



Management Letter

May 16, 2019

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 (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, 2017, 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

2017.001 ACCOUNTS PAYABLE

Finding

Accounts payable was misstated prior to the posting of an audit adjustment. Upon further review, it appears the account balance was misstated as a result of not fully utilizing the City's accounting software, Quick Books.

Recommendation

The City should use the accounts payable module within Quick Books for the processing of invoices received for payment. Additional Quick Books training should be considered.

PRIOR YEAR MATTERS

Material Weakness

2016.002 SEGREGATION OF DUTIES

Background

Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the City can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the City. This comment was initially reported to the City as a part of the audit for the fiscal year ending September 30, 2007 and repeated through September 30, 2009. This comment is being brought forward this year to encourage the City to reevaluate existing policies and procedures over certain financial aspects of operations as a result of a change in personnel. There are inherent inefficiencies with full segregation of duties and inherent risk with the lack of segregation of duties. The cost versus benefits for both should be considered.

Finding

Authorized signors on the City's bank account have the ability to wire or pay via electronic funds transfer without a two-step process.

Recommendation

The City should establish a two-step process for online banking transactions whereby when one user initiates an electronic transfer, wire, or automated clearing house, a second user is alerted and required to approve.

Other Matters

2016.004 MISSING CREDIT CARD RECEIPTS

Finding

In reviewing credit card purchases made by all authorized users over the course of the fiscal year, we noted each user was missing receipts or other documentation for various purchases made.

Recommendation

The City should maintain support for all purchases in the form of receipts by establishing a policy which requires all City employees who are authorized to purchase goods or services using a credit card to submit receipts to the City Secretary.

2016.005 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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