SINGLE AUDIT REPORTS

City of Freeport, Texas

Fiscal Year Ended
September 30, 2023

City of Freeport, Texas

SINGLE AUDIT REPORTS

Year Ended September 30, 2023

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 Freeport, Texas as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise City of Freeport, Texas' basic financial statements, and have issued our report thereon dated June 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Freeport, Texas'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 City of Freeport, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Freeport, Texas's internal control.

Our consideration of internal control over financial reporting 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-003 through 2023-006 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Freeport, Texas' 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 determination of financial statement amounts. 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 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.

Respectfully,

BrooksWatson & Co.

BrooksWatson & Co., PLLC
14950 Heathrow Forest Pkwy | Ste 530
Houston, TX 77032
September 16, 2024

BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

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 Federal Program

We have audited the City of Freeport, Texas' 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 of Freeport, Texas' major federal programs for the year ended September 30, 2023. The City of Freeport, Texas' 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 of Freeport, Texas 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, 2023.

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, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and 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 City of Freeport, Texas 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 City of Freeport, Texas' 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 City of Freeport, Texas' 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 City of Freeport, Texas' 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, 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 City of Freeport, Texas' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 City of Freeport, Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Freeport, Texas' 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 City of Freeport, Texas' 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 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Freeport, Texas as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Freeport, Texas' basic financial statements. We issued our report thereon dated June 14, 2024, 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.

This report is intended solely for the information and use of, management, governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

BrooksWatson & Co.

BrooksWatson & Co., PLLC
14950 Heathrow Forest Pkwy | Ste 530
Houston, TX 77032
September 16, 2024

City of Freeport, Texas

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended September 30, 2023

I. SUMMARY OF PRIOR YEAR AUDIT FINDINGS:

<u>Audit Finding Reference:</u> **2022-001**

<u>Status of Prior Finding:</u> Planned corrective action completed this fiscal year.

<u>Audit Finding Reference:</u> **2022-002**

<u>Status of Prior Finding:</u> Planned corrective action completed this fiscal year.

City of Freeport, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2023

I. SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

Type of auditor's report issued:

The auditor's report on the basic financial statements of the City expresses an unmodified opinion.

Internal control over financial reporting:

Are any material weaknesses identified?	_X__ Yes	__ No
Are any significant deficiencies identified not considered to be material weaknesses?	_X_ Yes	__ None Reported
Is any noncompliance material to financial statements noted?	___ Yes	_X_ No

Federal Awards

The auditor's report on compliance for major federal programs expresses an unmodified opinion.

Internal control over major program compliance:

Are any material weaknesses identified?	___ Yes	_X_ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	_X_ None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	_X_ No

City of Freeport, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2023

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant / Harvey Infrastructure Grant
21.027	American Rescue Plan Act (ARPA)

Enter the dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Is the auditee qualified as a low-risk auditee?	_X_ Yes	__ No

II. FINANCIAL STATEMENT FINDINGS:

Material Weaknesses

Finding 2023-001:

Criteria: Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles (“GAAP”).

Condition and Context: For the year ended September 30, 2023, management requested us to prepare a draft of the City’s financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance.

Cause: The City does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements in the absence of the auditor’s preparation.

Effect or Potential Effect: Without the auditor’s assistance, the City may not include all disclosures or have materially correct financial statements as required under U.S. generally accepted accounting principles.

Recommendation: We recommend that management review the existing policies, procedures, and controls over these areas to ensure that all information is recorded and reported properly.

Responsible Official's Response: Management of the City will continue to work with the auditor to reduce the number of adjusting journal entries. In addition, we will take steps to further our understanding of GAAP financials and footnote disclosures.

Finding 2023-002:

Criteria: Formal notice to proceed should be issued by City Council before payments to vendors are made.

