CITY OF JOURDANTON
Jourdanton, Texas

AUDIT COMMUNICATION LETTER

For the Year Ended September 30, 2022
Honorable Mayor and City Council
City of Jourdanton
Jourdanton, Texas

We have audited the financial statements of the City of Jourdanton (the City) for the year ended September 30, 2022. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 26, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City’s compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

During the year, the City adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, Leases. There was no effect to the City’s financial statements in the current year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance. All significant transactions have been recognized in the financial statements in the proper period.
Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s 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 significantly from those expected. The most sensitive estimates affecting the City’s financial statements are depreciation expense; allowance for uncollectible taxes, court fines and utilities, the actuarially determined net pension (asset)/liability and net OPEB liabilities and deferred inflows and outflows related to pension. The following are the bases used by management for such estimates:

- Depreciation is based on estimated useful lives of the respective capital asset class;
- Allowance for uncollectible taxes, court fines and utilities are based on historical data and trends; and
- The net pension (asset)/liability and net OPEB liability is based on actuarially determined amount as of the valuation date, adjusted for activity subsequent to the valuation date through the financial statement date.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management. However, we did encounter difficulties in obtaining records necessary for the performance and completion of the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjusting entries are as follows:

- Adjustment to decrease the general fund balance and equipment (asset) accounts by $466,929.
- Adjustment to decrease the water fund balance and increase the accumulated depreciation by $285,565.
- Adjustment to decrease the sewer fund balance and increase the accumulated depreciation by $362,070.
- Adjustment to decrease the sales tax liability account in the general fund and decrease related expenses by $50,737.
- Adjustment to decrease tax revenue in the debt service fund by $31,100, increase related deferred revenues by $11,828 and decrease taxes receivable by $19,271.
- Adjustment to increase sales tax receivable and revenues in the general fund by $184,991.
- Adjustment to increase water sales and bond principal in the water fund by $51,000.
- Adjustment to increase depreciation expense and accumulated depreciation in the water and sewer funds by $288,692 and $358,811, respectively.
- The transfers in and out in the capital project funds are out of balance by $143,755. This out of balance was not corrected.
We also assisted the City with adjustments to convert the fund financial statements to entity-wide financial statements in accordance with the requirements of GASB Statement No. 34, No. 68, and No. 75.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreement arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated April 9, 2024.

**Management Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Issues**

*Matters Discussed with Management Prior to Reappointment*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to appointment 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 reappointment.

**Supplementary Information**

With respect to the combining statements, budget schedules, and pension information, as listed in the City’s Annual Financial Report’s table of contents; we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America; the method of preparing it has not changed from the prior period; and, the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled such supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Other Information in Documents Containing Audited Financial Statements**

We are not aware of any other documents that contain the audited financial statements and the auditor’s report thereon. If we become aware that such documents were published, we would have a responsibility to read such information, in order to identify material inconsistencies, if any, with the audited financial statements.
Communication of Internal Control Matters

In planning and performing our audit of the financial statements of the City of Jourdanton, Texas as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States of America, 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.

Maintenance and Reconciliation of the General Ledger

An integral part of internal control, is the timely reconciliation and maintenance of the general ledger. The books of account were not timely maintained nor reconciled throughout the year. We noted the following deficiencies:

- The bank accounts for the year ended September 30, 2022 were not reconciled until October 2023.
- Transactions in the UMB escrow bank accounts were incorrectly recorded or not recorded in the general ledger.
- The City does not maintain capital asset depreciation records. In the past, the City has relied on the auditors to prepare and update schedules for the City. It is the City’s responsibility to maintain such records.
- Various significant adjustments were required as part of the audit to properly reflect transactions or balances in the financial statements. We proposed significant adjustments in the following accounts: net assets, taxes receivable/revenues, interfund receivables and payable, etc.

We recommend the following to improve internal control:

- The City’s general ledger should be updated, reviewed, and reconciled monthly. The City should employ an accountant with sufficient experience in governmental accounting either on a contract basis or as an employee.
• The City should consider purchasing the capital asset module from its current software provider. The capital assets general ledger accounts should be updated monthly and reconciled to the capital outlays expenditures.

**Accounting Documentation and Files**

As noted previously, we encountered difficulties in performing the audit in that documentation needed to perform the audit was not timely provided. Records requested that were not timely provided included: Bank statements, capital project contracts and invoices paid.

We recommend that the City maintain both electronic and paper files to include all monthly bank statements, vendor files, construction contracts. Such files should be maintained in order throughout the year and be kept for at least five years.

**Accounting Policies and Procedures**

Written accounting policies and procedures are an important tool in communicating policies and acceptable practices to be followed in conducting the City’s business. The City does not have written accounting policies and procedures.

We recommend that accounting policies and procedures be developed and documented. The City should document required policies and procedures to include: cash receipts, cash disbursements/accounts payable, purchasing, payroll. Significant internal control including separation of duties should also be documented.

**Prior Year Comments and Recommendations**

The comments below were included in the predecessor auditor communications and appear not to have been implemented.

**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.

**Comparison of Utility Consumption to Sales**

A key operating indicator of utility services, particularly in the water service, is a comparison of supply entering the system and consumption billed to the customers. This indicator can reveal inefficiencies in the delivery system, potential billing errors, or unbilled consumptions. It does not appear this comparison was being performed for the water system. Consider adding this comparison to the monthly reports to Council.
Manual Checks and Reconciliations

Checks have been written outside of the software system and have not been immediately recorded in the Incode System and at times not recorded until the reconciliation of the bank for that particular month is performed. (Currently, reconciling December 2021). A check should never be written outside of the software system. All checks should be run through Accounts Payable in the Incode system to ensure the account balances are current.

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.

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.

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.

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.

Changes in fees should be properly documented and approved by appropriate personnel.

Inventory
A physical inventory of supplies was not accomplished at year end by the water and sewer departments. A physical inventory should be taken annually on September 30 to determine the year end value.

Permits
Permits are being routinely issued based on calculations that are not in line with City ordinance. The City should ensure all employees authorized to issue permits are properly instructed on how to apply the ordinance and calculate permits.

This letter does not affect our report dated April 9, 2024, on the financial statements of the City. Our comments and recommendations, all of which have been discussed with management, are intended to improve the internal control and ensure compliance with State requirements, and to improve operations.
This report is intended solely for the use of the City Council and management of the City and is not intended to be, and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of the City during the course of our audit.

April 9, 2024