

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING



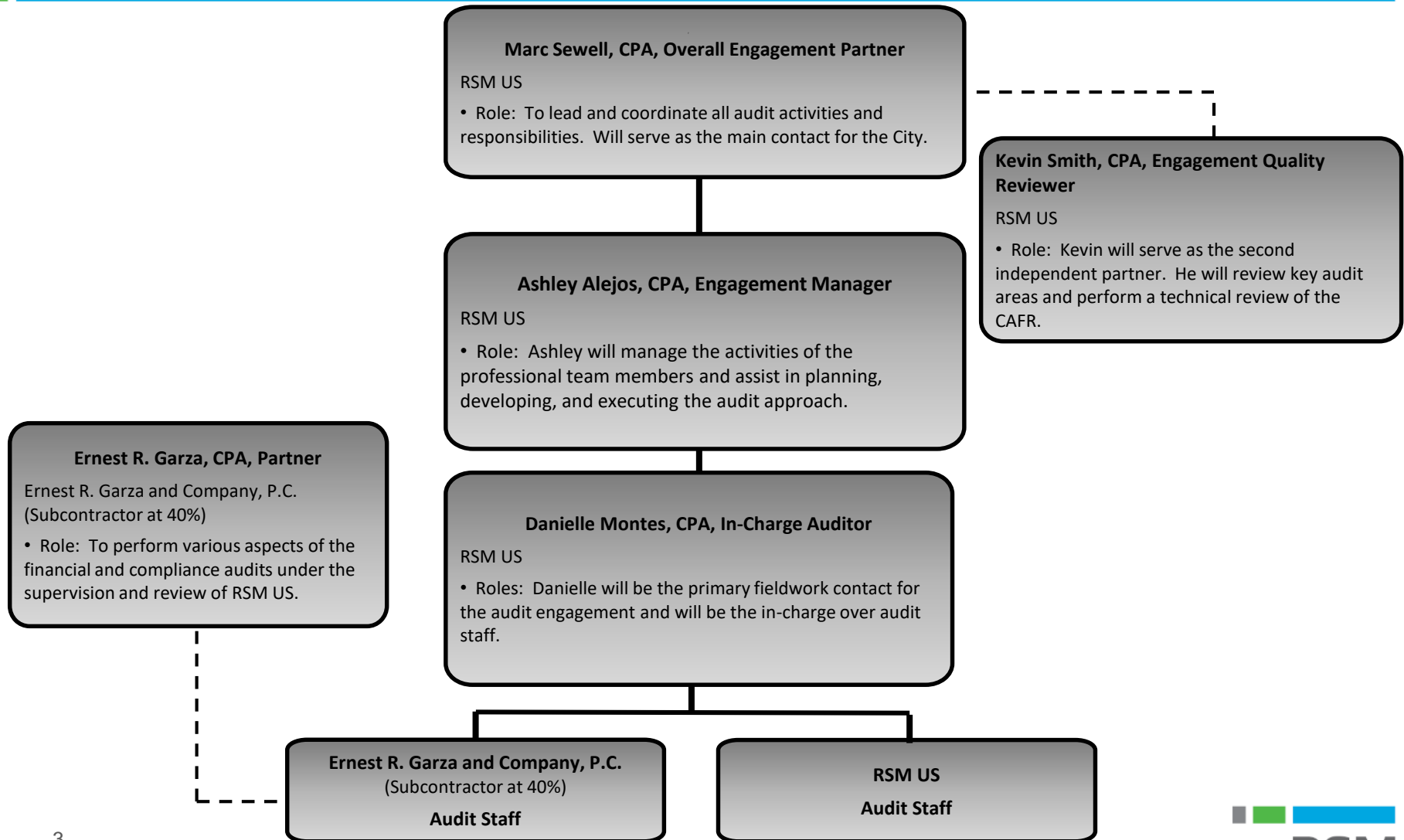
Presented to

THE CITY COUNCIL OF THE CITY OF CORPUS CHRISTI, TEXAS



Audit Results for the Financial and Compliance Audit for the Year Ended
September 30, 2018

