Communication with Those Charged with Governance

To Management and City Council
City of Jourdanton, Texas

We have audited the basic financial statements of the City of Jourdanton, as of and for the year ended September 30, 2019, and have issued our report thereon dated March 30, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards (and Government Auditing Standards)

As communicated in our engagement letter dated June 11, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of Jourdanton solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided a separate material weakness in internal control letter over financial statement preparation, journal entries and software integration dated March 30, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.
Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Jourdanton is included in Note 1 to the financial statements. On October 1, 2018, the city adopted GASB Statement No. 88, Certain disclosures Related to Debt, including Direct Borrowings and Placements. However, the City changed the estimated useful lives of the buildings from 50 years to 40 years to be consistent with industry standard and IRS guidelines. This change in estimate resulted in a prospective change of the accumulated depreciation. No new additional accounting policies were adopted and the application of existing policies was not changed during 2019.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Useful lives of capital assets
- Pension related liabilities, to include the mortality and investment assumptions.
- OPEB related liabilities
- Allowance for uncollectible receivables for
  - Utility Revenues
  - Municipal Court Receivables
  - Property taxes

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting City of Jourdanton’s financial statements relate to: Texas Municipal Retirement System, prior period adjustment and insured deposits.

Significant Difficulties Encountered during the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.
Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City of Jourdanton's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Adjustments to correct beginning fund balances to agree with the prior year audit
- Adjustments to reclassify various revenues and expenditures coded to transfer accounts
- Prior period adjustments to correct overstated capital assets in the water and sewer funds
- Adjustments to record capital asset additions, disposals and depreciation in the water and sewer funds
- Prior period adjustments to accrue unbilled receivables
- Adjustment to accrue additional settlement proceeds received after year end
- Adjustments to correct bond payables in the water and sewer funds
- Adjustments to correct municipal court receivables, allowance and related deferred revenues

Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in which there was a Predecessor Auditor

As noted previously, we have identified the existence of material misstatements that affect the prior period financial statements on which the predecessor auditor had previously reported without modification. These adjustments are detailed in Note 10 to the financial statements. Our opinion on the current period financial statements is not modified with respect to these adjustments.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated March 30, 2020.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Matters

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions
occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Public Funds Investment Act

As a part of our audit, we review the City’s compliance with the Public Funds Investment Act. Our procedures determined that management was unable to locate and provide a copy of the investment policy. Further, a policy was not adopted for the 2019 fiscal year.

Other Significant Findings or Issues

In the normal course of our professional association with City of Jourdanton, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. During our audit procedures, we became aware of a few opportunities to strengthen the City’s internal controls with the following suggestions:

1. Capitalization Policy

   The City does not have a formal capitalization policy. A formal policy should be established to record capitalization of property and equipment. The City should establish a reasonable minimum amount threshold for capitalization of assets and expense items below the threshold.

2. Outstanding Checks

   There are many issued checks over six months old and included on the City’s bank reconciliation. The City should adopt an internal policy regarding procedures for stale checks. Furthermore, it is important that long-term outstanding checks be reviewed regularly to maintain control over outgoing checks, as well as ensure that the City is in compliance with state regulations regarding the treatment of unclaimed property.

3. Uninsured Deposits

   As of September 30, 2019, the City had funds in excess of combined federal deposit insurance coverage (FDIC) and pledged collateral of $1,734,102 at First Commercial Bank. Funds in excess of FDIC coverage and pledged collateral would not be recoverable in the event that the financial institution was insolvent. Additionally, the depository contract had lapsed. Consider spreading deposits across additional financial institutions so that funds are not in excess of coverage or obtain additional pledged collateral to ensure funds are fully secured. Complete a depository contract with your bank as soon as possible.

4. Pooled Cash

   The City’s pooled cash account does not reconcile in total to the trial balance. Further, we were unable to determine whether the general fund and water fund’s claim on cash is materially accurate based on historical activity. We recommend reviewing the pooled cash account activity to verify the pooled cash balance in each fund and transferring appropriate funds to the pooled cash account to reconcile accurately to the trial balance.
5. **Community Center Deposits**

There are currently little to no controls over community center deposits. We recommend collecting the deposit, cleaning fees and security fees and sending funds to City Hall. All fees should be paid through the City by check, not cash. These funds should be deposited at the City on a regular basis with a copy of the contract. Deposits should be given back to the renter in the form of a check by the City. This will allow a paper trail of the funds and proof the money was given back to the renter. The calendar should include whether or not a deposit was paid. Consider keeping an excel spreadsheet with the following details: current date, name of renter, date of rental, deposit paid, cleaning fee paid, security paid and receipt numbers, date deposit was approved and sent back to the renter. The renter should be advised that they will receive a refund of deposit within 2 weeks after the rental date. Additionally, W-9’s should be requested from each vendor and a 1099 issued if they earn more than $600 during the calendar year is considering contract labor.

