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City of Jasper
Forensic Audit

September 30, 2025

FISCAL YEARS 2019 - 2023

UHY Advisors Mid-Atlantic, Inc.
8601 Robert Fulton Drive, Suite 210
Columbia, MD 21046

uhy-us.com

September 30, 2025

Mr. Greg Kelley, City Manager
City of Jasper
P.O. Box 610
Jasper, TX 75951

City of Jasper,

We are pleased to present our forensic audit report on the City of Jasper's (the City) financial records and processes as required by the City's RFP. The forensic audit objective was to review, examine, and analyze the City's financial records and processes to identify fraud, financial mismanagement, irregularities in financial activity, and any noncompliance with relevant laws, regulations, and guidelines.

We have reviewed the results of our work with City management and appreciate the courtesy that was extended to us by its staff.

Sincerely,

Jack Reagan

Jack Reagan
Managing Director

UHY Advisors Mid-Atlantic, Inc.

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Executive Summary

UHY Advisors MidAtlantic, Inc. (UHY) performed a forensic audit, covering fiscal years 2019 through 2023, of the City of Jasper's (City) financial activity for the following five subject areas: Jasper United, General Operations, Deep East Texas Council of Governments (DETCOG) Building, Proposition A Jasper Charter, and Cambridge Project. The objective of this audit was to identify fraudulent activity, financial mismanagement, and financial irregularities, verify compliance with relevant laws and regulations, and provide recommendations for findings and observations. See Appendix A for the City's Forensic Audit Objectives and Scope.

Scope of Work

We conducted a comprehensive evaluation of the City's financial activity for fiscal years 2019 through 2023, to include contracts, utility rates, policies, and relevant laws and regulations as they relate to the five subject areas: Jasper United, General Operations, DETCOG Building, Proposition A Jasper Charter, and Cambridge Project. Interviews were conducted with management to understand the roles and responsibilities of staff, audit objectives and management concerns. Walkthroughs were performed with management and staff to understand processes and identify operational, compliance, and financial risks and controls. Refer to Appendix B for a list of persons interviewed.

Our analysis focused on identifying fraud, financial mismanagement, and irregularities, and compliance with policies, laws, and regulations within the following areas, including:

- Review all financial requirements, terms, and activity of the Jasper United contract and account
- Validate all business transactions with City employees, City employees' relatives, and vendors affiliated with City Employees were properly documented, authorized, and procured
- Validate that all potential and existing conflicts of interest were disclosed to the City to any business or contract transaction
- Review of financial activity and contracts associated with the DETCOG building
- Identify if utility rates complied with the Proposition A Jasper Charter and when they were implemented
- Review all expenses paid by the City utilizing Cambridge Project funds to validate that they were properly documented, authorized, and procured

Following our testing and analysis, we developed recommendations to improve the effectiveness and efficiency of financial activity and management.

Audit Results & Observations

We did not identify any instances of fraud.

We did determine that internal controls to detect and prevent fraud, financial mismanagement, and inaccurate reporting could be improved. The results of our assessment and testing identified the following:

A. Management reviews are weak and lack sufficient control activities to ensure the accuracy, completeness, and appropriateness of financial records and disbursements.
B. The City is not in compliance with Local Government laws and regulations regarding conflicts of interest and procurement bidding requirements.
C. The City lacks consistent, sufficient documentation to support disbursements and the accuracy and completeness of calculations for utility rates and Jasper United reimbursements.
D. The City's contract management processes are weak and lack sufficient monitoring controls to ensure vendors, suppliers, and/or partners adhere to contractual terms and obligations.

Further below are the details of the testing and analysis performed to reach our conclusions for each of the five subject areas.

Recommendations

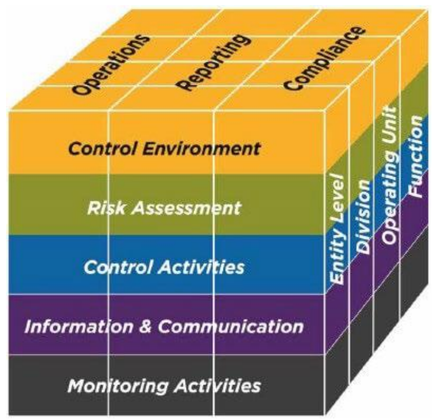
Based on our audit results and observations, we recommend the following:

- We recommend that a formal review process be implemented within the finance division and conducted by an individual separate from the preparer to ensure that calculations, reports, and disbursements are accurate, complete, and appropriate. Additionally, we recommend that the results of these reviews be formally documented with a signature by supervisors or department heads and a date for all disbursements exceeding the $5,000 threshold (*See Results A & C*).
- We recommended that the City develop and implement a Conflict of Interest Policy and Disclosure Form, to be completed annually by, at minimum, City department directors and elected officials—or sooner if a conflict arises—and that the City maintain documentation of all submitted disclosures *(See Results B*).
- We recommend that the City follow procurement practices in accordance with policies and laws, particularly written justification for non-competitive bidding, i.e., sole-source procurements. The City should retain evidence to support procurement compliance and digitize all documentation and supporting materials *(See Results B*).
- We recommend the City document a formal process within standard operating procedures for determining and calculating utility rates each year. Further, we recommend that the City retain evidence of the calculations, have an independent review, and digitize all documentation and supporting materials *(See Results C*).
- We recommend developing contract monitoring policies and procedures for all contract owners to ensure that all City contracts are being monitored and that the City's selected vendors are following the contract terms. Additionally, we recommend periodically reviewing vendor, supplier, and partner reports against source documentation to verify that reports are accurate and complete. When exceptions are found, the City requires the vendor to provide additional documentation to demonstrate that they comply with the contractual terms *(See Results D*).
- We recommend including contract provisions that protect the City from any financial liabilities caused by early contract termination or noncompliance *(See Results D*).

