CITY OF FREEPORT, TEXAS

FEDERAL SINGLE AUDIT REPORT

For the Fiscal Year Ended
September 30, 2022

whitleypenn

CPAs and Professional Consultants

CITY OF FREEPORT, TEXAS
TABLE OF CONTENTS

Houston Office
3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
713.621.1515 Main

whitleypenn.com

INDEPENDENT AUDITOR'S 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
and Members of the City Council
City of Freeport, 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, each major fund and the aggregate remaining fund information of the City of Freeport, 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 March 20, 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 the 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2022-001 and 2022-002 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*.

To the Honorable Mayor
and Members of the City Council
City of Freeport, Texas

City of Freeport'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.

Whitley Penn LLP

Houston, Texas
March 20, 2023

whitleypenn

Houston Office
3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
713.621.1515 Main

whitleypenn.com

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

To the Honorable Mayor
and Members of the City Council
City of Freeport, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Program

We have audited City of Freeport, 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, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City's complied, in all material respects, with the 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 (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, Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards, 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 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.

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*, 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 compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, 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.

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.

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 issued our report thereon dated March 20, 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 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.

Whitley Penn LLP

Houston, Texas
March 20, 2023

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

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes; Finding 2022-001 and 2022-002
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness (es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	No
Identification of major programs:	
Name of Federal Program or Cluster:	Assistance Listing Number (ALN)
U.S. Department of Housing and Urban Development	
CDBG - GLO	14.228
U.S. Department of Treasury	
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar Threshold Considered Between Type A and Type B Federal Programs	$750,000
Auditee qualified as low risk auditee?	No

II. Financial Statement Findings

Finding 2022-001: Significant Deficiency in Internal Control over Financial Reporting – Municipal Court Internal Controls

Criteria: The internal controls and responsibilities between different individuals for the custody of municipal court collections, recordkeeping for those collections, and manual adjustments posted to court cases are important control activities needed to adequately protect the City's assets and ensure accurate financial reporting.

Condition: Presently the cash bonds received at the police department are not reconciled to the cash bonds deposited to the bank. In addition, the individuals that receive payments at City Hall for fines and fees also have the ability to process manual adjustments to court cases. Lastly, limited oversight is provided to ensure all court cases are supported by formal case documents.

Context: We observed inadequate internal controls by attempting to vouch cash bond payments received by the police department to the bank statements, view approval support for a sample of manual case adjustments, and view support for formal case documents from a sample of citations issued.

Effect or Potential Effect: Without sufficient segregation of duties and monitoring, the risk increases that errors and fraud related to the municipal court collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate and monitor duties in a cost-effective manner.

Recommendation: Management should create a formal internal control procedures manual for all municipal court collection processes. Controls should be implemented to mitigate the risks associated with the lack of segregation of duties and monitoring, such as periodic reconciliation of cash bond receipts to cash bonds deposited to the bank. In addition, the City should provide increased monitoring to ensure all manual case adjustments are approved by the Judge and all citations include formal case documentation.

Views of Responsible Official(s) and Planned Corrective Actions: Management agrees with the finding and is in the process of assessing and implementing adequate internal controls as of March 20, 2023.

Finding 2022-002: Significant Deficiency in Internal Control over Financial Reporting – Freeport Economic Development Corporation ("FEDC") Expenditure Monitoring

Criteria: The monitoring of expenditures processed by the City on behalf of FEDC is an important control activity needed to ensure the FEDC only pays for actual services rendered.

Condition: Presently each invoice paid for services provided to FEDC is not traced back to the rates included in a contractual agreement approved by the FEDC's Board of Directors.

Context: We observed two vendors that each provided multiple invoices with rates that exceeded the rates agreed upon according to the current contract on file at the City.

Effect or Potential Effect: Without sufficient monitoring, the risk increases that the City may not detect on a timely basis that the FEDC is expending funds for improper expenditures.

II. Financial Statement Findings (continued)

Finding 2022-002: Significant Deficiency in Internal Control over Financial Reporting – Freeport Economic Development Corporation ("FEDC") Expenditure Monitoring (continued)

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully monitor duties for FEDC in a cost-effective manner.

Recommendation: All invoices should be compared to an agreement approved by the FEDC's Board of Directors prior to processing payment.

