



**CITY OF DOUBLE HORN
ANNUAL FINANCIAL AUDIT
(INTERNAL)**

for

FISCAL YEAR 2020

(October 1, 2019 – September 30, 2020)

City of Double Horn Annual Financial Audit – FY2020

****The purpose of this report is focused on actions required to establish the appropriate control environment for the municipality and to comply with Texas Local Government Code Sections 103.001-103.004. ****

Purpose:

As a standard, an audit report is designed to provide citizens an overview of the City's finances and to provide an assessment of the financial processes in place which support the accuracy of reporting, transparency, and risk. FY2020 was the City's first fiscal year collecting tax revenues since the City's incorporation. As such, many of the typical controls were either newly implemented, work in process or not yet in place. Therefore, the purpose of this report is focused on actions required to establish the appropriate control environment for the municipality and to prioritize the effort in FY2021 and beyond.

Audit Process:

The audit examined three aspects of the City of Double Horn's financial operations: (1) internal controls; (2) statements, records, and accounting transactions; and (3) compliance with statutory and budgetary requirements.

Audit Methodology:

The audit methodology included, (1) end-to-end transaction review and (2) interviews with key personnel.

Audit Timing:

The audit was conducted after the close of Fiscal Year 2020 and is based on events during Fiscal Year 2020.

Auditor:

The audit was performed by the City of Double Horn's Mayor as chief executive officer of the city responsible for the financial health of the City. Mayor Sereno's education and work experience in finance for a Fortune 200 company provides the basis of the knowledge required and meets the statute requirement of a "qualified city employee".

Audit Type: *Internal Audit*

Fiscal year 2020 was the first full year of incorporation, first budget year and first year of tax revenue. Fiscal Year 2020 was therefore a start-up year focused on establishing the foundation of the city government including basic procedures and policies. As such, a Council reviewed and approved *Financial Policies and Procedures* did not exist, therefore, making an independent audit impossible. However, for the same reasons it was important to perform an internal audit to determine an appropriate action plan and prioritization. The audit was focused on key areas, it was not an exhaustive review of all process.

INTERNAL AUDIT RESULTS

(1) Internal Controls

A. Key Personnel & Financial Responsibilities*

- | | |
|-------------------|--|
| 1) City Secretary | Open, Stamp & Distribute All Incoming Mail |
| 2) Treasurer | Reconcile Bank Accounts
Record Receipts & Disbursements
Maintain Check & Expense Ledgers |
| 3) Mayor Pro Temp | Payroll Process (except checks) |
| 4) Mayor | Prepare Monthly Reports
Present Monthly Reports at Council Meetings |

Internal Audit Results & Recommendations: While the monthly preparation and review of financial reports as well as the division of work on several key processes, e.g., payroll, allows for a level of check and balance, the city management team should focus on providing for increased separation of duties. Given the lack of a fulltime staff this can be difficult. To minimize risk of human error and/or manipulation increase the level of separation where possible and consider implementing a regular inspection process to provide a compensating control.

**This is not an exhaustive list but rather identifies the key responsibilities that were the basis of the finding and recommendation.*

B. Bookkeeping & Reporting System

- 1) Excel Spreadsheets operated as the system of record and source for monthly reporting. FY2020 Internal and External Reports include:
 - a. Excel Check Ledgers (3 Accounts at First United)
 - b. Excel Expense Ledger
 - c. Excel Donation Ledger
 - d. Excel Key Expense (Legal Fees) Ledger
 - e. Excel Balance Sheet Report
 - f. Excel Income & Expense Detail Report

Responsibility – Treasurer (ledgers) & Mayor (monthly reporting)

- 2) QuickBooks (desktop version) installation work-in-process during FY2020.

Responsibility - Treasurer

Internal Audit Results & Recommendations: Excel is a good tool and low-cost option however, it is also labor intensive, prone to error (formula error) and it does not provide systematic checks and balances. QuickBooks Online (QBO) has been recommended by the City's accounting firm, JRBT. It is strongly recommended the city prioritize the implementation of QBO and invest in the appropriate consulting/training required to optimize the tool.

