



## **INTERNAL AUDIT ANNUAL REPORT**

for

Fiscal Year Ended  
September 30, 2025

Issued by the  
Internal Audit Office  
January 2026

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## INTRODUCTION

The purpose of this report is to comply with Ordinance 2021-48, Section 2-233(b)(10). “The duty to submit an annual report to the Finance Committee and the City Council within 90 days after the fiscal year end. The report will indicate the audits that were completed, the major findings, the corrective action taken by administration and any significant issues not fully addressed by management.”

In addition, this report highlights the outcome of key Internal Audit activities in fiscal year 2025 (October 1, 2024 – September 30, 2025) which demonstrates efforts to assist management in identifying and addressing risks, improving internal controls and processes while providing assurance to the Council and the Citizens of League City. Statistical information on the utilization of Internal Audit resources and performance metrics are also included.

## EXECUTIVE SUMMARY

Based on the work performed during FY25, there did not appear to be internal control issues representing material deficiencies or circumstances in which management decisions resulted in the acceptance of significant risk. Although material control deficiencies were not identified, there are opportunities for management to make improvements in several areas.

Three Audits were completed and issued during FY25, which resulted in four findings, eleven corrective actions and 5 observations.

FINDINGS, CORRECTIVE ACTIONS & OBSERVATIONS						
Report Name	FINDINGS <sup>1</sup>					Observations <sup>2</sup>
	High Priority	Medium Priority	Low Priority	Total Findings	Corrective Actions	
Annual Permit Renewal	3	1		4	11	
Overtime Premium	<i>Analysis conducted to provide information</i>					2
Procurement Card Program Review (Outsourced)	1					3
<b>FY25 TOTALS</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>4</b>	<b>11</b>	

<sup>1</sup> Findings have formal corrective actions to remediate issues identified in compliance or performance audits that require action and will be followed up on.

<sup>2</sup> Observations highlight low-risk anomalies or improvement opportunities for management's consideration. They are not formal recommendations and will not be followed up on.

Status on implementation progress for the agreed to actions on prior audits was obtained for the Wire Transfer Process, ARPA Subrecipient Funding, Police Overtime, Commercial Remodel Construction Sales Tax, Scrap Material Handling Process, and Short Term Rental Process. A total of seventy-nine corrective actions were implemented, three actions were suspended based on management’s decision not to implement for various reasons, and twenty-one were reported as in process.

Twenty-three corrective actions were found to be past due at the time of follow-up, including twenty high priority and three medium priority actions. Implementation of nine actions had not been initiated at the time of review.

**Corrective Action Status as of FY25 Year End**

<b>Corrective Action Balances</b>	
Beginning Corrective Actions	79
Ending Corrective Actions	30
<b>Past Due Corrective Actions</b>	
High Priority	20
Medium/Low Priority	3

**MISSION & PURPOSE**

The Internal Audit Department’s reporting relationship is established by Ordinance 2021-48. This department is the City’s independent appraisal function. The Internal Audit Department serves the public interest by providing independent and objective audits, reviews, and assessments.

The Department ensures:

- The city is applying its resources effectively, efficiently and economically
- The city is in compliance with laws, regulations, policies and procedures
- The city has adequate safeguards over its assets
- The city has appropriate revenue management in place
- The city’s financial and operational information is reliable

By providing information together with analysis, conclusions and recommendations, the department helps to hold government accountable for its stewardship of the public trust and assists elected officials and management staff in using resources to maximize effectiveness and productivity.

## SUMMARY OF ACHIEVEMENTS FOR FISCAL YEAR 2025

- Identified approximately \$79,000 in lost revenue for annual permits that had not been renewed.
- Identified compliance and process improvement opportunities to increase annual revenue from permit renewals.
- Oversaw the procurement process for an outsourced audit, from developing contract requirements to completion, including facilitation, monitoring, liaison duties, and providing documentation, information and input.
- Identified an opportunity for the City to save approximately \$250,000 per year in overtime payroll costs.
- Followed up on past audits to ensure agreed to recommendations were implemented.
- Completed requisite training to retain professional certification.
- Provided annual and periodic reports to Council.
- Developed and issued the Internal Audit Annual Report for FY24.
- Developed FY2026 Internal Audit Plan for approval by City Council.