Service Team & Relevant Experience



Summary Audit Results

- Opinion on the Financial Statements: **Unmodified;**
Also Referred to as a “Clean Opinion”
 - 7 Opinion Units
- Opinions on Federal Compliance Audits: **Unmodified**
 - Airport Improvement Program
 - Promoting Safe and Stable Families
- Opinions on State Compliance Audit: **Unmodified**
 - Auto Theft Prevention Grant
 - Promoting Safe and Stable Families
 - Aquifer Storage and Recovery

Summary Audit Results

- Report on Compliance with Laws & Regulations – No Issues
- Report on Internal Control Over Financial Reporting –
 - **Material Weakness (MW)** – a deficiency, or 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, detected or corrected on a timely basis
 - **Significant Deficiency (SD)** – a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance
 - **Control Deficiency (CD)** - lesser in magnitude than a significant deficiency

Type of Finding	2018	2017
Material Weakness(s)	0	1
Significant Deficiency	3	7
Control Deficiency	2	3

Internal Control Comments

Accounts Payable Cut-Off (SD) - During testing for proper recording of accounts payable, we found approximately \$1,100,000 in over accrued accounts payable in the streets capital project fund related to 3 invoices.

Utility Billing System (SD) - In December 2017 the City implemented and new utility billing system. After the implementation, and throughout the fiscal year, the City noted various errors, which included the following:

- Integration issues with general ledger
- Certain customer accounts were not billed during the year
- Certain other customer accounts were billed sporadically throughout the year

Loans Receivable (SD) - During testing of loans in progress receivable account we noted the City had not reconciled the subsidiary account to the general ledger. Additionally, approximately \$3,000,000 in errors related to either uncollectible loans or grants that were incorrectly recorded as loans receivable. Approximately \$2,000,000 of the correction is related to transactions from the previous year.

Internal control Comments

Information Technology (IT) Access (CD) - In the prior year, we noted several instances where improvements should be made related to access IT access controls. Based on our follow-up procedures performed, we noted some were still in progress.

Based upon further discussion with management, we understand that this recommendation was adopted by the City in fiscal year 2019.

Compensated Absences (CD) - During testing of compensated absences we noted that the sick leave accrual was understated by approximately \$2.1 million. The City did not estimate this liability for a certain class of employee.

Tax Receivables - During testing of property tax and HOT receivable we noted errors in the year-end accrual amount as follows –

- HOT receivable - \$311,000
- Property tax receivable \$178,000

Federal & State Compliance Findings

- Promoting Safe and Stable Families (1 Finding) (repeat)
 - Subrecipient Monitoring – Formalization of monitoring procedures
 - Significant Deficiency / Noncompliance
 - Questioned Costs - \$0

Required Communications

- Included in a separate letter to the Audit Committee. A summary of the more significant communications are –
- Adoption of new accounting standard –
 - GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, this required the City to restate beginning net position.
 - GASB No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, the City no longer capitalizes interest in its enterprise funds and business-type activities as a result of this adoption.
- Accounting Estimates –
 - Fair Value of Investments
 - Depreciable Live of Capital Assets
 - Net Pension Liability & Total OPEB Liability
 - Closure and Post Closure Landfill Liability
 - General Liability, Health, and Worker's Compensation Liabilities
 - Allowance for Doubtful Accounts

Required Communications

- Cont.
 - Disagreements with Management – None
 - Significant Issues Discussed with Management –
 - Actuarial assumptions for the FFRS net pension liability related to the attribution period of service costs related to the RETRO DROP Provision of the FFRS Plan. Inflation rate is greater than our expected inflation rate for public pension plans.
 - Significant Difficulties Encountered in Performing the Audit - None

