

Presented to the Audit Committee of
the City of Corpus Christi, Texas
June 9, 2020

City of Corpus Christi, Texas

Fiscal Year Ended September 30, 2019

Overview

- Audit Process
- Audit Results and Communications
- Financial Highlights
- Upcoming Changes
- Questions

Audit Process



Audit Schedule



Audit Process

- **Audit Standards** — Performed the audit in accordance with *Generally Accepted Auditing Standards (GAAS)* and *Generally Accepted Government Auditing Standards (GAGAS)*
- **Single Audit** — Performed the single audit of federal and state awards in accordance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and *Texas Uniform Grant Management Standards*
- **Compliance** — Performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, including items such as compliance with the Public Funds Investment Act and State procurement requirements.

Audit Process

- **Risk-based approach** focused on specific risks, such as:
 - Federal and state grant revenues and expenditures
 - Utility system billings and related accruals
 - Mortgage / loan receivables and related estimates
 - Construction in progress and related procurement requirements
 - Accounts payable - proper documentation and authorization
 - Payroll and payroll related liabilities – proper documentation and authorization
- **Tested internal controls** over financial reporting and compliance
- **Tested compliance** with major program requirements





Audit and Results Communications

Audit Results: Financial Statements

Type of report issued:

Unmodified

Internal control over financial reporting:

➤ Material weakness(es)
identified?

No

➤ Significant deficiencies
that are not material
weaknesses?

None reported

➤ Noncompliance material
to financial statements
noted?

No

Audit Results: Federal and State Awards



Type of report issued on
compliance for major programs:

Unmodified

Type of auditee:

High risk

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies that are not material weaknesses?
- Any audit findings required to be reported under 2 CFR 200.516(a) of the Uniform Guidance or Texas Uniform Grant Management Standards?

No

Yes

Yes

Audit Results:

Federal and State Awards - continued



Federal Major Programs:

- Community Development Block Grants (14.218)
- Aging Cluster (93.044, 93.045, 93.053)
- Disaster Grants – Public Assistance (97.036)

State Major Programs:

- Defense Economic Adjustment Assistance Grant
- Category A Debris Removal Project (FEMA State Matching)

Audit Results:

Federal and State Awards - continued



Significant Deficiency in Internal Control Over Compliance 2019-001

- **Federal Program:** Disaster Grants – Public Assistance
- **Federal Agency:** U.S. Department of Homeland Security
- **CFDA:** 97.036
- **Pass-through Entity:** Texas Department of Public Safety
- **State Program:** Disaster Grants – Public Assistance
- **State Agency:** Texas Department of Public Safety
- **State Award Number:** TCEQ-4332-PW00058
- **Pass-through Entity:** Texas Division of Emergency Management
- **Compliance requirements:** Allowable cost
- Condition - During our audit, we tested 15 employees' total payroll costs submitted for reimbursement and identified 5 employees for which the overtime claimed did not agree to the underlying timesheets. We also tested 13 days of employees' usage of equipment submitted for the reimbursement and identified 1 discrepancy out of 13 days tested. The discrepancies identified resulted in charges to the grant that were less than the supporting timesheets or equipment usage.
- Recommendation - We recommend that the City review all information provided by the third party consultant to ensure costs are accurate and adequately supported and reviewed prior to submitting for reimbursement.

Audit Results:

Passenger Facility Charge Audit



- Type of report issued on compliance: **Unmodified**
- **Internal control over compliance:**
 - Material weakness(es) identified? **No**
 - Significant deficiencies that are not material weaknesses? **None reported**
 - Any audit findings required to be reported under the *Passenger Facility Charge Audit Guide for Public Agencies* **No**

Responsibility

- Our responsibility, as described by professional standards, is to form and express a opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.
 - Obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement
 - Considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control
- We relied on the reports of other auditors and our opinion includes a reference to these other auditors for the following entities:
 - Corpus Christi Firefighters' Retirement System
 - American Bank Convention Center Fund
 - American Bank Center Arena Operations Fund

Responsibility - Continued

- Our opinion included an “other matters” section addressing supplementary and other information, in which we
 - Express an “in-relation-to” opinion on the supplementary information, and
 - Express no opinion on the “other” information which includes the introductory and statistical sections.
 - However, in accordance with our professional standards, we have read this information and did not identify any material inconsistencies

Independence

- No independence issues noted
- Weaver performed the following nonattest services:
 - Compiling the schedule of federal and state awards and related notes
 - Compiling the schedule of passenger facility charge program revenues and expenditures and related notes
- Management designated Judy Sandroussi to review and approve the services we provided.
- These services were also reviewed by an internal engagement quality reviewer.