## STATISTICS

- Percent of recommendations agreed to by management 50%<sup>1</sup>
- Percent of recommendations partially agreed to by management 50%
- Percent of Audit Plan completed by the end of FY25 85%<sup>2</sup>
- Percent of resource usage (audit time/available time) 70%
- Percent of Finance Committee meetings attended 100%<sup>3</sup>
- Percent of Fraud Waste & Abuse reports addressed and closed 100%
- City Auditor cost per capita \$1.17

## PROFESSIONAL DEVELOPMENT

Professional Development improves skills, effectiveness and efficiency. Professional development is accomplished through required continuing education, other training, participation in professional associations and civic engagement.

### Continuing Professional Education:

Professional standards require that Certified Internal Auditors complete at least 40 hours of continuing education every calendar year to maintain certification.

- Completed Continuing Professional Education by attending in-person and virtual conferences sponsored by the Association of Local Government Auditors and the Institute of Internal Auditors, and attending webinars sponsored by the Association of Local Government Auditors, the Institute of Internal Auditors and other corporate sponsors.

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<sup>1</sup> Percentage of recommendations from audit reports with which management agreed.

<sup>2</sup> Includes overall average completion percentage of scheduled audits and follow-ups

<sup>3</sup> Includes only those meetings with Internal Audit related business.

### Other Training:

- Harassment Prevention for Employees
- League City Employee Policy Manual
- KnowBe4- Cyber Security
- First Amendment Auditors Training
- Active Shooter Training
- Cash Handling

### Professional Membership:

- The Institute of Internal Auditors (IIA): IIA is an international professional association that provides certification, education, and develops the International Professional Practices Framework and other guidance for the internal audit profession.
- Association of Local Government Auditors (ALGA): ALGA is a national organization that provides advocacy, education, peer review, mentorship, guidance and collaboration for local government auditors to protect and enhance the public good. (*Conference Committee*)

### Community Engagement:

- Wellby Financial Supervisory Committee Member: The supervisory committee is responsible for ensuring that the board of directors and management of the credit union meet required financial reporting objectives and establish practices and procedures sufficient to safeguard members' assets.
- Sunset Commission Member: The purpose of the commission is to study the functions of the various city boards and commissions and make recommendations to City Council to increase efficiency, reduce duplication of effort and eliminate waste in city operations.

## AUDITS COMPLETED IN FISCAL YEAR 2025

### PERFORMANCE & COMPLIANCE AUDIT REPORTS

In accordance with Ordinance 2021-48, Section 2-233(b)(10), the following is a summary of the findings and corrective actions agreed to by management for audits completed in FY25.

#### *Annual Permit Renewal Audit*

**Objective:** Determine if permits are being renewed on an annual basis as required by the Fire Marshal Fee Schedule.

**Overall Conclusion:** League City needs improvement in the overall annual permitting program which includes resources, processes, compliance, and enforcement of requirements. In an analysis of permitting history for calendar years 2018 – 2024 for seven out of forty-eight annually required permits, instances of non-compliance were identified resulting in lost permit revenue of approximately

\$79,000. Based on the issues identified in this audit, it is possible that similar non-compliance would also be identified for other annual permits not included in this review. However, further investigation needs to be done to determine if that is the case.

#### **Findings:**

1. Businesses are not renewing annual permits on a consistent basis. Priority: High
2. System functionality is not utilized to automate invoicing process for annual permit renewals. Priority: High
3. Utilization of resources could be more efficient and effective. Priority: Medium
4. The Code of Ordinances and city website lack clarity regarding annually renewed permits including any penalties or enforcement actions for delinquencies or non-compliance. Priority: Medium

**Future Activities:** A follow-up audit is scheduled on the FY26 Audit Plan to obtain the status of the actions agreed to by management.

#### **OTHER AUDIT REPORTS**

This section summarizes other audit projects performed by internal audit.

##### ***Overtime Premium Analysis***

**Objective:** Determine the cost to the City of including Holiday, Annual Leave, Compensatory Time Taken and Jury Duty in the calculation of time worked for overtime.

