

February 19, 2026

Mr. Jeffrey Darby
City of Nederland
PO Box 967
Nederland, Texas 77627

Re: Report on Forensic Accounting Services for the City of Nederland

Dear Mr. Darby,

Thank you for the opportunity to provide the City of Nederland with our forensic consulting services. We are pleased to submit the following report outlining our analyses and observations of our forensic review of the City of Nederland and related entity financial records for the period of October 1, 2021 to December 31, 2025.

We limited our review to the scope of work outlined by our engagement letter for consulting services and to the pertinent supporting documents and information made available to us. Our forensic review included analyses and procedures deemed appropriate under the circumstances and did not include management decision-making or oversight.

The following report relates to the extent of our work performed and the results of our analysis and observations as of the date of this report. The use of this report is limited to you and your principals involved in this matter. The contents of this report are confidential and intended for internal use only. No portion of this report may be reproduced, distributed, or relied upon by any other party without the prior consent of Baker Tilly.

EXECUTIVE SUMMARY

Baker Tilly Advisory Group, LP ("Baker Tilly," "we," or "our") was engaged by the City of Nederland (or "the City"). to provide certain forensic services (the "Services" or "Matter") for the period of October 1, 2021 to December 31, 2024 ("Relevant Period") with certain items extending through December 31, 2025.

This report summarizes the results of our forensic and internal controls review performed for the City of Nederland. The review focused on evaluating selected financial records, accounting data, and supporting documentation related to the City's administration of Coronavirus State and Local Fiscal Recovery Funds ("SLFRF" or "COVID-related funds"), as well as the financial activities and governance practices of Nederland's Economic Development Corporation ("EDC"). The objective of the engagement was to evaluate documentation, oversight, and internal control practices and to

identify opportunities to strengthen transparency, accountability, and defensibility. This engagement was not conducted as an audit, and no opinion or assurance is expressed.

This engagement involved a combination of document review, data analysis and discussions with City management to understand how COVID-related funds were administered, as well as how EDC funds were managed. Procedures included reviewing bank statement records, examining documentation, and assessing relevant policies and procedures made available for review. Where appropriate, additional procedures, including limited public-record and online searches were performed to corroborate information obtained and to identify any irregular relationships or inconsistencies in the underlying documentation. While the observations are presented by focus area, common themes emerged across our review relating to documentation and oversight of SLFRF activities, continuity of processes and institutional knowledge, obligation timing and use of SLFRF funds, and EDC governance practices, including conflicts-of-interest documentation and expense oversight.

With respect to COVID-related funds, our review focused on understanding how related expenditures were identified, approved, documented and supported in accordance with federal eligibility requirements and the applicable 2024 obligation deadline. We noted that the City undertook a review of prior-year expenditures to assess eligibility under evolving SLFRF guidance and to formally designate those expenditures as obligated prior to the deadline. Approvals for these expenditures were primarily documented through City Council and/or Board meeting minutes, reflecting governance oversight and authorization of the identified use of funds. In addition, executed contracts, purchase orders, and grant agreements were reviewed to support the obligation and use of funds.

During our review, we identified a variance of approximately \$9,325 related to the Non-Profit Partnership Grant Program, for which supporting documentation was largely available but did not fully reconcile to the total amount identified as obligated. This variance is discussed further in the detailed findings section. Separately, we noted that certain expenditures related to public safety personnel costs were not initially included in the City's adopted COVID-related funding budget and were later identified as eligible uses of SLFRF prior to the obligation deadline. As a result, the City undertook a retrospective review to identify and designate eligible costs. While such expenditures are generally eligible under SLFRF guidance, the need for a retrospective identification and approval process highlights an opportunity to strengthen upfront planning, budgeting, and documentation practices for federally funded programs.

Our review of the EDC focused on understanding financial activity, conflicts-of-interest controls, and governance practices. While the EDC is a component of the City's annual audit and participates in the City's employee insurance program, it operates with a degree of independence while receiving funding from the City.

We observed that the EDC's Executive Director, Kay DeCuir, (or "Executive Director") operates a business in the real estate sector (K DeCuir Properties). We also noted that she was involved in various real estate-related transactions representing the EDC. While we did not identify transactions that resulted in a direct financial benefit to the Executive Director's outside business interests, the absence of contemporaneous conflicts-of-interest documentation limits the EDC's ability to demonstrate compliance with its governance policies and increases the risk of perceived conflicts of interest. When questioned, the Executive Director indicated that conflicts-of-interest disclosures were not documented because she did not believe disclosure was required in the absence of compensation.