Required Communications - Uncorrected Adjustments

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Beginning Fund Balance/Net Position	Revenue	Expenditures/ Expenses
Government-wide financial statements —					
governmental activities:					
To record additional depreciation expense in the PY	\$ -	\$ -	\$ (423,370)	\$ -	\$ (423,370)
Record PY effect of loan receivable write-off	-		(1,923,779)		(1,923,779)
Projected net pension liability for change in assumptions	-	4,701,357	(4,362,368)	-	338,990
Total	\$ -	\$ 4,701,357	(6,709,517)	\$ -	\$ (2,008,159)
Effect of current-year passed adjustments on net position			2,008,159		
Total			\$ (4,701,358)		
Streets Capital Projects Fund:					
To correct special assessment revenue for prior-year misstatement	\$ -	\$ -	\$ (30,681)	\$ 30,681	\$ -
To record additional accounts payable	-	40,818	-	-	40,818
Total	\$ -	\$ 40,818	(30,681)	\$ 30,681	\$ 40,818
Effect of current-year passed adjustments on fund balance			(10,137)		
Total			\$ (40,818)		
Utility System Fund and Business Type Activities:					
To record additional depreciation expense in the PY	\$ -	\$ -	\$ (673,064)	\$ -	\$ (673,064)
Sick leave accrual for employees not eligible for retirement	-	506,565	(506,565)	-	-
Total	\$ -	\$ 506,565	\$ (1,179,629)	\$ -	\$ (673,064)
Effect of current-year passed adjustments on net position			673,064		
Total			\$ (506,565)		
Aggregate Non-Major Funds					
Record PY effect of loan receivable write-off	\$ -		\$ (1,923,779)		\$ (1,923,779)
Sick leave accrual for employees not eligible for retirement	-	279,710	(279,710)	-	-
Total	\$ -	\$ 279,710	\$ (2,203,489)	\$ -	\$ (1,923,779)
Effect of current-year passed adjustments on fund balance			1,923,779		
Total			\$ (279,710)		

Required Communications - Corrected Adjustments

Description	Increase (Decrease)						
	Net Position/Balance Sheet			Statement of Activities			
	Assets	Liabilities	Deferred Inflows	Revenue	Expenditures/ Expenses	Beginning	Net Income
						Fund Balance/ Net Position	
Corrected Misstatements							
General Fund:							
To record adjustments to ad valorem taxes	\$ 87,151	\$ 90,678	\$ -	\$ (177,829)	\$ -	\$ -	\$ (177,829)
Total General Fund	\$ 87,151	\$ 90,678	\$ -	\$ (177,829)	\$ -	\$ -	\$ (177,829)
Nonmajor Governmental Funds:							
Write-off loans receivable	\$ (2,706,031)				\$ 2,706,031		\$ (2,706,031)
To record HOT taxes receivable	(310,554)	-	-	310,554	-	-	310,554
Total Nonmajor Funds	\$ (3,016,585)	\$ -	\$ -	\$ 310,554	\$ 2,706,031	\$ -	\$ (2,395,477)
Streets Capital Projects Fund:							
To remove accounts payable related to FY 19	\$ -	\$ (1,087,620)	\$ -	\$ -	\$ (1,087,620)	\$ -	\$ 1,087,620
Total Streets Capital Projects Fund	\$ -	\$ (1,087,620)	\$ -	\$ -	\$ (1,087,620)	\$ -	\$ 1,087,620
Utility Fund:							
To remove accounts payable related to FY 19	\$ -	\$ (107,621)	\$ -	\$ -	\$ (107,621)	\$ -	\$ 107,621
Total Utility Fund	\$ -	\$ (107,621)	\$ -	\$ -	\$ (107,621)	\$ -	\$ 107,621
Government Wide:							
To record additional compensated absences	\$ -	\$ 1,270,324	\$ -	\$ -	\$ 1,270,324	\$ -	\$ (1,270,324)
Write-off loans receivable	(2,897,352)	-	-	-	2,897,352	-	(2,897,352)
To reinstate disposed assets	208,950	-	-	149,144	(59,806)	-	208,950
Total Utility Fund	\$ (2,688,402)	\$ 1,270,324	\$ -	\$ 149,144	\$ 4,107,870	\$ -	\$ (3,958,726)

THANK YOU FOR
YOUR TIME AND
ATTENTION



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