

SINGLE AUDIT REPORTS

**CITY OF BAYTOWN,
TEXAS**

**For the Year Ended
September 30, 2022**

CITY OF BAYTOWN, TEXAS
SINGLE AUDIT REPORTS
September 30, 2022

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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, 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 October 6, 2023.

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 2022.001 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 significant deficiencies.

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
October 6, 2023



**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

Opinion on Each Major Federal Program

We have audited the City of Baytown, Texas' (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, 2022. The City's major federal programs are identified in the summary of audit 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, 2022.

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; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' 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.

Auditors' 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 generally accepted auditing standards, *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 generally accepted auditing standards, *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 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 Auditors' 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 have not been 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, 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, 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 October 6, 2023, 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
October 6, 2023

CITY OF BAYTOWN, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended September 30, 2022

| Finding/Recommendation | Current Status | Management's Explanation If Not Implemented |
|--|-----------------------|---|
| <p>Finding 2021.001 - Undetected Misstatements Type of Finding - Material Weakness Estimated Variance: \$2.7 million</p> <p>Recommendation: The City should reprioritize the reconciling process and develop techniques to ensure timely completion of monthly</p> | Unresolved | <p>The City began actively pursuing solutions to the underlying issues and is actively engaged in streamlining the posting process with the goal of completing bank reconciliations within 5 days of month end.</p> |

CITY OF BAYTOWN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2022

I. SUMMARY OF AUDIT RESULTS

Financial Statements

| | |
|---|------------|
| What were the results of the auditors' determination of whether the financial statements were prepared in accordance with generally accepted accounting principles? | Unmodified |
| Is a 'going concern' emphasis-of-matter paragraph included in the auditors' report? | No |
| Is a significant deficiency in internal control disclosed? | No |
| Is a material weakness in internal control disclosed? | Yes |
| Is a material noncompliance disclosed? | No |

Federal Programs

| | |
|---|------------|
| Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200.516(a)? | No |
| Type of audit report issued on compliance for major programs | Unmodified |
| Does the auditors' report include a statement that the financial statements include departments, agencies, or other organizational units expending federal awards which are not included in this audit? | No |
| What is the dollar threshold used to distinguish between Type A and Type B programs? | \$750,000 |
| Did the auditee qualify as a low-risk auditee? | No |

Major Program Information and Audit Findings

Identification of major programs:

| <u>Assistance Listing (AL) Number(s)</u> | <u>Name of Federal Program or Cluster</u> | <u>Number of Audit Findings</u> |
|--|--|---------------------------------|
| 95.001 | High Intensity Drug Trafficking Area Program | 0 |
| 97.067 | Homeland Security Grant Program | 0 |

CITY OF BAYTOWN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2022

II. FINANCIAL STATEMENT FINDINGS

2022.001 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 and that fraudulent transactions are detected timely.

Condition

Throughout the majority of the fiscal year, bank and investment account reconciliations performed were inaccurate and often such reconciliations were not completed within sufficient time to detect irregularities promptly.

Effect

The City did not detect errors and omissions of bank account activity. There is a remaining unreconciled and unknown difference of approximately \$160,000 at year end.

Cause

The City uses numerous modules provided by various vendors to record receipt of monies, which all post back to the general ledger cash account using different methodologies, references, index and batch numbers, and inconsistent timing. Guidance given by inexperienced staff during module implementation and the change in personnel involved in the reconciliation process; along with other new staff on the receipting side and possible changes on how transactions were batched, timing of deposits, and receipt postings, resulted in extended time periods to complete reconciliations. 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.

Progress

The City began actively pursuing solutions to the bank and investment reconciliation process in 2022 and is actively engaged in streamlining the posting process with the goal of completing bank reconciliations within 5 days of month end.

Views of Responsible Officials

See Corrective Action Plan.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None identified.



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Corrective Action Plan

2022.001 UNDETECTED MISSTATEMENTS

Condition:

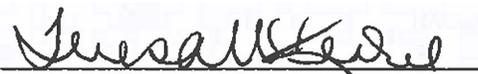
Throughout the majority of the fiscal year, bank and investment account reconciliations performed were inaccurate and often such reconciliations were not completed within sufficient time to detect irregularities promptly.

Correction Action Plan:

The recommendations put forth by Belt Harris Pechacek regarding bank reconciliations have been officially acknowledged by the City of Baytown. In response, senior management has hired qualified personnel possessing accounting degrees and extensive experience in financial reporting to ensure that the information communicated is both accurate and complete and that necessary controls are in place. Moreover, senior management continues to take proactive measures to address this issue by instituting a revised reconciliation process and installing secure vaults that facilitate daily reconciliation of transactions and a comprehensive review process prior to posting to the general ledger. These new procedures will ensure that a proper review and reconciliation of daily postings occurs, thereby enabling prompt resolution of bank discrepancies and a timely monthly bank reconciliation. The Accounting Manager and Controller/Assistant Director of Finance will review and approve the bank reconciliation each month.

