

SINGLE AUDIT REPORTS

**CITY OF BAYTOWN,
TEXAS**

**For the Year Ended
September 30, 2021**

CITY OF BAYTOWN, TEXAS

SINGLE AUDIT REPORTS

September 30, 2021

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INDEPENDENT AUDITORS' 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, City Council
Members, and Finance Committee of the
City of Baytown, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Baytown, Texas (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 and have issued our report thereon dated June 10, 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.

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 a certain deficiency in internal control that we consider to be a material weakness.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency 2021.001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency, or 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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*.

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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
June 10, 2022



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Mayor, City Council
Members, and Finance Committee of the
City of Baytown, Texas:

Report on Compliance for Each Major Federal Program

We have audited the City of Baytown, Texas' (the "City") compliance with the types of compliance requirements described 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, 2021. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' 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; 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). 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.

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.

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 units, 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 10, 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.

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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
June 10, 2022

CITY OF BAYTOWN, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2021

No prior year findings.

CITY OF BAYTOWN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

A. SUMMARY OF AUDIT RESULTS

1. The auditors’ report expresses an unmodified opinion on the basic financial statements of the City of Baytown, Texas (the “City”).
2. A material weaknesses in internal control was disclosed by the audit of the basic financial statements.
3. No significant deficiencies in internal control were disclosed by the audit of the basic financial statements.
4. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
5. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed by the audit.
6. The auditors’ report on compliance for the major federal award programs expresses an unmodified opinion.
7. No audit findings relative to the major federal award programs for the City are reported in Part C of this schedule.
8. The programs included as major programs included:

<u>AL Number</u>	<u>Program Title</u>
14.218	Community Development Block Grants/Entitlement Grants
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

9. The threshold for distinguishing Type A and B programs was \$750,000.
10. The City did qualify as a low-risk auditee in the context of the Uniform Guidance.

B. FINDINGS – BASIC FINANCIAL STATEMENTS AUDIT

2021.001 UNDETECTED MISSTATEMENTS

Material Weakness

Criteria

Timely and accurate reconciliations of bank accounts and investments are an essential control to provide reasonable assurance that transactions are properly recorded.

Condition

Throughout the majority of the year, bank and investment account reconciliations performed were inaccurate which failed to detect material errors and omissions.

CITY OF BAYTOWN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Effect

The City's cash, investments, revenue, and expense accounts had material variances that netted to approximately \$2.7 million.

Cause

Early in the year, City personnel discontinued application of tools and techniques to crosswalk bank account activity to overcome limitations with the accounting system to reconcile bank accounts. Errors and omissions which should have been revealed by the bank and investment reconciliations went undetected. Second party review of the bank and investments, if any, did not identify the reconciliation discrepancies.

Recommendation

The City should reprioritize the bank and investment account reconciliation process and develop tools and techniques to ensure timely and accurate reconciliations, to research and correct omitted and incorrect transactions, and to appropriately document the control procedures related to management's review.

Views of Responsible Officials

See Corrective Action Plan.

C. FINDINGS – FEDERAL AWARDS

None



CITY OF BAYTOWN

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June 10, 2022

Corrective Action Plan

Finding 2021.001

Contact person: Victor Brownlees

Corrective action planned:

Senior management has already identified areas of weakness in the internal control environment and taken steps to address those weaknesses. The audit itself identified these further deficiencies relating to bank and investments reconciliations - this resulted in further actions being taken by management prior to the completion of the audit. The City is currently introducing revised reconciliation processes and implementing additional controls to overcome the present computer system limitation. These processes and controls will be documented, City staff will be given appropriate training in their use and management oversight in this area will be increased. In the longer term the City will be replacing the existing accounting system so that more automated tools and techniques can be used.

Anticipated completion date: September 30, 2022

X

W. Victor Brownlees
Director of Finance

CITY OF BAYTOWN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Page 1 of 2)
For the Year Ended September 30, 2021

