance of incompatible duties by individuals in the City's accounting department. In order to better control mail receipts, we recommend that a list be prepared of mail receipts by an employee not otherwise handling cash. Entries on the mail receipt listing should be subsequently traced, on a test basis, to the receipted deposit slips. The tracing should be performed by the person preparing the listing or by someone not otherwise handling or recording cash transactions. Any exceptions found should be reviewed by the manager.

Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.

City of South Houston, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2022

Reference Number	Finding
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2022-005 Finding: Capital Assets

Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Effective internal controls are an important component of a system that helps ensure transactions are recorded timely and in the proper reporting period, thereby providing accurate financial data. Specifically, the City should have controls in place to ensure that all capital assets are complete, properly recorded and reported in the proper period. Accounting principles generally accepted in the United States of America (US GAAP) that address the proper recognition and accounting of capital assets include:

- GASB Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*
- GASB Statement No. 37, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34*
- Various implementation guidance issued by GASB

Condition: The City restated the beginning net position of governmental, business type activities, and the enterprise fund to capitalize capital projects that were erroneously expensed in prior years.

Cause: Internal controls and review processes were not in place or were not followed to ensure all capital assets were capitalized.

Effect: The conditions noted above resulted in restatements of prior year balances and also adjustments to current year ending balances as indicated above.

Recommendation: We recommend that the city staff review expenditures monthly to determine which expenditures are for capital assets and ensure that the amounts are properly capitalized in accordance with the City’s policy.

Views of Responsible Officials: The City agrees with the finding. See separate report for planned corrective actions.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
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No matters are reportable.

City of South Houston, Texas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2022

Reference Number	Summary of Finding	Status
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No matters are reportable.

City of South Houston, Texas
Corrective Action Plan
Year Ended September 30, 2022