We also identified certain EDC disbursements related to meals and refreshments that, in isolation, could be perceived as personal in nature. While these transactions were not individually material, the

limited documentation and policy guidance regarding allowable business expenses may create ambiguity and increase the risk of inconsistent practices.

In addition to our review of EDC activities, we reviewed selected internal control practices at the City level. Bank reconciliations were prepared in a timely manner and appeared appropriately supported, which is a positive control indicator. However, while the City maintains several transaction specific policies (including credit card usage, travel reimbursement, and petty cash), we did not identify a comprehensive procurement or purchasing policy governing vendor selection, competitive bidding, and approval thresholds across departments that was effective prior to December 15, 2025.

Based on the procedures performed, we observed that the City maintains a range of financial processes and policies that support its operations; however, opportunities exist to further enhance documentation, governance, and policy frameworks, particularly in areas involving federally funded programs and EDC oversight. The detailed findings and recommendations that follow are intended to be practical and forward-looking, and to support the City's efforts to strengthen transparency, consistency, and defensibility.

BACKGROUND & OBJECTIVES

This engagement was conducted to assist the City of Nederland in evaluating selected financial and governance matters identified during the City's administration and reporting of COVID-19 / SLFRF and in connection with certain activities of the EDC.

During the course of the City's administration of these programs, certain questions and reporting considerations arose related to the identification, documentation, and approval of expenditures, as well as the governance and oversight practices associated with the EDC. In response, the City engaged Baker Tilly to perform a forensic and internal controls review to provide an independent, objective assessment of documentation, oversight and related processes and to identify opportunities to strengthen transparency, consistency, and defensibility.

This engagement focused on reviewing selected financial records, supporting documentation, policies, procedures, and governance practices related to COVID-19 / SLFRF funding and the EDC for the period under review. The purpose of the forensic review was to analyze financial activity and control processes to identify potential irregularities, gaps in oversight, or inconsistencies between system records and bank activity. Throughout the review, several meetings and walkthrough sessions were conducted with City employees to obtain supporting documentation and clarify system processes.

The procedures performed were designed to provide observations and practical recommendations and were not conducted as an audit or compliance examination.

SCOPE OF PROCEDURES PERFORMED

The forensic review covered activity primarily from October 2021 through December 2024 with certain items reviewed extending through December 2025. The procedures were designed to analyze financial records to identify irregularities, inconsistencies, or gaps in documentation, and to address adequacy of controls over the SLFRF, as well as review the Nederland EDC policies, procedures and processes for identifying and selecting new business opportunities.

To address these objectives, the review procedures included the following activities:

- Reviewing bank statements and related activity to identify irregular transactions, circular transfers, unusual withdrawals, or unexplained disbursements.
- Reconciling bank deposits and disbursements to corresponding entries recorded in the General Ledger.
- Reviewing policies and procedures related to accounting, ethics and procurement.
- Reviewing COVID-related funding documentation to reconcile and understand how the funds were obligated and disbursed.
- Analyzing monthly meeting minutes for the EDC to understand processes and identify areas for improvement.
- Holding discussions and system walkthroughs with management and employees to understand accounting workflows and reconciliation processes.
- Evaluating internal controls, segregation of duties, and oversight practices related to deposit handling, disbursements, and reconciliations.

A summary of the documents and system reports made available during the engagement is provided in **Appendix A – Document Summary**.

SCOPE LIMITATIONS

This engagement was conducted in accordance with the scope of services agreed upon by the City and Baker Tilly and was designed to perform a forensic and internal controls review of selected financial records, transactions, and governance practices of the City and its Economic Development Corporation. The procedures performed do not constitute an audit and no opinion, legal conclusion or other form of assurance is expressed on the financial statements, internal controls, or compliance of the City or EDC.

Our work was limited to information and documentation provided by the City and EDC during the engagement, as well as publicly available information. We did not independently verify the completeness or accuracy of the information. Certain procedures required application of professional judgment, including the selection of transactions, programs, and activities for review. As a result, the procedures performed may not address all transactions or activities occurring during the period under review. Our observations are based on information available at the time the procedures were performed, and subsequent information could affect our findings.

The observations and recommendations included in this report are intended to be practical and forward-looking and should not be interpreted as conclusions regarding intent, misconduct, or compliance with laws or regulations. This report is intended solely for the use of the City and its authorized representatives in connection with this engagement.