C. Documented Procedures

- 1) Forms required for specific processes were identified and include:
 - a. Expense Reimbursement Form – requires Treasurer or Mayor's signature
 - b. Time Sheet
 - c. Donation Receipt

Internal Audit Results & Recommendations: Standardized forms are used that support a control process for specific processes. Additionally, there is a general understanding between key personnel on how each process is executed. There exists a clear understanding of the importance of controls and the checks and balances that should be a part of every process. However, there is no formal Policy & Procedure Guide that has been created and approved by the City Council. It is recommended the creation of this guide be a top priority for the Council. In addition, an ongoing review and update process should be established, therefore, version control should be considered when drafting the Policy & Procedure guide and maintenance process.

D. Records – Safe Keeping

- 1) Documents are kept in a locked closet located in the home of the City Secretary. The closet key is kept by the City Secretary only. Documents include original copies of:
 - a. Ordinances
 - b. Resolutions
 - c. Orders
 - d. Invoices
 - e. Contracts
 - f. Tax Reports
 - g. Bank Statements

- 2) Documents of interest to the public and as required by statute are maintained on the city's website, www.doublehorntx.org
- 3) Documents received by the City Secretary are date stamped upon receipt.
- 4) As required, original documents are transferred to city management team members resulting in key original documents dispersed, short-term, to additional home office(s).
- 5) There is no city office

Internal Audit Results & Recommendations: Given the lack of a secure office setting, no city office, the locked closet is an adequate alternative. However, accessibility is limited and the responsibility for security rests on the homeowner. For the same reason, with no central location to manage the business of the city, key documents are dispersed to the home of the Mayor and/or Treasurer for proper processing. While this is the only option, it is problematic as it can lead to the loss of important documents. Establishment of a City Office is recommended to improve security and accessibility as well as placing the responsibility for security solely on the City. It will have the added benefit of improving processes that require document handling by multiple stakeholders.

NOTE of SUBSEQUENT EVENT: The FY2021 budget allocated funding for a city office which was then properly established in February 2021.

E. Training (Financial)

- 1) Municipal Fundamentals Seminar conducted by City Hall Essentials issued Certificates of Completion, dated, 7/12/2019, to:
 - a. Mayor
 - b. City Secretary
 - c. Treasurer
- 2) QuickBooks Online Training is online and offered via a series of YouTube videos.

Internal Audit Results & Recommendations: Training on QBO should be required for anyone involved in the financial process. Determining the appropriate training based on roles and responsibilities should be a top priority. Training should be a pre-requisite before QuickBooks access is granted (username and password). Additional training on municipal accounting and responsibilities should be investigated and a standard training program and certification program established.

(2) Statements, Records & Accounting Transactions

A. Selected records were traced end-to-end including multiple monthly transactions.

1) Tax Revenue

Burnet Central Appraisal District Report -> First United Bank Statement (Online)->
Check Ledger/Deposits -> Monthly Revenue & Expense Report & Monthly Balance Sheet

2) Expense Reimbursements

Reimbursement Form -> Attached Receipt -> Budget > Expense Ledger -> Check Issued -
> Check Ledger -> First United Bank Statement -> Monthly Revenue & Expense Report

3) Expenses

Original/Scanned Invoice -> Expense Ledger -> Check Issued -> Check Ledger -> Budget -
> Monthly Revenue & Expense Report

4) Donations (SEPATX as it was the most material donation)

Donation Ledger -> Check Ledger -> Monthly Revenue & Expense Report & Monthly
Balance Sheet -> First United Bank Statement (Online)

5) Payroll*

Payroll Time Sheet -> Check Issued -> Check Ledger -> Monthly Revenue & Expense
Report -> First United Bank Statement (Online)

B. **Monthly Financial Statements** are presented by the Mayor and/or Treasurer and reviewed with the City Council. Treasurer's Report is a standard agenda item at each monthly regular meeting.

C. A **Monthly Financial Agenda Packet** is posted on the City's website and is available to the general public. A copy of the report as of the last day of the fiscal year, September 30, 2020, is attached to this report.

Internal Audit Results & Recommendations: Posting errors were identified and properly corrected prior to the finalization of monthly financial reports and the monthly review conducted at the City Council meeting. Training and the appointment of appropriately skilled personnel for key financial positions is critical. QuickBooks implementation and training should be completed as soon as possible. Convert Standard Monthly Reports (Agenda Packet) to QuickBooks Online Reporting.

