



CITY OF DOUBLE HORN
ANNUAL FINANCIAL AUDIT
(INTERNAL)
for
FISCAL YEAR 2021
(October 1, 2020 – September 30, 2021)

City of Double Horn Annual Financial Audit – FY2021

*****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 with an overview of the city's finances and assess the financial processes in place that support the accuracy of reporting, transparency, and risk. Fiscal year 2021 was the second full year of incorporation, second budget year, and second year of tax revenue since the City's incorporation. Two key accomplishments occurred in FY21, including establishing a city office and the successful implementation of QuickBooks Online for bookkeeping, financial reporting, and payroll. The City Council reviewed and approved *Financial Policies and Procedures* were not yet in existence, making an independent audit impossible. **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 FY2022 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, (2) review of files and records, and (3) interviews with key personnel.

Audit Timing:

The audit was conducted after the close of the Fiscal Year 2021 and is based on events during the Fiscal Year 2021.

Auditor:

The audit was performed by the current City Treasurer, Lindsay Thompson. Lindsay is a finance and accounting professional and licensed CPA in Texas and Kansas. As of September 9th, 2021, Lindsay was appointed as the City Treasurer. Lindsay's experience and expertise provide the basis of the knowledge required and meets the statute requirement to perform the audit.

Audit Type: *Internal Audit*

At this time, the city does not perform an independent third-party audit. The audit was focused on key areas as addressed in this report; it was not an exhaustive review of all processes.

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
Vendor Setup |
| 3) Mayor Pro Temp | Payroll Processing** |
| 4) Mayor | Prepare Monthly Reports**
Present Monthly Reports at Council Meetings**
Authorized Signer on Bank Accounts / Signing Checks |

**This is not an exhaustive list but instead identifies the key responsibilities that were the basis of the findings and recommendations.*

***The Treasurer has taken over these responsibilities as of Sept 9, 2021*

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 full-time staff, this can be difficult. To minimize the 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.

B. Bookkeeping & Reporting System

- 1) QuickBooks Online was fully implemented for FY21 with the assistance of the city's accounting firm, JRBT.

Internal Audit Results & Recommendations: QuickBooks Online (QBO) provides affordable pricing, built-in and custom reports, automatic backups, integration with bank feeds, and a wide range of additional accounting features.

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 as a control procedure for specific financial 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. While there is no formal Policy & Procedure Guide that has been approved by the City Council, work is underway to document both financial policy as well as other key operational processes. It is recommended that 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 cabinet located at the city office. A cabinet key is maintained by the City Mayor, City Secretary, and City Treasurer. 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.

Internal Audit Results & Recommendations: The Treasurer attaches digital versions of A/P invoices, tax revenue reports, and bank statements to applicable transactions in QuickBooks Online. This allows these documents to be easily reviewed and monitored as needed.

All original paper documents are stored at the city office in secured cabinets. A fireproof cabinet should be purchased to prevent loss of original documents in the event of a fire. In addition, a digital document storage system should be investigated (i.e., cloud storage, external hard drive, or server). Storing documents digitally will provide easier access and allow records to be retained longer without the need for additional paper storage space. A record retention policy should also be a high priority.

E. Training (Financial)

- 1) QuickBooks Online Training is offered via a series of YouTube videos available online.

Internal Audit Results & Recommendations: Training on QBO is required for anyone involved in the financial process. Additional training on municipal accounting and responsibilities should be investigated and a standard training and certification program established. Key QBO financial processes should be documented and preserved in a handbook for future financial personnel training.

The new City Treasurer, Lindsay Thompson, completed 8.5 hours of QuickBooks Online ProAdvisor training within 45 days of taking ownership of the treasurer responsibilities. Official QBO certificates were issued upon completion.

(2) Statements, Records & Accounting Transactions

A. Selected records and accounting transactions were vouched end-to-end.

1) Tax Revenue (Income)

Income/Revenue Ledger >> Burnet Central Appraisal District Report File >>
First United Bank Statement >> Bank Account Ledger >> Profit & Loss Report

Internal Audit Results & Recommendations: Tax Collection Activity statements are emailed from Burnet Central Appraisal District to the Mayor and Treasurer. These statements support the incoming deposits received into a dedicated tax revenue bank account, separate from the operating checking account. This provides increased visibility over incoming tax revenue. Following motions for approval, sweeps are then made from the tax revenue account to the operating account.