FORENSIC ANALYSIS AND OBSERVATIONS

The analysis and observations below are based on targeted, risk-focused procedures performed in the areas of COVID-related funding including SLFRF activity, and EDC governance and conflicts-of-interest controls. Our procedures included reviewing bank statements and related activity, meeting materials, and applicable policies and procedures, as well as discussions with City and EDC

personnel. In performing these focused reviews, we considered fund management and disbursement processes, including selected accounts payable, procurement and approval activities, to the extent relevant to COVID-related funding and EDC governance. Our procedures were not designed to provide comprehensive coverage of all financial, operational, or internal control activities.

Please see below for categories of analysis conducted and related observations:

1. COVID-RELATED FUNDING (SLFRF)

a. Background

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program was established under the American Rescue Plan Act (“ARPA”) of 2021 to provide financial assistance to state and local governments to respond to and recover from the impacts of the COVID-19 pandemic. SLFRF funding is subject to statutory and regulatory requirements related to uses, budgeting, reporting and recordkeeping.

The City of Nederland received approximately \$4,304,289.72 in SLFRF funding, which was allocated across multiple programs and initiatives in accordance with approved budgets and spending plans. The City is required to prepare and submit periodic expenditure and compliance reports supported by underlying financial records and documentation. In addition, recipients of the SLFRF funding received guidance regarding eligible uses of funds, which evolved over time as the impacts of COVID-19 and related recovery needs developed. As a result, program interpretation and implementation considerations changed over the course of the funding period.

Recipients of SLFRF funding were required to periodically submit 'SLFRF Compliance Reports' to the U.S. Department of Treasury summarizing the planned use of funds and reporting, by program or project, budgeted amounts, amounts obligated cumulative expenditures. For reporting purposes, funds were generally considered obligated when recipients entered into a binding agreement, such as contract or purchase order, that required payment.¹ SLFRF guidance established deadlines, with any unobligated funds subject to return to the U.S. Treasury in accordance with program requirements.

b. Procedures Performed

As part of our review of COVID-related funding, we obtained an understanding of the City's bank reconciliation process to inform our assessment of cash receipt and disbursement activity and reliability of related accounting records. We understand that the City maintains a limited number of pooled cash accounts, which are reconciled on a monthly basis through an automated reconciliation process. Based on our understanding of this process, and discussions with City personnel, we relied on the reconciled balances and related records for purposes of our procedures and did not independently extract or review bank statements for all accounts or periods.

In addition, we reviewed selected accounting records and supporting documentation related to SLFRF activity to understand how amounts were recorded, tracked, and reported as obligations and expenditures during the period under review. This included considering the timing of recorded obligations relative to program requirements, as well as the extent to which reported expenditures

¹ https://home.treasury.gov/system/files/136/Obligation_Interim_Final_Rule_2023.pdf

were supported by available documentation. Our procedures were focused on understanding the processes used to track and report SLFRF activity and were not designed to independently verify the completeness or accuracy of all underlying transactions.

We also reviewed selected supporting documentation related to COVID-related disbursements, including invoices, agreements, and other available records, to understand the nature of expenditure and how they were documented. This review was performed on a targeted basis to assess whether recorded activity was generally supported by available documentation and consistent with reported SLFRF activity.

In addition, we reviewed selected meeting minutes, reports, and other materials related to COVID-related programs to understand how SLFRF-funded activities were monitored and discussed during the period under review. This included considering how information related to SLFRF activity was communicated and documented for oversight purposes.

c. Observations

1. Oversight and Documentation of SLFRF Activities

Based on our review, the SLFRF funds were discussed during periodic City meetings, and related meeting minutes served as the primary documentation evidencing approval and oversight of proposed uses of funds. These discussions reflected City management's consideration of how SLFRF funds could be applied across various programs and initiatives in response to COVID-19 impacts.

While meeting minutes provided evidence that SLFRF activities were reviewed and discussed, we observed documentation supporting certain decisions and approvals was not consistently formalized outside of meeting records. In particular, written approvals, standardized tracking documentation, or contemporaneous summaries of decision rationale were not always maintained. As a result, the meeting minutes often functioned as both the approval mechanism and the primary record supporting the use of SLFRF.

This approach provided a level of oversight through discussion and documentation of meeting proceedings, however, reliance on meeting minutes alone limited the extent to which decision-making, approvals and changes in planned use of funds were consistently documented in a centralized or standardized manner.

2. Process Continuity and Institutional Knowledge

Based on our review, responsibility of documenting, tracking, and reporting SLFRF activity was largely centralized with a single individual who possessed detailed institutional knowledge of the application reporting requirements, and treatment of SLFRF-related transactions. This individual served as the primary point of coordination for compiling documentation, monitoring obligation status, and preparing information used for reporting purposes.

