

3/27/2018

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Pflugerville, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Pflugerville, Texas' basic financial statements, and have issued our report thereon dated **xxxxx**, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Pflugerville, Texas' internal control over financial reporting (internal control) to determine the audit 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 City of Pflugerville, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Pflugerville, Texas' internal control.

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 entity'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 consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Pflugerville, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

3/30/2018



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Pflugerville, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Pflugerville, Texas' basic financial statements, and have issued our report thereon dated **March 30, 2018**.

**Internal Control Over Financial Reporting** *The order of wording throughout this paragraph has been modified*

In planning and performing our audit of the financial statements, we considered City of Pflugerville, Texas' internal control over financial reporting (internal control) to determine the audit 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 City of Pflugerville, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Pflugerville, Texas' 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a *deficiency in internal control* that we consider to be a material weakness.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. See Finding 2017-A.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Pflugerville, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

What inspires you, inspires us. [eidebailly.com](http://eidebailly.com)

400 Pine St., Ste. 600 Abilene, TX 79601-5190 T 325.672.4000 TF 800.588.2525 F 325.672.7049 EOE

3/27/2018

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abilene, Texas  
xxx, 2018

3/30/2018

**City's Response to Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abilene, Texas  
March 30, 2018

3/27/2018

3/30/2018

**City of Pflugerville, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2017**

**Findings Required to be Reported in Accordance with Government Auditing Standards**

<b>Finding 2017-A:</b>	Financial Reporting- Prior Period Adjustment
Type of Finding:	Material Weakness
Criteria or Specific Requirement:	Management of the City is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.
Statement of Condition:	The City previously disclosed PCDC's commitment to reimburse the City for debt service payments for certificates of obligation that the City issued on PCDC's behalf. It was determined that the City should record a receivable in its financial statements for PCDC's obligation. As a result, a prior period adjustment was recorded to increase receivables and net position of governmental activities by \$11 million at October 1, 2016.
Cause:	The agreement between the City and PCDC was originally determined to be commitments of PCDC to reimburse the City rather than as obligations.
Effect:	The City's receivables and net position of governmental activities were understated by \$11 million at October 1, 2016.
Recommendation:	Management should evaluate agreements for appropriate accounting treatment and document their rationale for such treatment based on the signed written agreements.
View of Responsible Officials:	Management agrees with the noted finding.  The City of Pflugerville concurs with the auditor's opinion that the agreements between the City and its component unit, the Pflugerville Community Development Corporation, dated 2009, 2012 and 2014 establish a long-term arrangement between the two entities. The commitments between the City and PCDC have been included in the notes to the audited financial statements since fiscal year 2010, the first year affected by these agreements, although the arrangements were not incorporated into the financial statements.