New Accounting Standards

- All significant accounting policies disclosed in Note 1 to the financial statements.
 - The City adopted Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*
 - No impact to financial statements, expanded disclosure in notes to the financial statements, see Note 13a

Management's Estimates

- Management's estimates of the following were found to be reasonable based on our evaluation of key factors and assumptions used to develop the estimates:
 - Fair value of investments
 - Allowance for uncollectible taxes
 - Allowance for uncollectible utility accounts
 - Pension liability - TMRS
 - Pension liability – Firefighter System
 - OPEB liability
 - Incurred but not reported claims for healthcare, workers' compensation, and general liability
 - EPA litigation – contingent liability

Financial Statement Disclosures

- Certain financial statement disclosures involved judgment and are significant. The most sensitive disclosures are:
 - Employment Retirement Benefits (Note 9)
 - Post-Employment Health Care Benefits (Note 10)
 - Contingent Liabilities (Note 11. B.)
 - Subsequent Events (Note 22)

Corrected Misstatements

The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Description (Nature) of Audit Difference	Financial Statement Effect—Increase (Decrease)					Change in Fund Balance
	Total Assets / Deferred Outflows	Total Liabilities / Deferred Inflows	Beginning Fund Balance	Revenues	Expenditures	
<u>General Fund</u>						
To record adjustment to the allowance for property taxes	(1,599,393)	-	-	(1,599,393)	-	(1,599,393)
<u>Nonmajor Governmental Funds</u>						
To record adjustment to the allowance for mortgage loans	(400,034)	-	-	(400,034)	-	(400,034)

Auditor Communications

Uncorrected Misstatements

The uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit are on the following page.

Auditor Communications

Description (Nature) of Audit Difference	Cause	Financial Statement Effect—Amount of Overstatement (Understatement):			
		Total Assets / Deferred Outflows	Total Liabilities / Deferred	Beginning Fund Balance / Net Position	Change in Fund Balance /
<u>Opinion units: Utilities Fund / Business-type Activities</u>					
Construction retainage was not accrued in the financial statements.	One pay application had a retainage balance in excess of the amount recorded by the City as a liability.	-	(208,216)	208,216	-
<u>Opinion units: Street Capital Projects / Governmental Activities</u>					
Deposit from an external entity was not recorded in proper period.	A deposit was recorded in a prior period related to a street capital project and was not recorded to developer contribution in the period covered.	-	-	(325,000)	325,000
Totals		-	(208,216)	(116,784)	325,000
<u>Utility System Fund</u>					
Audit difference above:		-	(208,216)	208,216	-
Financial statement caption totals:		1,875,172,361	982,279,127	879,711,993	13,181,241
Audit difference as percent of financial statement caption totals:		0.0%	0.0%	0.0%	0.0%
<u>Special Capital Projects</u>					
Audit difference above:		-	-	(325,000)	325,000
Financial statement caption totals:		80,345,068	8,001,992	112,501,849	40,158,773
Audit difference as percent of financial statement caption totals:		0.0%	0.0%	-0.3%	0.8%
<u>Business-type Activities</u>					
Audit difference above:		-	(208,216)	208,216	-
Financial statement caption totals:		2,053,401,682	1,019,335,770	1,019,867,762	14,198,150
Audit difference as percent of financial statement caption totals:		0.0%	0.0%	0.0%	0.0%
<u>Governmental Activities</u>					
Audit difference above:		-	-	(325,000)	325,000
Financial statement caption totals:		1,391,546,414	965,734,243	390,543,348	35,268,823
Audit difference as percent of financial statement caption totals:		0.0%	0.0%	-0.1%	0.9%