During the period under review, that individual unexpectedly passed away, which required City management, including the prior City Manager and prior Director of Finance, to quickly assess the status of SLFRF obligations and reporting with limited direct familiarity with the underlying processes. As a result, City personnel relied on available records, meeting materials, and discussions to reconstruct the status of obligations and expenditures.

We observed that certain processes related to SLFRF tracking and reporting were informal and not consistently documented in written procedures. While City management took steps to continue monitoring and reporting SLFRF activity, the reliance on institutional knowledge rather than

standardized documentation limited process continuity and increased dependence on individual knowledge during the transition period.

3. Obligation, Timing and Use of SLFRF

Based on our review, SLFRF were eligible to be obligated for a range of services and City programs intended to address the impacts of COVID-19, including, but not limited to, revenue replacement, economic development initiatives, public health, and mental health programs, technology access, workforce training and placement, and certain operational expenses and equipment. The City initially identified a limited number of projects for budgeting and tracking purposes as summarized below.

Original SLFRF Programs	
1	Commercial Driver's License Job Training Program
2	NISD Student Wellness Program
3	Waterline Replacement
4	Sewerline Improvements/Replacement
5	Non-Profit Partnership Program
6	Administration
7	WTP Clarifier Rehab

As of the applicable obligation date of December 31, 2024, approximately \$1,890,153.69 of SLFRF had not been documented as obligated. The City was subsequently notified by the U.S. Department of the Treasury that these amounts would be subject to repayment absent qualifying expenditures.

During the period under review, guidance regarding eligible uses SLFRF evolved, including clarification regarding how certain expenditures incurred or paid prior to applicable deadlines could be treated for purposes of meeting program requirements. Following communications from the U.S. Department of the Treasury, the Director of Finance participated in outreach and informational sessions hosted by Treasury to better understand these requirements.

Based on that guidance, City management identified various expenditures incurred prior to the applicable deadline that were eligible under SLFRF and could be applied toward meeting obligation and expenditure requirements. These expenditures included amongst other items, certain public safety salaries and overtime, equipment purchases, infrastructure-related costs, and other programmatic and operational expenses. Management indicated that, when considered collectively, these expenditures were sufficient to exhaust the remaining SLFRF balance and satisfy applicable program requirements, thereby avoiding repayment of funds.

As part of our review, we examined available meeting minutes, annual SLFRF compliance reports, and documentation supporting COVID-related expenditures incurred during the period under review. Supporting documentation reviewed included invoices, purchase orders, check support, and other records evidencing the nature and timing of expenditures. For certain program expenditures disbursed across multiple initiatives, we also reviewed memoranda summarizing the project purpose and awarded amounts, which were signed and dated prior to the disbursement of funds. Based on our procedures, the documentation reviewed was generally consistent with the reported use of SLFRF and supported the eligibility of the expenditures identified by City management.

In addition, we reviewed bank activity and related accounting records to understand how SLFRF amounts were reflected in the City's records and allocated to the identified programs. While the majority of amounts reviewed were supported by available documentation and aligned with reported activity, we identified one variance that could not be fully reconciled based on the records provided. Specifically, meeting minutes reflected that \$361,875.97 of SLFRF activity associated with the "Non-Profit Partnership Grant Program" had been completed; however, based on available accounting records, bank activity, and supporting documentation for the 2022 period, we identified total expenditures of approximately \$352,550.97, resulting in a variance of approximately \$9,325.

We were not able to validate the source of this variance based on documentation available. It is also possible that the amount reflected as complete in the meeting minutes did not fully align with the underlying accounting records, particularly given the documentation and process continuity considerations described above and the evolving understanding of SLFRF obligation and expenditure requirements during the period under review.

d. Conclusion

Based on our procedures, we did not identify misuse or ineligible use of SLFRF during the period under review. Our observations related primarily to documentation practices, process continuity, and the timing and tracking of obligations in the context of evolving program guidance.

While certain SLFRF amounts were initially reflected as not documented as obligated by the applicable deadline, City management identified qualifying expenditures incurred prior to the deadline that were applied toward meeting program requirements in accordance with Treasury guidance. To the extent noted above, documentation and reconciliation challenges limited the City's ability to readily demonstrate obligation status for certain amounts at specific points in time; however, these matters reflect process and recordkeeping considerations rather than improper use of funds.

