



## Management Letter

February 28, 2014

To the Honorable Mayor and  
City Council Members of the  
City of Mont Belvieu, 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. 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, the business-type activities, each major fund, and the aggregate remaining fund information City of Mont Belvieu, Texas (the "City") as of and for the year ended September 30, 2013, 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 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 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.

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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:***

***Other Matters:***

**2013-01. UTILITY BILLING**

**Background**

The City's utility billing rates increase ten percent on October 1 of every year.

**Finding**

During testing of utility billing, it was noted that the City was underbilling customers for sewer and garbage.

**Recommendation**

The City should ensure that customers are being charged the correct rates and utility bills are being calculated correctly.

**2013-02. DEFICIT FUND BALANCES**

**Finding**

As disclosed in the notes to the financial statements, three capital projects funds and one special revenue fund had deficit ending fund balances.

**Recommendation**

The City should monitor expenditures related to construction projects or other special projects and budget for transfers in as necessary to cover the expenditures in these funds.

***PRIOR YEAR MATTERS:***

***Other Matters:***

**2012-01. POOLED CASH BALANCE**

**Background**

The City uses a consolidated bank account; whereas, one bank account is maintained for all funds and each fund has an equity interest in the bank account. While consolidated bank accounts are highly efficient due to the automated nature, there is no formal approval necessary to advance funds to cover the shortage when a fund's equity in the fund becomes a deficit.

**Finding**

As of the end of the year, some funds had negative pooled cash balances. For report purposes, the deficit position is reclassified as a “due to/from other funds” or receivable/payable between funds.

**Recommendation**

The City should consider adopting a formal policy on how deficit balances will be communicated to management and City Council and if and how formal approval will be obtained before or after a fund has a negative balance.

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 the 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.

*BELT HARRIS PECHACEK, LLLP*

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