2) Donations (Income)

Income/Revenue Ledger >> Donations File >> First United Bank Statement >>
Bank Account Ledger >> Profit & Loss Report

Internal Audit Results & Recommendations: Following acceptance of a cash or goods donation, a Receipt of Charitable Donation form is filled out and kept on file with a copy provided to the donor. All donations should be well documented to ensure transparency and allow for audits and a donation acceptance policy should be implemented.

3) Permits/Fees (Income)

Income/Revenue Ledger >> Permit File >> First United Bank Statement >>
Bank Account Ledger >> Profit & Loss Report

Internal Audit Results & Recommendations: Ordinance 2019-ORD015 and 2020-ORD017 outline the requirements, administrative procedures, and applicable fees for permits. After the permit requester submits payment and proof of insurance, listing the city as a permit holder, permit requests are reviewed and approved by the City Council. Payments received are deposited into the city operating checking account.

4) Expense Reimbursements

Expense Ledger >> Expense Reimbursement Form >> Attached Receipt(s) >> Check Issued >> Bank Account Ledger >> First United Bank Statement >> Profit & Loss Report

Internal Audit Results & Recommendations: Expense reimbursement forms do not have an invoice # for reference. ALL expenses, including expense reimbursements, should be entered with a consistent, unique identifying invoice number to avoid unintentional duplication. A process should be implemented surrounding the standard format for expense reimbursement invoice numbers, conforming to the QBO limit of 21 characters. (i.e., Expense Report 1.31.2021)

5) Expenses

Expense Ledger >> Original/Scanned Invoice >> Check Issued >> Bank Account Ledger >> First United Bank Statement >> Profit & Loss Report

Internal Audit Results & Recommendations: Invoices are received via email or mail, reviewed/approved by the City Mayor, and entered into QBO by the City Treasurer. Incoming mailed invoices are date stamped by the City Secretary. Invoices are scanned and attached in QBO to each expense transaction.

6) Journal Entries

Journal Entry >> Expense Ledger >> Files

Internal Audit Results & Recommendations: Journal entries are recorded monthly in QBO as needed for reclasses, accruals, or deferrals. All Journal Entries should have a formal month-end approval policy with appropriate backup stored in the City files. Journal entry reference numbers should also follow a consistent numerical sequence.

7) Vendors

Vendor Master File >> Vendor Files >> W9 Form >> 1099 Forms (if required)

Internal Audit Results & Recommendations: A formal vendor approval policy and standard vendor setup form should be created. If possible, a City Staff member that is not involved in the day-to-day accounting functions should be separately authorized to set up new vendors in QBO. This will improve controls over new vendor setup and prevent future fraud.

A complete and thorough review of the active vendor listing should be reviewed annually. Vendors that have not been used in the past year, or unanticipated future use, should be deactivated. If the vendor is to be reactivated, a new vendor approval form and W9 form should be completed. This process should be well documented and included in the policies and procedures. Year-end 1099 forms are completed and mailed to vendors by the QuickBooks Online team.

8) Payroll

Expense Ledger (Payroll/Tax Expense) >> Payroll Time Sheet >> Check Issued >> Bank Account Ledger >> First United Bank Statement >> Tax Reports / Payroll Reports

Internal Audit Results & Recommendations: Completed payroll timesheets are sent to the Mayor and Treasurer. The Treasurer runs payroll through QBO and prepares the payroll check for the Mayor's signature. Paystubs, completed timesheets and payroll reports are kept in the locked cabinet.

As of Q1 2021, The QuickBooks Online tax department e-files all required quarterly and annual payroll tax returns.

9) Balance Sheet

Balance Sheet >> General Ledger >> Bank Statements/Vendor Invoices/Payroll

Internal Audit Results & Recommendations: Bank statements, invoice copies, or payroll reports support all balance sheet amounts.

- B. Monthly Financial Statements** are presented by the Mayor or Treasurer and reviewed with the City Council. The Treasurer's Report is a standard agenda item at each monthly 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, 2021, is attached to this report.