Condition and Context: During our audit, we noted that City management approved a payment to Covarrubias Remolding Service LLC in the amount of $345,000. The City properly bid and approved the contract, however, this payment was made prior to a formal notice to proceed issued by City Council and receipt of a payment/performance bond by the contractor.

Cause: The City does not have effective controls over the bid process in place.

Effect or Potential Effect: The City could face legal consequences and termination for not following legal requirements imposed by local government code**.**

Recommendation: Management should ensure that purchase orders and payments for construction contractors are heavily scrutinized and reviewed for proper approvals, contractual requirements, and in accordance with the local government code.

Responsible Official's Response: Management of the City will better monitor and ensure all approvals and correct steps are taken when approving bids/contracts.

Significant Deficiencies

Finding 2023-003:

Criteria: Bank reconciliations should reflect accurate reconciling items to reflect a correct cash balance.

Condition and Context: A significant amount of dated reconciling items were noted in our review of the year-end bank reconciliations. Some items that date back as far as 2006.

Cause: The City is not performing a thorough review of bank reconciliations.

Effect or Potential Effect: The cash balance at year-end may not be accurate.

Recommendation: We recommend that the City review the outstanding checks, void, reissue or escheat them to the State Comptroller.

Responsible Official's Response: Management will review bank reconciliations for old outstanding items and take corrective action.

Finding 2023-004:

Criteria: The City should have signed agreements on file for all employees who have been issue a purchase card.

Condition and Context: Our testing over purchase card transactions did not identify any activity that wasn't properly reviewed and approved by the employee and the department supervisor, however, the City did not have a signed agreement on file from the employee for the issued purchase cards. A signed agreement properly communicates the City's policies and standards over use of the purchase cards and provides acknowledgement from the employee if there is ever a disagreement over its use.

Cause: There is no formal agreement/polices in place for purchase cards.

Effect or Potential Effect: City policies may not be followed regarding purchase cards as there are no formal policies/agreements in place.

Recommendation: We recommend an agreement be signed by all employees in possession of the card and ensure the terms and conditions are well understood by the employees. The agreement should also be kept on file.

Responsible Official's Response: The City will work on obtaining signed agreements for purchase cards.

Finding 2023-005:

Criteria: The City does not have an ACH theft policy.

Condition and Context: Individuals posing as City vendors to commit theft of cash has become more common over the last decade. A typical scheme is to request a change in vendor bank information when an ACH electronic payment is made. The fraudulent vendor will typically email the City with an email address that matches that of the actual vendor and request that all future payments be made to their "new" bank.

Cause: A fraudulent vendor emails the City with updated bank information and the City does not verify independently with the vendor of this change and sends future payments to the "new" bank.

Effect or Potential Effect: Without a formal policy, the likelihood is increased that the City will be targeted and fall for ACH theft.

Recommendation: The City should implement a policy to prevent ACH theft. The employee responsible for updating vendor information should refer to master vendor file for contact if and when a vendor requests a change. There should always be a separate independent confirmation prior to any change.

Responsible Official's Response: The City will work on implementing a policy to prevent ACH theft.

Finding 2023-006:

Criteria: The City has electronically generated dual signatures on checks.

Condition and Context: There is no control in place that would prevent the Finance Director from approving and printing checks with no secondary review. This is typical with organizations and there is always a risk that management will override the controls in place. The City requires dual signers on the checks, but the signatures are electronically generated.

Cause: The Finance Director could approve and print checks that have not been approved as there are electronic signatures.

Effect or Potential Effect: The Finance Director could issue checks that are fraudulent.

Recommendation: The City should consider requiring manual dual signers on all checks over a dollar threshold which would force two individuals to be involved in the disbursement process.

Responsible Official's Response: The City will review and update procedures over signing of checks.

FEDERAL AWARDS FINDINGS:

None.

City of Freeport, Texas

CORRECTIVE ACTION PLAN

For the Year Ended September 30, 2023

Finding 2023-001:

Condition and Context: For the year ended September 30, 2023, management requested us to prepare a draft of the City's financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance.