2. NEDERLAND'S ECONOMIC DEVELOPMENT CORPORATION

a. Background

Nederland's Economic Development Corporation ("EDC") was established to promote business growth, job creation, and economic development within the City. The EDC provides grants and other forms of financial assistance to support new, relocating, and expanding businesses, and also funds exterior property improvements intended to enhance commercial activity and benefits the broader community.

The EDC is governed by a Board of Directors comprised of seven members. The Board meets on a monthly basis to discuss funding decisions, economic development initiatives, and other matters related to the EDC's operations. Board actions and deliberations are documented in meeting minutes, which are made publicly available through the EDC's website.

The EDC is subject to multiple layers of financial oversight. It is included as a component unit within the City's annual financial audit and is also subject to a separate external audit as required by applicable governing or funding requirements. In addition, internal financial reviews are performed on a monthly basis.

b. Procedures Performed

Based on concerns raised regarding governance and conflicts-of-interest practices at the EDC, we performed targeted procedures to understand Board oversight, conflicts-of-interest disclosures, and

selected financial activity. Our procedures were focused on assessing governance practices and identifying potential indicators of conflicts of interest or irregular activity and were not designed to provide assurance over all EDC operations or transactions.

As part of our review, we obtained and reviewed available EDC Board meeting minutes to understand governance practices, approval processes, and the extent to which potential conflicts of interest were discussed or documented. We also reviewed selected EDC bank statements and credit card statements to identify unusual, irregular, or otherwise notable activity for further consideration.

In addition, we requested and reviewed EDC policies and procedures related to ethics and conflicts of interest, procurement, and credit card usage to understand the control framework in place and requirements applicable to Board members and EDC personnel. Where available, we compared observed practices reflected in the records reviewed to the requirements set forth in these policies.

Based on our review of meeting minutes and financial records, we selected a targeted sample of transactions and activities for further review. For selected items, we reviewed supporting documentation made available to us, including settlement statements, invoices, memoranda, and other related records to understand the nature of the transactions and how they were approved and documented. Our review was limited to the documentation provided.

Following completion of our document review and analysis, we conducted an interview with the EDC's Executive Director to obtain additional context regarding EDC operations, governance practices, and certain transactions and activities identified during our review.

c. Observations

1. Governance and Board Oversight

Based on our review, the EDC Board of Directors meet on a monthly basis to discuss funding decisions, business development initiatives, and other matters related to the EDC's operations. Board actions and deliberations are documented in meeting minutes, which serve as the primary record of Board discussions and approvals.

As part of our procedures, we reviewed available Board meeting minutes to understand how funding decisions and other matters were considered and approved. We observed that Board members participated in discussions and voted on various items, including matters related to businesses and properties receiving EDC assistance. The meeting minutes reviewed did not consistently reflect whether Board members evaluated or documented potential conflicts of interest, including whether recusals or other measures were considered where personal or familiar relationships may have been relevant.

Based on our review, the absence of documented conflicts-of-interest considerations or recusals in the meeting records limited the EDC's ability to demonstrate how potential conflicts were identified and addressed in connection with Board discussion and decisions. These observations related to governance documentation and transparency practices rather than the identification of improper outcomes or transactions.

2. Conflicts-of-Interest Disclosures and Outside Business Interests

Based on our review, the EDC's Executive Director operates an outside business in the real estate sector. As part of her role with the EDC, the Executive Director is involved in real estate-related activities associated with EDC-supported projects, which are subject to Board review and approval.

Following our document review, we interviewed the Executive Director to obtain additional context regarding these activities. During the interview, the Executive Director stated that she does not receive commissions or other direct financial compensation from real estate transactions conducted on behalf of the EDC and that such transactions require Board approval. She further stated that she had disclosed her outside real estate business since the beginning of her tenure and has taken steps intended to mitigate potential conflicts of interest, including using title companies for EDC-related transactions that differ from those used in her personal business activities.

Based on the procedures performed and documentation reviewed, we did not identify records indicating that EDC-related real estate transactions resulted in a direct financial benefit to the Executive Director's outside business. However, we observed that documentation evidencing formal conflicts-of-interest disclosures, ongoing monitoring, or periodic reaffirmation of such disclosures for senior management was not consistently available for review. As a result, the EDC's ability to demonstrate how potential conflicts of interest were identified, disclosed and evaluated over time was limited by the absence of centralized or consistently maintained documentation.

These observations relate to disclosure and documentation practices rather than the identification of improper transactions or outcomes.

We obtained the available meeting minutes, bank statements and credit card statements for the EDC to assess if any anomalies, irregularities, or other concerning items appeared. Additionally, we requested EDC policies and procedures related to ethics, procurement and credit card policies.