(3) Compliance with Statutory & Budgetary Requirements

A. Budget & Tax Requirements (FY2020)

- a. 7/30/2020 2020 Notice of Tax Rates posted on the city website
- b. 7/30/2020 2020 Tax Rate Calculation Worksheet posted on the city website
- c. 8/17/2020 Proposed budget filed with the City Secretary
- d. 8/17/2020 Proposed budget posted on the city website
- e. 9/4/2020 Notice to local paper - Tax Levy
- f. 9/7/2020 Notice to local paper - Budget Hearing
- g. 9/17/2020 Public Hearing conducted – Budget & Tax Levy
- h. 9/17/2020 Ordinance 2021-ORD022 Adopting Budget Fiscal Year 2020-2021
- i. 9/17/2020 Ordinance 2021-ORD023 Adopting Certified Tax Roll and Levying 2020 Property Tax

B. Other Statutory Requirements

- a. Adopted Resolutions posted to the city website
- b. Adopted Ordinances posted to the city website
- c. Agendas posted to the city website, mailbox bulletin boards, Spicewood Community Center
- d. Minutes were posted to the city website
- e. Election notices posted to the website and local newspaper
- f. 10/8/2020 Public Hearing – Zoning ORD024; Ordinance 2020-ORD024 Fire Suppression Tanks
- g. 10/8/2020 Public Hearing – Zoning ORD025; Ordinance 2020-ORD025 Water Tank Conditional Use Permit
- h. 11/23/2020 Special Meeting – Approve Lease for City Office space
- i. 1/7/2020 Special Meeting – Guest Speaker Jill Shackelford – Aggregate Industry Best Practice Operations
- j. 2/22/2021 Special Meeting – Mayor’s Disaster Declaration

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

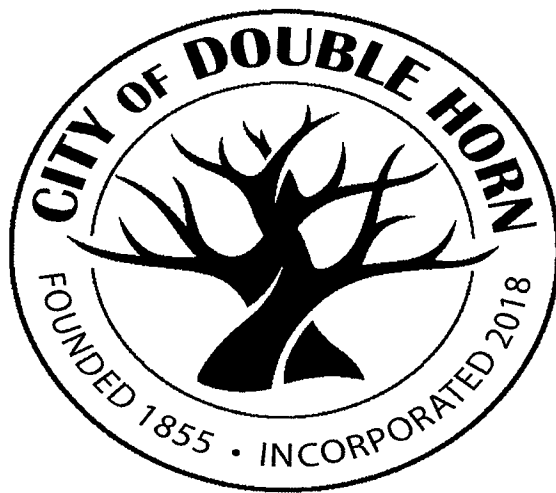
SUMMARY OF RECOMMENDATIONS

*****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 processes to implement increased separation of duties where practical. Consider implementing a regular inspection process to provide a compensating control.
- 2) Create a formal Policy & Procedure Guide to be reviewed and adopted by the City Council, financial policies including but not limited to:
 - 1)Expense Reimbursement
 - 2)Record Retention
 - 3)Journal Entry Approvals / Backup
 - 4)Vendor Approval / Vendor Setup / Vendor Listing Review
 - 5)Donations
- 3) Investment in a fireproof cabinet and digital document storage system should be investigated.
- 4) Establish a standard training program and certification program for key personnel.
- 5) Key QBO financial processes should be documented and preserved in a handbook for future financial personnel training, including a standard expense reimbursement entry format.
- 6) Cross-train additional personnel to manage the website to improve the consistency of updates.

