

Galveston County Municipal Utility District No. 13
c/o City of League City, Texas
Galveston County, Texas

In planning and performing our audit of the financial statements of Galveston County Municipal Utility District No. 13 (the District) as of and for the period ended April 11, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency 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 of the District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be material weaknesses.

Material Weaknesses

Until the District's dissolution on April 11, 2017, the District's management consisted of an elected Board of Directors (Directors). Day-to-day operations were performed by private entities (Consultants) under contract with the District. The Directors supervised the performance of the Consultants; however, although Consultants can be part of the District's system of internal control, the Consultants are not members of management. Per auditing standards, management is responsible for design and implementation of the District's system of internal controls.

Per auditing standards, one of the primary controls within the system of internal controls is related to the preparation of the financial statements. Management of the District is responsible for either preparing the financial statements or having the knowledge to determine whether the financial statements have been properly prepared and are free from potential misstatement. The absence of this expertise within management, or a Consultant of the District hired to perform this service, is considered by auditing standards to be a material weakness in internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to correct and present the financial statements on the government-wide basis of accounting. Additionally, we noted adjustments to various accounts, such as cash, property tax receivable and revenues, deferred property tax revenues, accounts payable, professional fees and contracted services expenditures, which were necessary in order for the fund financial statements to be in conformity with generally accepted accounting principles. The inability of management (or a Consultant of the District hired to perform this service) to detect these necessary adjustments is considered by auditing standards to be a material weakness in internal control over financial reporting.

The material weaknesses noted above, if not corrected, could result in a material misstatement or omission of a required disclosure in the financial statements.

Management's Response

The District's Directors, until dissolution of the District, were appointed or elected from the general population and did not necessarily have governmental accounting expertise. The Directors engaged Consultants who possessed industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. The Directors did not feel that the addition of an employee or a Consultant to perform the annual financial reporting process was necessary, nor would it have been cost effective.

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the City of League City, Texas, and the Texas Commission on Environmental Quality, and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

August 20, 2018