3. Credit Card Usage and Expense Oversight

Based on our review, the EDC maintains a written credit card policy governing the use of EDC-issued credit cards. We reviewed the Nederland EDC Credit Card Policy, which was updated during the current year, to understand the requirements applicable to EDC personnel.

The Nederland EDC Credit Card Policy prohibits the use of EDC-issued credit cards for personal expenses and requires that written justification be maintained with each receipt to describe the business purpose and relevance of the expenditure. The policy also requires a periodic review of credit card activity to identify unusual or inappropriate charges.

Based on our review of EDC credit card statements, we identified certain transactions charged to the Executive Director's EDC-issued credit card that appeared personal in nature, including individual meals and other small-dollar purchases. For certain charges, written justification describing the business purpose of certain charges was often limited or generic, which reduced the clarity of the underlying business relevance.

During our interview, the Executive Director indicated that certain expenses, such as rotary dues and related meals, may be paid by the EDC, while other meals are paid personally. However, the documentation reviewed did not always clearly distinguish between business-related and personal expenses. These observations relate to documentation and oversight practices rather than the identification of significant or improper expenditures.

4. Process Improvements Identified

As part of our review, we obtained and reviewed EDC policies addressing credit card usage and conflicts of interest. Documentation provided for our review reflected a credit card policy dated in December 2025, while the conflicts-of-interest policy provided was dated more than ten years ago.

Management indicated that the EDC's conflicts-of-interest policy is in the process of being updated to clarify disclosure expectations applicable to Board members and senior management. Our observations and conclusions are based on the policies and documentation made available to us during the period under review and we did not independently assess the implementation or effectiveness of any updates described but not yet finalized.

d. Conclusion

Based on the procedures performed, we did not identify EDC transactions that resulted in a direct financial benefit to EDC management or Board members. Our observations related primarily to governance practices, conflicts-of-interest disclosures, and the clarity and consistency of supporting documentation.

While the EDC maintains policies addressing credit card usage and conflicts of interest, limitations in documentation and recordkeeping reduced the EDC's ability to readily demonstrate how potential conflicts were identified, disclosed, and addressed in certain circumstances. In addition, documentation supporting the business purpose of certain expenditures was, at times, limited or generic.

Documentation reviewed reflected a credit card policy dated in 2025 and a conflicts-of-interest policy dated more than ten years ago. Management indicated that the conflicts-of-interest policy is in the process of being updated. These matters reflect governance, documentation, and oversight considerations rather than the identification of improper transactions or misuse of EDC funds.

RECOMMENDATIONS & CONSIDERATIONS

The procedures performed during this review highlighted areas where enhancements to documentation and policies and procedures could further support transparency, consistency and oversight across City departments. The recommendations below reflect considerations for potential improvement based on observations described above.

1. COVID-Related Funding (SLFRF)

- Consider documenting key decisions related to SLFRF and related funding using formal approval memoranda or other contemporaneous records, with meeting minutes serving as supplemental support, to enhance transparency and facilitate efficient identification of approvals and key discussion.
- Maintain centralized documentation supporting SLFRF obligation requirements, including how expenditures were evaluated against evolving eligibility guidance.
- Periodically review internal processes related to grant tracking and reporting to promote consistency as program requirements evolve.
- Maintain supporting documentation for SLFRF expenditures in a manner that facilitates future review or inquiry.

2. EDC Governance and Documentation

- Maintain documentation describing how potential or perceived conflicts are evaluated and addressed for Board members and senior management.

- Formalize and consistently document conflicts-of-interest disclosures and related recusal considerations for Board members and senior management.
- Periodically review, updated and reaffirm conflicts-of-interest policies applicable to the EDC to ensure disclosure expectations remain clear and current.
- Maintain documentation describing the business purpose and relevance of certain expenditures to support compliance with applicable policies.
- Periodically review and update governance-related policies and procedures to ensure continued alignment with current practices and oversight expectations, including maintaining consistency between individual policy updates, such as credit card usage policies, and the broader policy framework.

3. Citywide Governance, Documentation and Cash Handling

- Consider formalizing documentation retention practices, including a centralized digital repository for accounting and financial support, and periodically reviewing documentation for completeness to facilitate efficient access and future review.
- The City's Petty Cash & Change Fund Policy contemplates periodic, unannounced reviews. Consider performing these reviews consistently to support oversight and documentation of petty cash activity.