<u>Grantor/ Program Title</u>	<u>AL Number</u>	<u>Grant/Contract Number</u>	<u>Program or Award</u>	<u>Expenditures</u>
U.S. Department of Justice				
<i>Direct Awards</i>				
Justice Assistance Grant Program	16.738	2020-DJ-BX-0605	\$ 19,719	\$ 19,719
COVID 19-Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-1330	63,737	18,391
Total Direct Awards			<u>83,456</u>	<u>38,110</u>
Total U.S. Department of Justice			<u>83,456</u>	<u>38,110</u>
U.S. Department of Treasury				
<i>Pass-Through Harris County</i>				
COVID 19-Coronavirus Relief Fund	21.019	2020 COVID-19	4,008,345	75,122
Total U.S. Department of Treasury			<u>4,008,345</u>	<u>75,122</u>
Office of National Drug Control Policy				
<i>Direct Award</i>				
High Intensity Drug Trafficking Area Program	95.001	G19HN0005A	1,921,121	806,007
High Intensity Drug Trafficking Area Program	95.001	G20HN0005A	1,383,215	1,256,466
High Intensity Drug Trafficking Area Program	95.001	G21HN0005A	2,033,907	235,558
Total Direct Awards			<u>5,338,243</u>	<u>2,298,031</u>
Total Office of National Drug Control Policy			<u>5,338,243</u>	<u>2,298,031</u>
U.S. Department of Housing and Urban Development				
<i>Pass-through Texas General Land Office</i>				
South Main Drainage Project	14.228	19-076-002-B351	1,802,857	919,832
Lincoln Cedars and Julia Ann Villa Drainage Project	14.228	20-065-113-C310	1,785,864	166,750
Total Pass-through Texas General Land Office			<u>3,588,721</u>	<u>1,086,582</u>
<i>Pass-Through Harris County</i>				
EDWWTP Phase 1 Rehabilitation Project	14.228	D2017-040 (19-147-002-B490)	6,602,826	361,250
<i>Pass-through Texas Department of Housing and Community Affairs</i>				
COVID 19-Texas Emergency Rental Assistance Program and Texas Eviction Diversion Program	14.228	B-20-DW-48-0001	187,133	21,874
Total Pass-through Texas Department of Housing and Community Affairs			<u>187,133</u>	<u>21,874</u>
<i>Direct Award</i>				
Community Development Block Grant	14.218	B-18-MC-48-0033	688,086	113,605
Community Development Block Grant	14.218	B-19-MC-48-0033	608,584	1,300
COVID 19-Community Development Block Grant	14.218	B-20-MW-48-0033	930,142	110,027
Community Development Block Grant	14.218	B-20-MC-48-0033	681,971	494,530
Total Direct Award			<u>2,908,783</u>	<u>719,462</u>
Total U.S. Department of Housing and Urban Development			<u>13,287,463</u>	<u>2,189,168</u>

CITY OF BAYTOWN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS(Page 2 of 2)
For the Year Ended September 30, 2021

<u>Grantor/ Program Title</u>	<u>AL Number</u>	<u>Grant/Contract Number</u>	<u>Program or Award</u>	<u>Expenditures</u>
U.S. Department of Homeland Security				
<i>Pass-through Texas Office of the Governor - Homeland Security Grants Division</i>				
2019 Structural Collapse and Technical Rescue Sustainment	97.067	3916001	\$ 102,600	\$ 67,909
2020 Structural Collapse and Technical Rescue Sustainment	97.067	3916002	93,117	82,201
2020 Sustain Type I Regional SWAT	97.067	4010001	121,500	121,455
2020 Sustain Regional HazMat Team	97.067	4113501	150,000	149,385
2020 Sustain Type II Regional HazMat Team	97.067	4009701	47,810	45,845
Total Pass-through Homeland Security Grants Division			<u>515,027</u>	<u>466,795</u>
<i>Pass-through Texas Department of Public Safety Division of Emergency Management</i>				
Hurricane Harvey	97.036	4332-DR-TX	1,321,675	465,713
Hurricane Laura	97.036	FEMA-EM-3540-TX	22,843	22,843
Total Pass-through Texas Department of Public Safety Division of Emergency Management			<u>1,344,518</u>	<u>488,556</u>
Total U.S. Department of Homeland Security			<u>1,859,545</u>	<u>955,351</u>
Federal Highway Administration				
<i>Pass-through Texas Department of Transportation</i>				
Highway Planning and Construction Cluster:				
*Surface Transportation Program	20.205	CSJ 0912-72-359	1,252,800	85,929
Total Federal Highway Administration			<u>1,252,800</u>	<u>85,929</u>
Total Federal Awards and Expenditures			<u>\$ 25,829,852</u>	<u>\$ 5,641,711</u>

*Indicates clustered program under OMB Compliance Supplement.

The accompanying notes are an integral part of this schedule.

CITY OF BAYTOWN, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2021

1. REPORTING ENTITY

The accompanying schedule of expenditures of federal awards (the “Schedule”) presents the activity of all federal financial assistance programs of the City of Baytown, Texas.

2. BASIS OF ACCOUNTING

The 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). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These 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. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

4. INDIRECT COST RATE

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

5. DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)

During the emergency period of COVID-19, federal agencies and recipients of federal assistance funds donated personal protective equipment (PPE) to non-federal entities. In connection with that donation, the recipient must disclose the estimated value of the donated PPE, but such amounts are not included in the SEFA. The City did not receive any donated PPE during the reporting year.

6. PRIOR YEAR EXPENDITURES

Expenditures in the amount of \$12,754 related to the federal grant program, Disaster Grants-Public Assistance, Assistance Listing 97.036, and \$108,400 related to the federal grant program, High Intensity Drug Trafficking Area Program, Assistance Listing 95.001 were incurred in the prior year, however; approval was not provided by the granting agency until fiscal year 2021. Accordingly, these expenditures have been listed on the fiscal year 2021 SEFA.