**Payroll installed in QuickBooks (Desktop) in June 2020.*

(3) Compliance with Statutory & Budgetary Requirements

A. Budget & Tax Requirements (FY2020)

- a. 8/5/2019 Proposed budget filed with the City Secretary
- b. 8/8/2019 Proposed budget posted on the city website
- c. 8/13/2019 Notice to local paper - Budget Hearing
- d. 8/13/2019 Notice to local paper - Tax Levy
- e. 8/28/2019 Public Hearing conducted – Budget & Tax Levy
- f. 8/28/2019 Ordinance 2019-ORD010 Adopting Budget
- g. 8/28/2019 Ordinance 2019-ORD011 Adopting & Levying 2019 Property Tax
- h. 9/12/2019 Ordinance 2019-ORD012 Adopting Certified Tax Roll & Levying Property Tax

B. Other Statutory Requirements

- a. Adopted Resolutions posted to city website
- b. Adopted Ordinances posted to city website
- c. Agendas posted to city website, mailbox bulletin boards, Spicewood Community Center
- d. Minutes posted to city website
- e. Election notices posted to website and local newspaper
- f. 10/23/2019 Public Hearing – Zoning
- g. 1/23/2020 Public Hearing – Zoning; Ordinance 2020-ORD018 Adopting Zoning
- h. 3/12/2020 Public Hearing – Zoning Map; Ordinance 2020-ORD019 Adopting Zoning Map
- i. 6/24/2020 Special Meeting – Approval of Petition for Consent to the Creation of South Burnet County Municipal Utility Districts (3)

Internal Audit Results & Recommendations: All budgetary and tax requirements were fully met as well as other key statutory requirements. Posting of agenda, as required by state law, 72 hours in advance, was completed as required. Approved Minutes were posted on the website however, timing was inconsistent. Cross training an additional person to manage the website is recommended to allow more consistent, timely posting.

SUMMARY OF RECOMMENDATIONS

*****The purpose of this report is focused on actions required to establish the appropriate control environment for the municipality and to comply with Texas Local Government Code Sections 103.001-103.004.*****

- 1) Update current process to implement increased separation of duties where practical. Consider implementing a regular inspection process to provide a compensating control.
- 2) Implement QuickBooks Online (QBO) as soon as possible, invest in consulting services and training to maximize the benefits of the tool. Re-assign responsibility for this task.
- 3) Create a formal Policy & Procedure Guide to be reviewed and adopted by the City Council
- 4) Establish City Office, consolidate records and establish policy for record retention and access
- 5) Establish standard training program and certification program for key personnel
- 6) Convert the manual excel version of Monthly Financial Reports (Agenda Packet) to QuickBooks Online reporting
- 7) Cross train additional personnel to manage the website to improve consistency of updates

FY2019 - 20 Monthly Revenue & Expense Report

City of Double Horn

ACCOUNT	Actuals:												FYTD	% Budget		
	Budget	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug			Sep	
REVENUE																
Ad Valorem/Property Taxes	\$ 64,132.73	\$ -	\$ 4,638.72	\$ 16,689.47	\$ 29,829.15	\$ 7,324.63	\$ 1,174.85	\$ 1,308.72	\$ 318.26	\$ 3,004.41	\$ 629.29	\$ 1,311.40	\$ -	\$ -	\$ 66,208.90	103.24%
Donations - General		\$ -	\$ 200.00	\$ 5,572.56	\$ -	\$ 40.00	\$ -	\$ -	\$ 94.97	\$ 110.00	\$ -	\$ -	\$ -	\$ -	\$ 6,017.53	N/A
Donations - Legal Defense		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
Donations - Expense Reimbursements		\$ 180.00	\$ 54.08	\$ 399.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 633.58	N/A
Grants		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000.00	\$ 1,000.00	N/A
Fees		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
Interest		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
Insurance Proceeds		\$ 0.67	\$ -	\$ 50.00	\$ -	\$ -	\$ 94.97	\$ -	\$ (94.97)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
Other		\$ 64,132.73	\$ 180.67	\$ 4,892.80	\$ 22,691.53	\$ 29,829.15	\$ 1,269.82	\$ 1,308.72	\$ 318.26	\$ 3,114.41	\$ 629.29	\$ 1,311.40	\$ 1,000.00	\$ 1,000.00	\$ 73,910.68	115.25%
Total Revenue																