OVERALL CONCLUSION

Based on procedures performed, we did not identify misuses or improper use of public funds in the areas reviewed. Our observations across both COVID-19-related funding and EDC governance primarily related to documentation, governance practices, and the clarity and consistency of supporting records.

With respect to COVID-19 related funding, our observations reflected documentation and process consideration in the context of evolving program guidance, rather than the identification of ineligible expenditures. With respect to the EDC, our observations related to governance practices, conflicts-of-interest documentation, and expense documentation, and we did not identify transactions resulting in direct financial benefit to EDC management.

These matters reflect internal control, governance, and recordkeeping considerations rather than improper transactions or misuse of funds. Our conclusions are based on documentation and information available to us during the period under review.

Please refer to the attached list of appendices below for further details on our analyses.

DISCLOSURE STATEMENT

This report was prepared for the use of the City and its designated representatives for the purposes described herein. The procedures performed were limited to those agreed upon and were not designed to identify all potential issues or to provide assurance over all transactions, activities or internal controls. Accordingly, this report should not be relied upon for any purpose other than that described above.

Any unauthorized use or distribution of this report, its attachments, or any portions thereof is strictly prohibited. Our analysis and observations are based on the documents and other information provided.

We reserve the right to amend our opinions based on receipt of new or revised documentation and information.

We trust the foregoing comments are clear. If you have any comments or questions, please do not hesitate to reach out to the undersigned at **312.251.4500** at your convenience.

Sincerely,

BAKER TILLY ADVISORY GROUP, LP

Timothy J. Voncina, CPA, CMA, CGMA, CFF, CFE
Principal
Tim.Voncina@bakertilly.com

SUMMARY OF DOCUMENTS REVIEWED

SCHEDULE 1

1 Accounting Records and Financial Data (October 31, 2021 to December 31, 2024)

General ledger detail
Credit card statements, including transaction-level detail
Bank statements
Accounts payable transaction detail
Vendor payment detail
Financial statements

2 Management-Prepared Information

Bank reconciliations
COVID related documentation

3 Payroll and Human Resource Information

Organization Chart

4 Policies and Procedures

Written policies or procedures governing credit card, code of ethics, petty cash, investment policy, travel, expense reimbursements

5 Other Information - NEDC

Meeting minutes
Sample selection support

Summary of COVID Funding

Summary

Total SLFRF Received	
8/26/2021	\$ 2,152,145
3/11/2022	4,253
9/26/2022	2,156,398
Total	\$ 4,312,796

Program #	Project	Adopted Budget	Total Cumulative Obligated Funds	Total Cumulative Expenditures	G/L Support	Difference	Testing Support	Difference	Note
1	Commercial Driver's License Job Training Program	\$ 25,000	\$ 25,000	\$ 10,000	\$ 10,000	\$ -	\$ 10,000	\$ -	
2	NISD Student Wellness Program	25,000	25,000	25,000	25,000	-	25,000	-	
3	Non-Profit Partnership Program	561,876	452,551	452,551	452,551	-	452,551	-	Note C
	Sewer line Improvements/Replacement	342,414							Note A
4	Waterline Replacement	1,200,000	256,031	204,431	204,431	-	204,431	-	
	Administration	300,000							Note A
5	Park Improvements	-	24,675	24,675	24,735	(60)	24,735	(60)	
6	Regional Radio Systems	-	80,524	80,524	80,524	-	80,524	-	
7	Vacuum Truck	-	391,302	391,302	391,302	-	391,302	-	
8	Public Safety	-	1,393,653	1,393,653	1,393,653	-			Note B
9	WTP Clarifier Rehab	1,800,000	1,614,061	81,916	81,916	-	82,511	(595)	
10	2024-2025 Mental Health	50,000	50,000	50,000	50,000	-	50,000	-	
Total		\$ 4,304,290	\$ 4,312,796	\$ 2,714,052	\$ 2,714,112	\$ (60)	\$ 1,321,054	\$ (656)	

GENERAL NOTE:

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law, which provided economic relief to state and local governments in response to the COVID-19 pandemic. The City of Nederland received a total allocation of \$4,304,289.72. The government provided guidance on the eligible uses for the State and Local Fiscal Recovery Funds (SLFRF) (also known as ARPA Funds).

Annually, recipients are required to submit 'SLFRF Compliance Reports' to summarize the planned usage of the SLFRF funds. This includes the budget for each proposed program, as well as the total amount obligated to and the total cumulative expenditures for each program. The City of Nederland proposed uses for these funds during meetings and relied on the meeting minutes to suffice as approval for the uses of these funds. Additionally, the individual who was most knowledgeable in the treatment of the SLFRF funds unexpectedly passed away in November 2022, which required Chris Duque (former City Manager) and Chery Dowden (former Director of Finance) to obtain an expedited understanding of the process.