Corrective action planned: Management of the City will continue to work with the auditor to reduce the number of adjusting journal entries. In addition, we will take steps to further our understanding of GAAP financials and footnote disclosures.

Contact person: Cathy Ezell, Finance Director (979) 871-0107

Anticipated completion date: January 2025

Finding 2023-002:

Condition and Context: During our audit, we noted that City management approved a payment to Covarrubias Remolding Service LLC in the amount of $345,000. The City properly bid and approved the contract, however, this payment was made prior to a formal notice to proceed issued by City Council and receipt of a payment/performance bond by the contractor.

Corrective action planned: The City has changed it purchasing policy where all invoices over $1,000 have to signed by the Department Head and Finance Director. All invoices over $10,000 have to signed by the Department Head, Finance Director, and City Manager. The City also changed the amount at which competitive bids are required from $50,000 to $30,000.

Contact person: Cathy Ezell, Finance Director (979) 871-0107

Anticipated completion date: June 2024

Finding 2023-003:

Condition and Context: A significant amount of dated reconciling items were noted in our review of the year-end bank reconciliations. Some items that date back as far as 2006.

Corrective action planned: In 2024, the Finance Department went through all outstanding check that were over the required days. The checks were voided and reissued or submitted to the State of Texas as escheat property. This will be done on an annual basis.

Contact person: Cathy Ezell, Finance Director (979) 871-0107

Anticipated completion date: June 2024

Finding 2023-004:

Condition and Context: Our testing over purchase card transactions did not identify any activity that wasn't properly reviewed and approved by the employee and the department supervisor, however, the City did not have a signed agreement on file from the employee for the issued purchase cards. A signed agreement properly communicates the City's policies and standards over use of the purchase cards and provides acknowledgement from the employee if there is ever a disagreement over its use.

Corrective action planned: The Purchasing Card Policy was sent to all department heads to have all employee who utilize the P-Cards read and acknowledge receipt of this policy. The Acknowledgement Forms are in the employees personnel file.

Contact person: Cathy Ezell, Finance Director (979) 871-0107

Anticipated completion date: June 2024

Finding 2023-005:

Condition and Context: Individuals posing as City vendors to commit theft of cash has become more common over the last decade. A typical scheme is to request a change in vendor bank information when an ACH electronic payment is made. The fraudulent vendor will typically email the City with an email address that matches that of the actual vendor and request that all future payments be made to their "new" bank.

Corrective action planned: The City adopted a EFT Policy on March 18, 2024.

Contact person: Cathy Ezell, Finance Director (979) 871-0107

Anticipated completion date: March 2024

Finding 2023-006:

Condition and Context: There is no control in place that would prevent the Finance Director from approving and printing checks with no secondary review. This is typical with organizations and there is always a risk that management will override the controls in place. The City requires dual signers on the checks, but the signatures are electronically generated.

City of Freeport, Texas

CORRECTIVE ACTION PLAN

For the Year Ended September 30, 2023

Corrective action planned: If the Finance Director has to issue a check at any amount it will require manual signatures.

Contact person: Cathy Ezell, Finance Director (979) 871-0107

Anticipated completion date: June 2024

City of Freeport, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2023

Federal Grantor/Pass-through Agency/Program Name	Pass-through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-through Texas General Land Office			
Community Development Block Grant -GLO	22-085-013-D213	14.228	$ 790,466
Community Development Block Grant -GLO	22-085-047-D300	14.228	223,590
Total US Department of Housing and Urban Development			1,014,056
US DEPARTMENT OF THE TREASURY			
American Rescue Plan Act (ARPA)	n/a	21.027	1,506,537
Total US Department of the Treasury			1,506,537
TOTAL PROGRAMS			$ 2,520,592

City of Freeport, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2023

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Freeport, Texas (the "City") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Cost Principles for Federal Awards (the 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.

NOTE 2: INDIRECT COST RATE

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