6. **Concessions**

Currently, concession stand workers fill out a form with their name, hours worked, signature and date and are not asked to fill out a W-9 (contract laborer) or W-4 (employee). Workers are paid from a cash box. Employees should be paid by check as vendors or employees through the City.

Additionally, when supplies are purchased, most of the time the receipt was not attached to the packet. Receipts for all purchases should be kept and stored at City Hall.

We also noted a few rental fees that changed from $175 to $150 per day with no explanation on the rental document. Changes in fees should be properly documented and approved by appropriate personnel.

7. **Municipal Court Tickets**

During our walkthrough of municipal court procedures, we noted instances of missing and lost tickets as well as non-sequential ticket numbers. The police department track the ticket books distributed and then should give the municipal court a list monthly of voided, missing or lost tickets.

8. **Transfers**

During two of your prior audits, funds were transferred from the General Fund to the Sewer Fund for payments of sewer fund debt. Both transfers appear to be audit adjustments and not budgeted. The Council should consider if these payments were to be repaid to the General Fund from the Sewer Fund. If so, a budget amendment should be prepared during the year end September 30, 2020 and the transfer of funds completed before year end September 30, 2020.

None of the matters discussed resulted in a condition to our retention as City of Jourdanton’ auditors.

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

\[Signature\]

Armstrong, Vaughan & Associates, P.C.

March 30, 2020
Material Weaknesses in Internal Controls

To the Mayor and Members of the Council
City of Jourdanton, Texas

In planning and performing our audit of the financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund of the City of Jourdanton, Texas as of and for the year ended September 30, 2019, 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, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our audit procedures 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 misstatements on a timely basis. A material weakness is a deficiency or 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
- Probable. The future event or events are likely to occur.

We consider the following deficiencies in the City's internal control to be material weaknesses.

Financial Statement Preparation

For the year ended September 30, 2019, management requested us to prepare the draft of the City’s financial statements, including the related notes to financial statements. As a result, certain adjustments were required to be made to the accounting records such as recording accounts receivable, payables, and interest income. Cities with limited staff and resources tend to have difficulty preparing the annual financial reports and applying all of the necessary accounting principles to be in compliance with generally accepted accounting principles (GAAP). However, internal control is the same for all entities, regardless of size. We cannot be considered part of the City’s internal controls (which includes the preparation of the financial statements), so the fact
that we prepared the draft financial statements and related notes represents a control deficiency for the City.

To remedy the control deficiency, management may obtain training or hire additional consultants outside of the auditor to assist in the drafting of the financial statements. However, management may ultimately decide to accept the deficiency and continue to have the auditors prepare the draft financial statements. It is our responsibility to report this deficiency to ensure management has the information necessary to make an informed decision that is best for the City.

The City has hired an outside accountant consultant who is an expert in City Government as well as Incode in the current year. Notable improvements have been made in this area as well as the comment below.

**Journal Entries**

During the audit it was noted that journal entries from one cash account to another were regularly recorded incorrectly through a transfer account. Additionally, some of the transfer accounts were located in the Balance Sheet instead of the Statement of Revenues and Expenditures, which resulted in incorrect fund balance numbers when rolled forward from the prior year end. The transfers and due to/from accounts were not reconciled regularly during the year resulting in accounts that did not balance between funds.

The City should close the transfer accounts currently in Incode, set up new accounts and assign them as a revenue or expense type of account. The transfers between cash accounts should not use a transfer account, instead be recorded through the pooled account. The pooled account should always be include on both sides of the transactions rather than overridden. Reconciliations of the due to/from accounts and the transfer accounts should be performed monthly.

**Incode Integration**

The court system and the accounting system are both Incode. However, during set up, it was not integrated. Additionally when manually recorded, the court fees are incorrectly recorded in the transfer and the money due to the state is recorded in revenue and the transfer accounts resulting in errors.

Immediately integrate the software systems to eliminate the routine errors in recording the municipal court transactions.

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

Sincerely,

Armstrong, Vaughan & Associates, PC

Armstrong, Vaughan & Associates, PC
March 30, 2020