Treasury guidance evolved over time, expanding the range of expenditures eligible under the program. Heather Stucker started her role as the Director of Finance for the City of Nederland in February 2025. Shortly after assuming her role, Stucker received an email from the U.S. Treasury Department stating that \$1,890,153.69 of the SLFRF funds were not obligated as of the 12/31/2024 deadline and would require repayment. During a virtual meeting hosted by the SLFRF division of the U.S. Treasury Department, guidance was provided that eligible expenditures either obligated or paid for prior to 12/31/2024 would satisfy the US Treasury's requirements for fund use.

NOTES:

- (A) These items were included in the initial adopted budgets but no obligations or expenditures to use the ARPA funds for these programs ever occurred.
- (B) The Public Safety program included October through December 2024 police department, fire department, and dispatch salaries and overtime. Although this project was not initially included in the adopted budget for use of the SLFRF funds, when it was identified that \$1,890,153.69 needed to be obligated to eligible expenditures that occurred prior to 12/31/2024, these expenses were identified as eligible for the use of the funds prior the deadline. Our review of these expenditures was based on general ledger detail and documentation made available. We did not perform testing of underlying payroll records or timekeeping support.
- (C) We identified a variance that could not be fully reconciled based on the records provided. Specifically, meeting minutes reflected that \$361,875.97 of SLFRF activity associated with the "Non-Profit Partnership Grant Program" program had been completed; however, based on available accounting records, bank activity, and supporting documentation for the 2022 period, we identified total expenditures of approximately \$352,550.97, resulting in a variance of approximately \$9,325.

We were not able to validate the source of this variance based on documentation available. It is also possible that the amount reflected as complete in the meeting minutes did not fully align with the underlying accounting records, particularly given the documentation and process continuity considerations described above and the evolving understanding of SLFRF obligation and expenditure requirements during the period under review.

SUMMARY OF EDC SAMPLE TESTING

SCHEDULE 3

Request	Focus Area	Vendor	Date	Check Number	Amount	Source	Baker Tilly Comments
1	NEDC	1118 Atlanta Avenue and 219 Twin City Hwy	2/7/2025	7635	\$ 437,000	December 2022 Meeting Minutes	Purchase properties for Atlanta Avenue
2	NEDC	1132 Atlanta Avenue	1/18/2023	N/A	73,798	January 2023 Meeting Minutes	Purchase property for Atlanta Avenue
3	NEDC	Layne's Chicken	6/19/2024	N/A	100,000	June 2024 Meeting Minutes	CBA Incentive for restaurant/Two year
4	NEDC	Hatton Homes	5/17/2023	N/A	60,000	May 2023 Meeting Minutes	CBA incentive/ new residential and retail
5	NEDC	Higginbotham Insurance Agency	10/4/2024	8095	34,047	October 2024 Bank Statement	Higginbotham Insurance Agency
6	NEDC	Wire from Ref 664 Capital Title of Texas	10/24/2024	Wire	562,527	October 2024 Bank Statement	Wire from Ref 664 Capital Title of Texas
7	NEDC	Texas Regional Title LLC	11/8/2021	7371	882,471	November 2021 Bank Statement	Texas Regional Title LLC
8	NEDC	Lloyd E Varnado	12/20/2021	7392	65,000	December 2021 Bank Statement	Lloyd E Varnado
9	NEDC	Texas Regional Title LLC	1/6/2022	7402	400,873	January 2022 Bank Statement	Texas Regional Title LLC
10	NEDC	N&T Construction Inc	1/24/2024	7892	222,947	January 2024 Bank Statement	N&T Construction Inc
11	NEDC	Texas Regional Title LLC	2/7/2023	7635	436,682	February 2023 Bank Statement	Texas Regional Title LLC
12	NEDC	N&T Construction Inc	2/6/2024	7901	319,822	February 2024 Bank Statement	N&T Construction Inc
13	NEDC	Checkerboard Restaurants III	3/24/2023	7662	94,015	March 2023 Bank Statement	Checkerboard Restaurants III
14	NEDC	Architectural Alliance Inc	5/2/2023	7683	64,887	May 2023 Bank Statement	Architectural Alliance Inc
15	NEDC	HHH&T, LLC	8/20/2024	8053	25,000	August 2024 Bank Statement	HHH&T, LLC