Auditor Communications

No Other Issues

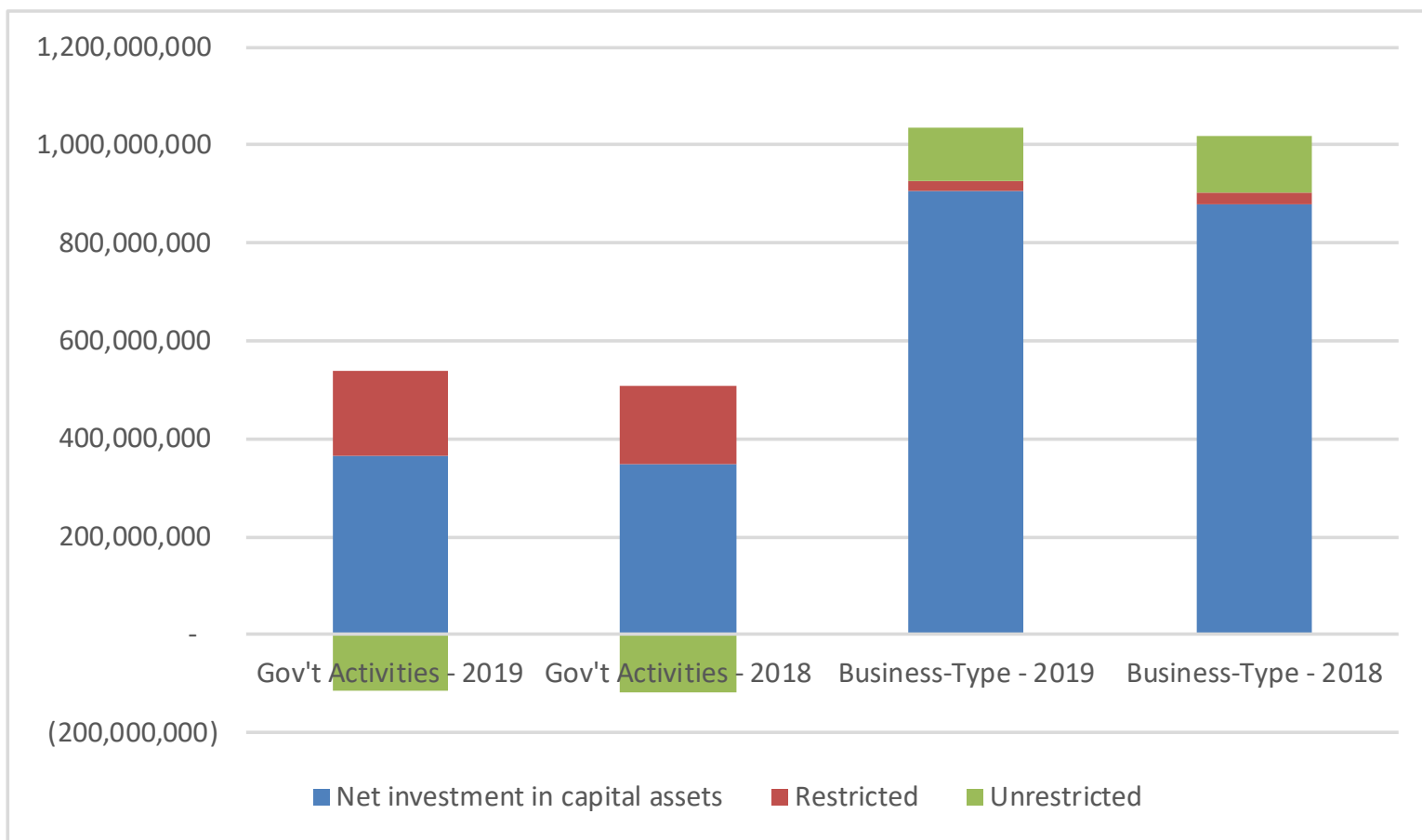
- No difficulties or disagreements arose during the course of our audit
- Management provided written representations as of the report dates
- No material errors, irregularities or illegal acts noted
- No transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus
- No consultations or request for a second opinion from other accountants

The image features a tall, precarious stack of wooden blocks on a reflective surface. The stack is composed of several layers of blocks, some of which are slightly offset, creating a sense of instability. A few more blocks are lying on the surface to the right of the main stack. The background is a warm, yellowish-gold color with a soft, out-of-focus texture. The text "Financial Highlights" is overlaid on the upper part of the image, in a dark green, serif font.

