



Management Letter

January 31, 2020

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

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the City of El Lago, Texas (the "City"). Accordingly, the City's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the City as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other matters.

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.

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 findings and additional comments are as follows:

CURRENT YEAR MATTERS

Material Weakness

2018.001 MUNICIPAL COURT

Finding

As a part of our reviews of internal control, we selected 25 random citations processed by the municipal court during fiscal year 2018. Of the 25 citations reviewed, we noted 11 where it would appear that a warrant should have been issued based on the defendant not appearing for their assigned court date or payment had not been made on a parking citation. Of the 11 citations, five were parking citations and the other six were related to driving offenses, such as failure to maintain financial responsibility (no insurance). As of the conclusion of our onsite work, the municipal court was approximately 16 months behind in processing warrants.

Recommendation

The City should take steps to ensure the processing of warrants by the municipal court is current. The processing of warrants serves as an important internal control over the receipt of fines and forfeitures generated by the issuance of citations.

Other Matter

2018.002 TIMELY DEPOSITS

Finding

We noted several bank deposits for monies processed by the municipal court that were outstanding more than a couple of days, one up to 27 days, indicating a lag between receipt of money and the deposit of those funds into the bank. Undeposited funds increase the risk of loss from fire, theft, or similar event.

Recommendation

Receipts should be deposited intact daily. This practice will firmly strengthen the City's internal control process over cash receipts and greatly lessen the likelihood of loss.

PRIOR YEAR MATTERS

Other Matter

2017.002 EXPENDITURES IN EXCESS OF APPROPRIATIONS

Background

Texas Local Government Code, Chapter 102, Municipal Budget, outlines the requirements regarding the adoption of an annual municipal budget, including its format, contents, filing, and compliance upon adoption.

Finding

As disclosed in the notes to the financial statements, expenditures exceeded appropriations at the legal level of control within the City's general fund in comparison to the adopted budget.

Recommendation

The City should ensure that expenditures do not exceed appropriations approved by City Council in accordance with the local government code. If the original authorization is insufficient, an amendment should be proposed to City Council in sufficient time so as not to impede the City's normal procurement process.

This communication is intended solely for the information and use of management, City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank City Council and the City's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

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