Views of Responsible Official(s) and Planned Corrective Actions: Management agrees with the finding and has implemented the recommendation as of March 20, 2023.

III. Federal Award Findings and Questioned Costs

None Noted

CITY OF FREEPORT, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Program Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through Texas General Land Office			
CDBG - GLO	14.228	20-065-050-0158	$ 136,229
CDBG - GLO	14.228	22-085-013-D213	438,462
CDBG - GLO	14.228	22-085-047-D300	184,368
Total ALN #14.228			759,059
Total U.S. Department of Housing and Urban Development			759,059
U.S. Department of Justice			
Passed through Office of the Governor			
Edward Byrne Memorial Justice Assistance Grant	16.738	4265301	125,057
Total U.S. Department of Justice			125,057
National Endowment For The Humanities			
Passed through Humanities Texas			
COVID-19 - Promotion of the Humanities - Federal/State Partnership	45.126	ZSO-283161-21	4,800
Total National Endowment For The Humanities			4,800
U.S. Department of Treasury			
Passed through Texas Department of Emergency Management			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	ARPA 2021	1,503,565
Total U.S. Department of Treasury			1,503,565
Total Expenditures of Federal Awards			$ 2,392,481

Note 1 - **Summary of Significant Accounting Policies**

The City accounts for awards under federal programs in the General and Special Revenue governmental funds.

In the Governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The City has elected not to use a 10 percent de minimis indirect cost rate allowed under the Uniform Guidance on an overall basis. Certain grants allow for a negotiated indirect cost rate using a consistent basis, which has been implemented.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of 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 the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents on 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.

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

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.” The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit’s schedule of findings and questioned costs and
- All audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None reported

THE CITY OF FREEPORT

200 West Second St • Freeport, TX 77541 979.233.3526 • Fax 979.233.8867

Brooks Bass
Mayor

Tim Kelty
City Manager

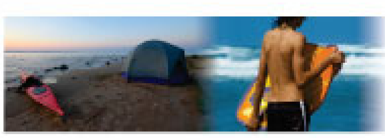
Corrective Action Plan

Finding 2022-001 – Significant Deficiency in Internal Controls over Financial Reporting – Municipal Court Internal Controls:

Non-Cash Transactions

Municipal Court non-cash transactions are those transactions where a court customer receives credit for jail time served credit and/or community service. It also includes deferred adjudication, defensive driving and other reasons approved by the Judge.

1. All non-cash transactions shall be approved in advance by a Municipal Judge, with the exception of deferred adjudication and defensive driving.
2. All documentation of non-cash transactions, including judicial approval shall be maintained in the court jacket or in the court software.
    a. Documentation will include
        i. Community Service time sheets
        ii. Jail Time Served Credit form
        iii. Jail Time Served Credit request
        iv. Defensive Driving certificates
        v. Request for Deferred Adjudication
3. Only court personnel and the Finance Director shall have authority to enter non-cash transactions.
4. At the end of each day a receipt listing of non-cash transactions shall be attached to the end of day packet and a copy shall be submitted to the Finance Director for approval.
5. At the end of each month a receipt listing of non-cash transaction shall be submitted to the Municipal Judges.



Bond Collections

Bond Collections are the cash bonds paid by the court customer to the Police Department to bond out of jail and are set by the Municipal Judge.

When the police department brings over the cash bonds, the court employee shall count do the following:

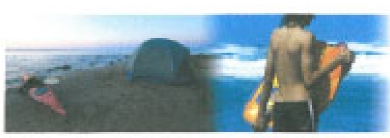
1. Count the cash in front of the officer.
2. Initial the receipt provided by the Police Department.
3. Enter the cash bond into the court software
4. Deposit the cash with other court transactions
5. Place a copy of the envelope and receipt with the end of day packet
6. Place the envelope and original receipt the court customer's court jacket

If for any reason the procedures above cannot be done, like missing paperwork, the Finance Director needs to be notified immediately.

All blank receipt books will be held by the Finance Director and given to the Police Department as needed. Each month the Police Department will give the Finance Director a report on the cash bonds. The Finance Director will reconcile the report from the Police Department to the Municipal Court system. All completed receipt books will be turned into the Finance Director.

Finding 2022-002 – Significant Deficiency in Internal Control over Financial Reporting:

All FEDC invoices will be compared to the current contract prior to processing the payment by the FEDC Director and the Finance Director.



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