Financial Highlights

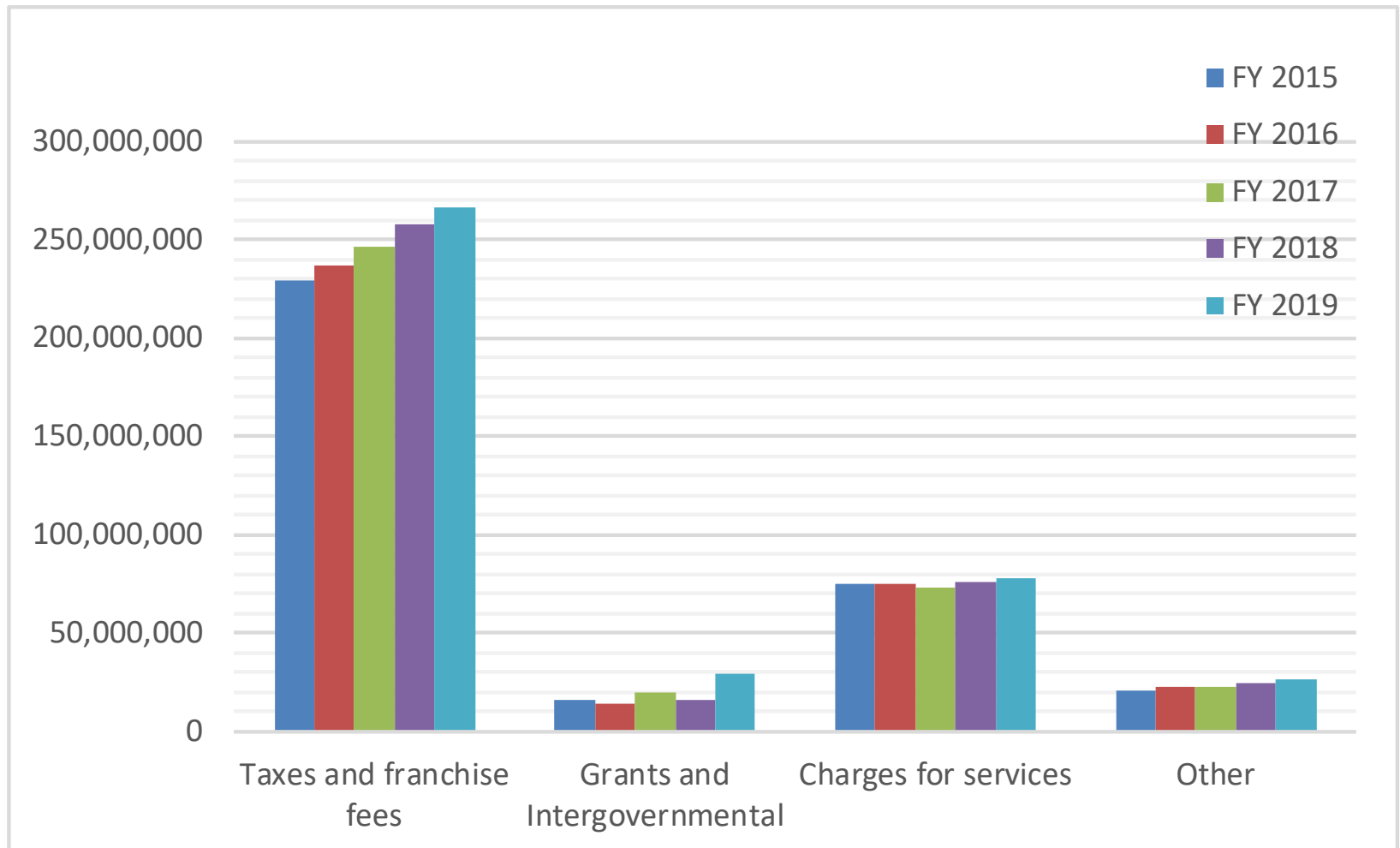
Net Position

Comparison of Net Position



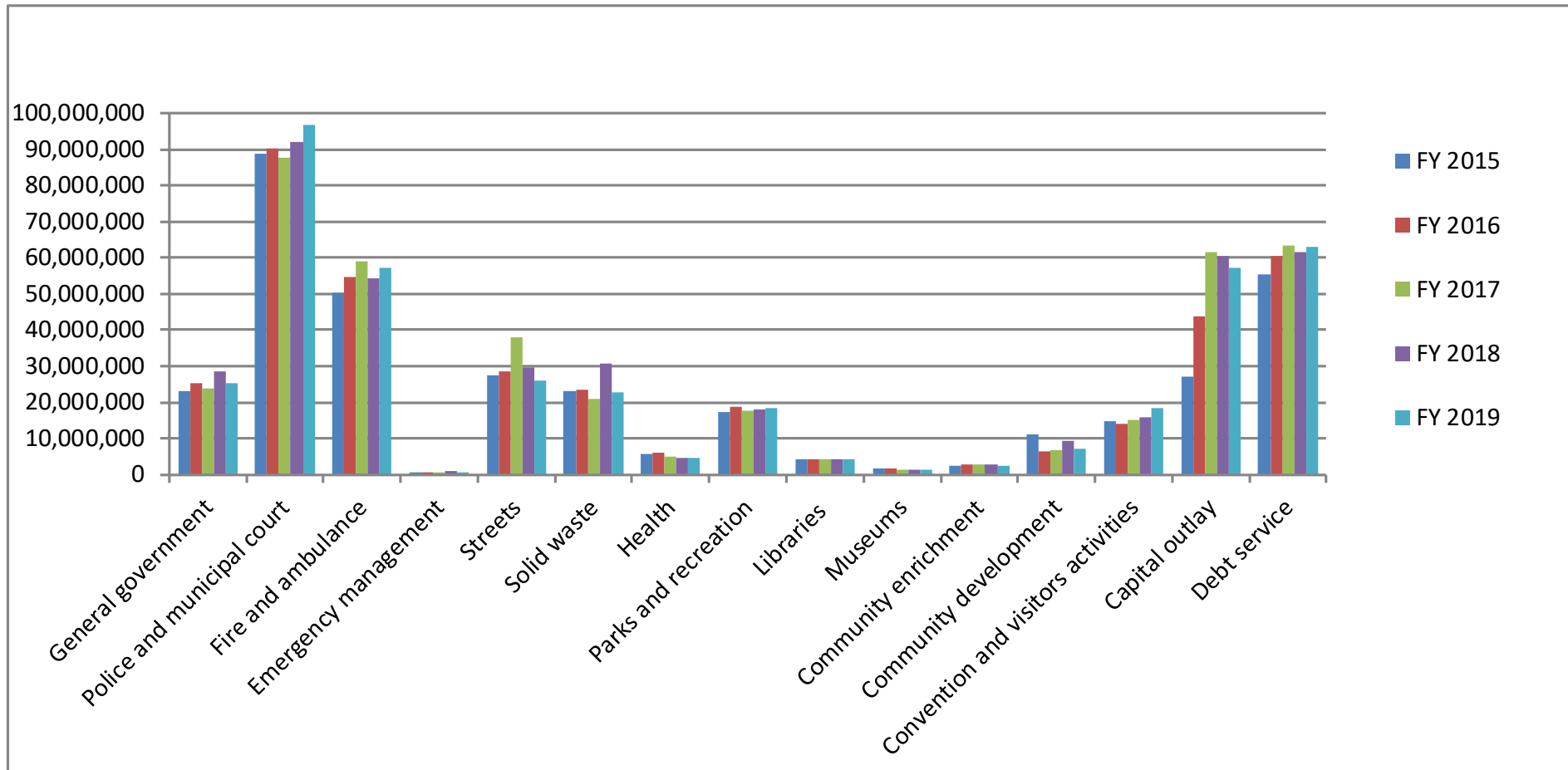
Revenue Trends

Comparison of Governmental Fund Revenues by Source



Expenditure Trends

Comparison of Governmental Fund Expenditures by Activity



Upcoming Changes



Upcoming Changes

GASB 84:

Effective
for periods
beginning
after
12/15/2019

GASB Statement No. 84, *Fiduciary Issues*

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on

- (1) whether a government is controlling the assets of the fiduciary activity and
- (2) the beneficiaries with whom a fiduciary relationship exists.

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities

Upcoming Changes

GASB 87:

Effective
for periods
beginning
after
6/15/2021

GASB Statement No. 87, *Leases*

- The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Thank you!

We appreciate
the opportunity
to serve the
**City of Corpus
Christi** and look
forward to
working with
you next year.





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Discussion