EXPENSES																
Salary & Wages - City Secretary	\$ 11,700.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,395.93	\$ 1,707.22	\$ 180.32	\$ 1,003.95	\$ -	\$ 6,286.82	53.73%
Employer Payroll Tax		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 885.28	\$ -	\$ -	\$ 12.00	\$ -	\$ 897.28	
Training & Travel	\$ 1,200.00	\$ -	\$ -	\$ 50.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50.00	4.17%
City Council Meeting Room Rental	\$ 1,040.00	\$ 180.00	\$ -	\$ 120.00	\$ 60.00	\$ 60.00	\$ -	\$ -	\$ -	\$ 105.00	\$ 35.00	\$ 35.00	\$ 35.00	\$ -	\$ 690.00	66.35%
City Hall Office Rental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Utilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Office Equipment & Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Office Supplies	\$ 500.00	\$ -	\$ 54.08	\$ 399.50	\$ -	\$ -	\$ 240.70	\$ -	\$ 55.00	\$ -	\$ -	\$ 97.85	\$ -	\$ -	\$ 847.13	169.43%
Computers	\$ 1,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 593.16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 593.16	59.32%
Software	\$ 200.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%
Phone	\$ 250.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260.86	\$ -	\$ 26.50	\$ 25.04	\$ 25.04	\$ -	\$ -	\$ 337.44	134.98%
Website	\$ 120.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210.05	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210.05	175.04%
Email Accounts	\$ 250.00	\$ -	\$ 388.92	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89.42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 478.34	191.34%
Accounting/CPA Fees	\$ 4,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 357.00	\$ -	\$ -	\$ -	\$ 357.00	8.93%
City Attorney	\$ 8,000.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%
Legal Fees	\$ 15,000.00	\$ 6,660.80	\$ 7,591.40	\$ 1,918.00	\$ 4,513.63	\$ 8,362.99	\$ 1,068.00	\$ 282.00	\$ 84.00	\$ 5,388.00	\$ 2,796.00	\$ 3,402.00	\$ 2,835.00	\$ 44,741.82	\$ 44,741.82	298.28%
Legal Fees - Retirement of Existing Debt	\$ 10,002.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%
Burnet County Tax Collection Fees	\$ 1,900.00	\$ -	\$ 1,078.00	\$ -	\$ 274.06	\$ -	\$ -	\$ 274.06	\$ -	\$ 274.06	\$ -	\$ -	\$ -	\$ -	\$ 1,900.18	100.01%
Election Services Fees	\$ 400.00	\$ -	\$ -	\$ -	\$ 544.99	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 544.99	136.25%
Newspaper/Notification Fees	\$ -	\$ -	\$ -	\$ 384.00	\$ -	\$ 780.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195.00	\$ -	\$ -	\$ 1,983.33	
Insurance Prem (TML Intergovtl RiskPool)	\$ 980.00	\$ -	\$ -	\$ 986.86	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 986.86	100.70%
Texas Municipal League Mmbrshp Fee	\$ 600.00	\$ -	\$ -	\$ -	\$ -	\$ 591.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 591.00	98.50%
Total Expenses		\$ 57,142.00	\$ 6,840.80	\$ 9,052.40	\$ 3,756.36	\$ 5,392.68	\$ 9,793.99	\$ 1,578.75	\$ 1,410.08	\$ 10,074.77	\$ 4,920.26	\$ 3,995.21	\$ 4,509.68	\$ 61,495.40	\$ 61,495.40	107.62%
Revenue Over/(Under) Expenditures		\$ (6,660.13)	\$ (4,159.60)	\$ 18,933.17	\$ 24,436.47	\$ (2,429.36)	\$ (308.93)	\$ (401.36)	\$ 89.84	\$ (6,960.36)	\$ (4,290.97)	\$ (2,623.81)	\$ (3,509.68)	\$ 12,415.28		

Note - Budget includes additional funds:
 General Fund \$ 970.00
 Reserve Fund \$ 6,020.73
 Total Budgeted Expenses & Funds: \$ 64,132.73