Contact person: Teresa McKenzie, Director of Finance

Anticipated completion date: January 30, 2024


Teresa McKenzie, Director of Finance

CITY OF BAYTOWN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Page 1 of 2)
For the Year Ended September 30, 2022

| Grantor/ Program Title | AL Number | Grant/Contract Number | Program or Award | Expenditures |
|--|--------------|-----------------------|---------------------|------------------|
| U.S. Department of Justice | | | | |
| <i>Direct Awards</i> | | | | |
| Justice Assistance Grant Program | 16.738 | 15PBJA-21-GG-01863 | \$ 23,683 | \$ 22,431 |
| Total U.S. Department of Justice | | | <u>23,683</u> | <u>22,431</u> |
| U.S. Department of Treasury | | | | |
| <i>Federal Assistance</i> | | | | |
| COVID 19-American Rescue Plan Act | 21.027 | N/A | 16,345,399 | - |
| Total U.S. Department of Treasury | | | <u>16,345,399</u> | <u>-</u> |
| Office of National Drug Control Policy | | | | |
| <i>Direct Award</i> | | | | |
| High Intensity Drug Trafficking Area Program | 95.001 | G19HN0005A | 1,921,121 | 81 |
| High Intensity Drug Trafficking Area Program | 95.001 | G19HN0005A | 1,969,011 | 603,802 |
| High Intensity Drug Trafficking Area Program | 95.001 | G20HN0005A | 1,739,978 | 1,358,442 |
| High Intensity Drug Trafficking Area Program | 95.001 | G21HN0005A | 1,173,976 | 371,794 |
| Total Office of National Drug Control Policy | | | <u>6,804,086</u> | <u>2,334,119</u> |
| U.S. Department of Housing and Urban Development | | | | |
| <i>Pass-through Texas General Land Office</i> | | | | |
| Lincoln Cedars and Julia Ann Villa Drainage Project | 14.228 | 20-065-113-C310 | 1,785,864 | 1,567,470 |
| EDWWTP Phase 1 Rehabilitation Project | 14.228 | 19-147-002-B490 | 6,602,826 | 237,779 |
| S Main Drainage Project - Phase II (CDBG-MIT) | 14.228 | 22-082-020-D258 | 3,236,049 | 72,631 |
| EDWWTP Phase II Rehabilitation Project(CDBG-MIT) | 14.228 | 22-085-012-D240 | 32,394,114 | 549,590 |
| Total Pass-through Texas General Land Office | | | <u>44,018,853</u> | <u>2,427,469</u> |
| <i>Direct Awards</i> | | | | |
| COVID 19-Community Development Block Grant | 14.218 | B-20-MW-48-0033 | 930,142 | 200,101 |
| Community Development Block Grant | 14.218 | B-20-MC-48-0033 | 682,075 | 175,634 |
| Community Development Block Grant | 14.218 | B-21-MC-48-0033 | 652,604 | 543,016 |
| Total Direct Awards | | | <u>2,264,821</u> | <u>918,751</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>46,283,674</u> | <u>3,346,220</u> |
| U.S. Department of Homeland Security | | | | |
| <i>Pass-through Texas Office of the Governor - Homeland Security Grants Division</i> | | | | |
| 2020 Structural Collapse and Technical Rescue Sustainment | 97.067 | 3916002 | 93,117 | 8,625 |
| 2021 Structural Collapse and Technical Rescue Sustainment | 97.067 | 3916003 | 264,744 | 162,888 |
| 2021 BPD SWAT Sustainment (UASI-L) | 97.067 | 4010002 | 110,500 | 107,055 |
| 2021 BFD HazMat Sustainment (UASI-R) | 97.067 | 4113502 | 81,867 | 81,842 |
| 2021 BPD BARBS Sustainment (UASI-L) | 97.067 | 4348301 | 179,903 | 178,996 |
| 2021 BPD Enhance Type I Regional SWAT | 97.067 | 4266301 | 34,000 | 34,000 |
| Total Pass-through Texas Homeland Security Grants Division | | | <u>764,131</u> | <u>573,406</u> |

CITY OF BAYTOWN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Page 2 of 2)
For the Year Ended September 30, 2022

| <u>Grantor/ Program Title</u> | <u>AL Number</u> | <u>Grant/Contract Number</u> | <u>Program or Award</u> | <u>Expenditures</u> |
|---|---|---|-----------------------------|---------------------|
| Direct Awards | | | | |
| 2021 Port Security Grant Program | 97.056 | EMW-PU-00480-S01 | \$ 37,500 | \$ 37,476 |
| | | Total Direct Awards | <u>37,500</u> | <u>37,476</u> |
| | Total U.S. Department of Homeland Security | | <u>801,631</u> | <u>610,882</u> |
| Federal Highway Administration | | | | |
| Pass-through Texas Department of Transportation | | | | |
| Highway Planning and Construction Cluster: | | | | |
| *Surface Transportation Program | 20.205 | CSJ 0912-72-359 | 1,252,800 | 4,791 |
| | | Total Federal Highway Administration | <u>1,252,800</u> | <u>4,791</u> |
| Institute of Museum and Library Services | | | | |
| Pass-through Texas State Library and Archives Commission | | | | |
| Interlibrary Loan Reimbursement Program | 45.310 | 901610 | 7,549 | 7,549 |
| | | Total Institute of Museum and Library Services | <u>7,549</u> | <u>7,549</u> |
| | Total Federal Awards and Expenditures | | <u>\$ 71,518,822</u> | <u>\$ 6,325,992</u> |

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, 2022

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 (the “City”).

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.