**Summary of Review:** Based on review performed, it is a reasonable and conservative conclusion that overtime premiums paid on leave counted as hours worked costs the city over a quarter of a million dollars per fiscal year. The total expense associated with including paid leave hours in the calculation of overtime worked is estimated to be about 6% of the overall overtime expense incurred by the city each fiscal year.

The city's current method of including holiday, vacation, compensatory time, and jury duty as time worked for overtime calculations is not mandated by any rule, law, or regulation or a common practice among similar or nearby municipalities. Overtime premiums paid on leave are minor compared to the city's overall overtime expenses but could be redirected to other activities or initiatives. However, excluding paid leave from time worked for overtime calculations may result in employee dissatisfaction, which could negatively affect employee relations and recruitment strategies. If paid leave hours are excluded from overtime calculations, recommendations to consider are that changes be gradually introduced over a two-year period and implemented alongside merit increases and cost of living adjustments.

#### **AUDIT FOLLOW-UP REPORTS**

In accordance with Ordinance 2021-48, Section 2-233(b)(10) following is a summary of corrective actions taken and issues not fully addressed by management for each follow-up audit or status report completed in FY25.

**FY25 CORRECTIVE ACTION TRACKING**

Follow-up Audit	Beginning Actions	Completed Actions	Actions Not Implemented	Outstanding Action Status			Not Implemented			Past Due Actions		
				Not Started	In Process	Total Outstanding <sup>1</sup>	High Priority	Med Priority	Low Priority	High Priority	Med Priority	Low Priority
Wire Transfer Process 2nd Follow-up	5	5										
ARPA Subrecipient Funding 1st Follow-up	16				16	16				14	2	
Police Overtime 1st Follow-up	38	28	3	6	1	7	3			1		
Commercial Remodel Construction Sales Tax 2nd Follow-up	9	2		3	4	7				5	1	
Scrap Material Handling Process 2nd Follow-up	6	6				0						
Short Term Rental Process 2nd Follow-up	5	5				0						
	79	46	3	9	21	30	3	0	0	20	3	0

<sup>1</sup> As of the start of the Follow-up. **First Follow-up:** All Actions Agreed To by Management. **Second Follow-up:** Outstanding Actions Agreed To by Management as of the the First Follow-up Audit.

**Wire Transfer Process Audit 2nd Follow-up**

**Objective:** The objective of the audit was to determine progress that has been made toward implementation of the five corrective actions that remained outstanding as of the first follow-up audit issued in August 2025.

**Summary of Corrective Actions:** Based on the results of this review all outstanding actions have been implemented.

**Future Activities:** None

**ARPA Subrecipient Funding 1st Follow-up**

**Objective:** The objective of the audit was to determine if appropriate action was taken by management to address the agreed to actions detailed in the original ARPA Subrecipient Funding Audit Report issued April 2024.

**Summary of Corrective Actions:** Twenty-one corrective actions were recommended in the audit report. Three of the actions were implemented prior to releasing the audit report, while four were not implemented based on management’s decision. This audit aimed to assess the progress made toward implementing the remaining fourteen agreed to actions detailed in the original report.

Based on the audit work conducted, all fourteen outstanding actions were in process. Most of these will be addressed within a Subrecipient Management Policy that has been drafted and is presently under review for approval.

**Future Activities:** A second follow-up review will be conducted during FY26.

**Police Overtime Audit 1st Follow-up**

**Objective:** The objective of the audit was to determine if appropriate action was taken by management to address the agreed to actions detailed in the original Police Overtime Audit Report issued in August 2025.

**Summary of Corrective Actions:** The original report had sixteen findings and forty-one recommendations to improve timekeeping and overtime management. Management agreed to

address thirty-eight of these recommendations. Twenty-eight corrective actions have been implemented, and one is in process. One low-risk action was not implemented due to a management decision. The remaining six outstanding actions were not due at the time the 1<sup>st</sup> follow-up was conducted.

**Future Activities:** A second follow-up review will be conducted during FY26.

#### ***Commercial Remodel Construction Sales Tax Audit 2nd Follow-up***

**Objective:** The objective of the audit was to determine progress that has been made toward implementation of the nine corrective actions that remained outstanding as of the first follow-up audit issued in May 2024.