City of Double Horn FY2019 - 2020 Balance Sheet

9/30/2020

ASSETS

Current Assets:

Cash in Bank - Operating (2038)	28,055.63
Cash in Bank - Legal Defense (5404)	145.95
Cash in Bank - Tax Revenues (9060)	6,479.56
Total Cash	34,681.14
Gift Card	50.00
Accounts Receivable - from Taxes	-

TOTAL ASSETS

\$ 34,731.14

LIABILITIES

Current Liabilities:

Accounts Payable - Legal	27,415.50
Accounts Payable - City Phone	25.04
Accounts Payable - Spicewood Community Center	60.00

TOTAL LIABILITIES

\$ 27,500.54

NET

\$ 7,230.60

City of Double Horn Legal Expense & Payment Summary FY2019 - 2020

Invoice #	Date	Invoice Amount	Payment Recipient	Payment Amount	Balance	Check #	Paid from Account
AKERS & AKERS							
4730	4/19/2019	\$ 16,622.50		\$	16,622.50		
4763	5/17/2019	\$ 1,826.93	Akers & Akers LLP	\$ (10,000.00)	8,449.43	1002	Operating Account
4799	6/3/2019	\$ 2,251.60	Akers & Akers LLP	\$ (2,000.00)	10,701.03	1004	Operating Account
	6/19/2019	\$ 531.22	Akers & Akers LLP	\$ (2,000.00)	8,701.03		
	7/17/2019		Akers & Akers LLP	\$ (7,232.25)	9,232.25	1001	Legal Defense
	8/4/2019				7,232.25	1008	Operating Account
	9/19/2019						
	10/22/2019						
Total Akers & Akers		\$ 21,232.25		\$ (21,232.25)		Remaining Balance	\$ Paid in Full

MESSER, FORT, McDONALD

10107	7/6/2019	\$ 14,330.20	Messer, Fort, McDonald	\$	14,330.20		
10290	9/5/2019	\$ 11,113.23	Messer, Fort, McDonald	\$	25,443.43		
10526	10/7/2019	\$ 6,660.80	Messer, Fort, McDonald	\$ (2,767.75)	32,104.23	1009	Operating Account
	10/22/2019		Messer, Fort, McDonald	\$	29,336.48		
10677	11/11/2019	\$ 7,531.40	Messer, Fort, McDonald	\$	36,867.88		
10889	12/10/2019	\$ 1,818.00	Messer, Fort, McDonald	\$	38,685.88		
11158	1/16/2020	\$ 4,513.63	Messer, Fort, McDonald	\$ (5,000.00)	43,199.51	1018	Operating Account
	1/17/2020		Messer, Fort, McDonald	\$	38,199.51		
11253	2/7/2020	\$ 8,362.99	Messer, Fort, McDonald	\$ (5,000.00)	46,562.50	2001	Operating Account
	3/4/2020			\$	41,562.50		
11381	3/5/2020	\$ 1,068.00	Messer, Fort, McDonald	\$	42,630.50		
11558	4/2/2020	\$ 282.00	Messer, Fort, McDonald	\$	42,912.50		
11780	5/5/2020	\$ 84.00	Messer, Fort, McDonald	\$ (5,000.00)	42,996.50	2012	Operating Account
	6/1/2020			\$	37,996.50		
11940	6/2/2020	\$ 5,388.00	Messer, Fort, McDonald	\$ (5,002.00)	43,384.50	2014	Operating Account
	6/12/2020			\$	38,382.50		
12148	7/9/2020	\$ 2,796.00	Messer, Fort, McDonald	\$	41,178.50		
12363	8/11/2020	\$ 3,402.00	Messer, Fort, McDonald	\$ (10,000.00)	44,580.50	2025	Operating Account
	8/24/2020			\$	34,580.50		
12562	9/10/2020	\$ 2,835.00	Messer, Fort, McDonald	\$ (10,000.00)	37,415.50	2028	Operating Account
	9/11/2020			\$	27,415.50		
Total Messer, Fort, McDonald		\$ 70,185.25		\$ (42,769.75)		Remaining Balance	\$ 27,415.50

ALL LEGAL EXPENSES

Total Legal Fees	\$ 91,417.50	Total Payments	\$ (64,002.00)	Remaining Balance	\$ 27,415.50
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