FISCAL YEAR 2021
October 2020 - September 2021

CITY OF DOUBLE HORN
ANNUAL DEBT REPORT



MESSER, FORT, McDONALD

Invoice #	Date	Invoice Amount	Payment Recipient	Payment Amount	Balance	Check #	Paid from Account
10107	7/6/19	\$ 14,330.20	Messer, Fort, McDonald		\$ 14,330.20		
10290	9/5/19	\$ 11,113.23	Messer, Fort, McDonald		\$ 25,443.43		
10526	10/7/19	\$ 6,660.80	Messer, Fort, McDonald		\$ 32,104.23		
	10/22/19		Messer, Fort, McDonald	\$ (2,767.75)	\$ 29,336.48	1009	Operating Account
10677	11/11/19	\$ 7,531.40	Messer, Fort, McDonald		\$ 36,867.88		
10889	12/10/19	\$ 1,818.00	Messer, Fort, McDonald		\$ 38,685.88		
11158	1/16/20	\$ 4,513.63	Messer, Fort, McDonald		\$ 43,199.51		
	1/17/20		Messer, Fort, McDonald	\$ (5,000.00)	\$ 38,199.51	1018	Operating Account
11253	2/7/20	\$ 8,362.99	Messer, Fort, McDonald		\$ 46,562.50		
	3/4/20		Messer, Fort, McDonald	\$ (5,000.00)	\$ 41,562.50	2001	Operating Account
11381	3/5/20	\$ 1,068.00	Messer, Fort, McDonald		\$ 42,630.50		
11558	4/2/20	\$ 282.00	Messer, Fort, McDonald		\$ 42,912.50		
11780	5/5/20	\$ 84.00	Messer, Fort, McDonald		\$ 42,996.50		
	6/1/20		Messer, Fort, McDonald	\$ (5,000.00)	\$ 37,996.50	2012	Operating Account
11940	6/2/20	\$ 5,388.00	Messer, Fort, McDonald		\$ 43,384.50		
	6/12/20		Messer, Fort, McDonald	\$ (5,002.00)	\$ 38,382.50	2014	Operating Account
12148	7/9/20	\$ 2,796.00	Messer, Fort, McDonald		\$ 41,178.50		
12363	8/11/20	\$ 3,402.00	Messer, Fort, McDonald		\$ 44,580.50		
	8/24/20		Messer, Fort, McDonald	\$ (10,000.00)	\$ 34,580.50	2025	Operating Account
12562	9/10/20	\$ 2,835.00	Messer, Fort, McDonald		\$ 37,415.50		
	9/11/20		Messer, Fort, McDonald	\$ (10,000.00)	\$ 27,415.50	2028	Operating Account
12771	10/6/20	\$ 2,214.00	Messer, Fort, McDonald		\$ 29,629.50		
	10/12/20		Messer, Fort, McDonald	\$ (5,000.00)	\$ 24,629.50	2037	Operating Account
12935	11/6/20	\$ 4,500.00	Messer, Fort, McDonald		\$ 29,129.50		
	11/13/20		Messer, Fort, McDonald	\$ (5,000.00)	\$ 24,129.50	2044	Operating Account
13114	12/8/20	\$ 2,562.00	Messer, Fort, McDonald		\$ 26,691.50		
13334	1/12/21	\$ 750.00	Messer, Fort, McDonald		\$ 27,441.50		
	1/18/21		Messer, Fort, McDonald	\$ (5,000.00)	\$ 22,441.50	2057	Operating Account
13455	2/8/21	\$ 5,335.80	Messer, Fort, McDonald		\$ 27,777.30		
	2/23/21		Messer, Fort, McDonald	\$ (5,000.00)	\$ 22,777.30	2065	Operating Account
13735	3/12/21	\$ 3,474.00	Messer, Fort, McDonald		\$ 26,251.30		
	3/12/21		Messer, Fort, McDonald	\$ (2,500.00)	\$ 23,751.30	2071	Operating Account
13871	4/7/21	\$ 6,852.25	Messer, Fort, McDonald		\$ 30,603.55		
	4/9/21		Messer, Fort, McDonald	\$ (2,500.00)	\$ 28,103.55	2079	Operating Account
14118	5/12/21	\$ 7,722.00	Messer, Fort, McDonald		\$ 35,825.55		
	5/20/21		Messer, Fort, McDonald	\$ (10,000.00)	\$ 25,825.55	2091	Operating Account
14338	6/14/21	\$ 7,119.96	Messer, Fort, McDonald		\$ 32,945.51		
	6/14/21		Messer, Fort, McDonald	\$ (2,500.00)	\$ 30,445.51	2096	Operating Account
	7/12/21		Messer, Fort, McDonald	\$ (5,277.30)	\$ 25,168.21	2100	Operating Account
14610	7/14/21	\$ 4,366.96	Messer, Fort, McDonald		\$ 29,535.17		
14774	8/13/21	\$ 8,556.96	Messer, Fort, McDonald		\$ 38,092.13		
	9/14/21		Messer, Fort, McDonald	\$ (500.00)	\$ 37,592.13	2117	Operating Account
14966	9/14/21	\$ 1,800.00	Messer, Fort, McDonald		\$ 39,392.13		
		\$ 125,439.18		\$ (86,047.05)		Remaining Balance	\$ 39,392.13

Report Notes:

- 1) Legal services are provided by the law firm of Messer, Fort & McDonald including City Attorney services & litigation services.
- 2) There are no finance or interest charges accruing to this debt.
- 3) Beginning in September 2021, regular payments of \$500 per month will be made, per the signed agreement with Messer, Fort & McDonald, until the outstanding balance is paid in full.
- 4) FY2021 - The City of Double Horn maintained a cash balance that covered all payables immediately due.
- 5) The City of Double Horn has no outstanding bank loans or any other debt obligation.
- 6) Based on a population of 230, debt per capita = \$171.27