**Summary of Corrective Actions:** Based on the review conducted, seven of the nine corrective actions remained outstanding. The Building Department had four outstanding actions: three in progress and not started yet. Progress on implementation has stalled for several reasons including staff turnover, process complexity, information gaps, and software changes. The City Auditor will collaborate with current staff to offer needed clarification, guidance, and support to advance implementation.

**Future Activities:** While no additional formal follow-up for this audit is planned, the Internal Audit Office will continue to monitor progress.

#### ***Scrap Material Handling Process Audit 2nd Follow-up***

**Objective:** The objective of the audit was to determine progress that has been made toward implementation of the nine corrective actions that remained outstanding as of the first follow-up audit issued in April 2025.

**Summary of Corrective Actions** Based on the results of this review all outstanding actions have been implemented.

**Future Activities:** None

#### ***Short Term Rental Process Audit 2nd Follow-up***

**Objective:** The objective of the audit was to determine progress that has been made toward implementation of the five corrective actions that remained outstanding as of the first follow-up audit issued in September 2024.

**Summary of Corrective Actions:** Based on the results of this review all outstanding actions have been implemented.

**Future Activities:** None

## AUDITS IN PROCESS AS OF SEPTEMBER 30, 2025

Audit projects in process at fiscal year-end.

### *Utility Billing Audit*

**Objective:** To determine if the City's procedures and practices regarding delinquencies are effectively applied, equitable, and minimize potential revenue loss from defaulted accounts.

**Audit Status:** *Planning Phase Completed*  
*Fieldwork Phase in process*

**Future Activities:** Audit report is anticipated to be issued in the 2<sup>nd</sup> quarter of FY26.

## MANAGEMENT LETTER MEMORANDUMS ISSUED IN FISCAL YEAR 2025

The purpose of these memorandums is to bring potential process, internal control or other risk issues to the attention of management and provide recommendations for improvements. These observations were outside the scope of the audit/project being performed, so were not included in the audit report. As appropriate, the status of the identified issues will be evaluated in the process of conducting scheduled audits or special projects.

During FY25, issues were identified during the process of conducting an audit that resulted in one management letter memorandum.

- **Management Letter Memorandum-Police Department (April 2025)** The internal audit office issued a memorandum to the City Manager, Assistant City Manager/CFO, and the Human Service and Finance Directors regarding observations made while conducting fieldwork for the Overtime Premium Analysis. One reportable item was identified, resulting in two recommended actions for consideration.

## OUTSOURCED AUDIT

### *Procurement Card Program Review*

**Objective:** Perform a comprehensive review of the procurement card (P-card) program. conduct a comprehensive review of the P-Card program, assessing compliance with city policies, proper usage of the cards, and identifying potential areas for improvement in managing employee spending through these cards.

**Overall Conclusion:** The review found no issues with business justification, categories, documentation, or approvers. There were no reported security or fraud violations. City staff confirmed no incidents occurred during the audit period. No P-Cards were revoked, and terminated employees' cards were canceled immediately in JP Morgan, followed by reconciliation and deactivation in Munis. Several opportunities for improvement were identified, including one finding and three observations. The finding was a lack of monitoring Procurement Card Rebates to ensure the city received all due. The observations suggested improving business practices by identifying available vendor rebates, creating a separate P-Card Policy Manual from the Procurement Manual, and using Merchant Category codes.

**Future Activities:** Follow-up of the finding will be conducted during FY26. The observations are merely suggestions for management to consider and will not be followed up on.

## CONCLUSION

During fiscal year 2025 the Internal Audit Office completed eight audits including six follow-up audits and initiated an additional audit prior to the fiscal year end which will be completed in FY26. In addition, managed an outsourced audit contract from drafting requirements to completion, including monitoring, liaison duties, and facilitating the audit process.

Implementation for the majority of agreed to actions followed up on were either completed or in progress. In general, management appears to recognize the importance of internal controls and the need for accountability.

It is a pleasure to continue serving the Mayor and City Council, the City Manager, Assistant City Manager and Directors in their goal of providing extraordinary service to the citizens of League City.

*Respectfully Submitted*

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Candace Brown, CIA, MBA, MAcc  
City Auditor  
City of League City

Distribution:  
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