Management should implement a corrective action plan to address the observations described above. The plan should indicate who is responsible for implementing the corrective action and the date by which it will be implemented.

Methodology

We conducted our assessment through the lens of the comprehensive Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, its five components, and 17 internal control principles. The COSO framework also divides internal control objectives into three categories: operations, reporting, and compliance. The COSO framework provides an applied risk management approach to internal controls and aims to help organizations reduce fraud. Several organizations sponsor COSO, including the American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors (IIA).



Control Environment: The control environment encompasses an organization's leadership, mission, goals, and desired outcomes that provide the foundation for carrying out internal control across an organization. The control environment was assessed during the audit via discussions with management and employees. The five principles of this component are:

- An organization's integrity and ethical values
- Governance structures that allow a board of directors to carry out its oversight responsibilities
- The assignment of responsibility and authority for the implementation of mission-specific objectives
- The process for attracting, developing, and retaining competent employees
- Accountability structures

According to the IIA, a control environment is the foundation on which an effective system of internal control is built and operated in a company that aims to:

- Achieve its strategic objectives
- Provide reliable financial reporting to internal and external stakeholders
- Operate its business efficiently and effectively
- Comply with all applicable laws and regulations
- Safeguard its assets

Risk Assessment: The process of identifying and assessing the risks to achieving objectives and determining how an organization will manage its risks. The four principles of this component are:

- Specify appropriate objectives
- Identify and analyze risks
- Evaluate fraud risks
- Identify and analyze changes that could significantly affect internal controls

Control Activities: The control activities are the policies, procedures, and internal controls put in place to mitigate risks to achieving objectives, particularly the risks identified in the risk assessment. The three principles of this component are:

- Select and develop control activities that mitigate risks
- Select and develop technology controls
- Deploy control activities through policies and procedures

Information and Communication: Management obtains or generates and uses relevant and quality information from internal and external sources to support the functioning of the internal control system. Stakeholders across an organization must be well-informed about such pertinent information. The three principles of this component are:

- Collect high-quality information to keep internal control functioning effectively
- Promptly disseminate relevant information about internal controls
- Provide external stakeholders with critical information about internal controls

Monitoring Activities: Organizations must monitor their internal control system to identify deficiencies and correct them to ensure continuous improvement of the system. The two principles of this component are:

- Conduct frequent, ongoing evaluations of internal controls to determine which ones work effectively and which require improvement
- Inform leadership of gaps in internal control promptly to ensure the initiation of proper corrective action and remediation steps

Scope of Work

We conducted a comprehensive evaluation of the City's financial activity for fiscal years 2019 through 2023, to include contracts, utility rates, policies, and relevant laws and regulations as they relate to the five subject areas: Jasper United, General Operations, DETCOG Building, Proposition A Jasper Charter, and Cambridge Project. Interviews were conducted with management to understand the roles and responsibilities of staff, as well as the purpose and objective of the forensic audit. Walkthroughs were performed with management and staff to understand internal control processes and identify operational, compliance, and financial risks and controls. Refer to Appendix B for a list of persons interviewed.

Our analysis focused on identifying fraud, financial mismanagement, irregularities, and compliance with policies, laws, and regulations within the following areas, including:

- Review all financial requirements, terms, and activity of the Jasper United contract and account
- Validate all business transactions with City employees, City employees' relatives, and vendors affiliated with City Employees were properly documented, authorized, and procured
- Validate that all potential and existing conflicts of interest were disclosed to the City before any business or contract transaction
- Review of financial activity and contracts associated with the DETCOG building
- Identify if utility rates complied with the Proposition A Jasper Charter and when they were implemented
- Review all expenses paid by the City utilizing Cambridge Project funds to validate that they were properly documented, authorized, and procured

Following our testing and analysis, we developed recommendations to improve the effectiveness and efficiency of financial activity and management.

Audit Results & Observations

Through interviews, control testing, and data analysis for the fiscal years 2019 through 2023, we identified opportunities to improve the City's internal control environment and management of funds. The City's exposure to risk of fraud and financial mismanagement is amplified due to control failures and weaknesses; however, we did not identify any instances of fraud through our testing and analysis. The findings of our study are detailed below:

A. Management reviews are weak and lack sufficient control activities to ensure the accuracy, completeness, and appropriateness of financial records and disbursements.
B. The City is not in compliance with Local Government laws and regulations regarding conflicts of interest and procurement bidding requirements.
C. The City lacks consistent, sufficient documentation to support disbursements and the accuracy and completeness of calculations for utility rates and Jasper United reimbursements.
D. The City's contract management processes are weak and lack sufficient monitoring controls to ensure vendors, suppliers, and/or partners adhere to contractual terms and obligations.

Below are the details of the testing and analysis performed to reach our conclusions for each of the five subject areas.

Jasper United

Jasper United is a joint venture partnership between the City and Jasper Economic Development Corporation (JEDCO), created and agreed upon on March 20, 2019. The parties voluntarily associate themselves together as joint venturers for the sole purpose of acquiring, owning, improving, and constructing specific real property in the City and taking any other action deemed necessary by the Joint Venturers for the purpose of fulfilling the Joint Venture's obligations arising pursuant to the Economic Development Agreement entered into by and between the Joint Venturers and Optimi, LLC, d/b/a Provalus, effective January 31, 2019, and any other such businesses that may be agreed by the Joint Venturers.

Compliance with Contractual Terms

The agreement between Provalus and Jasper United was created and entered to promote, establish, and develop a new or existing business enterprise in the City of Jasper, Texas. To further that purpose, the agreement outlines several requirements for each party to comply with and fulfill its obligations under the contract.

The following outlines the analysis and results of our testing for each of the respective parties' requirements.

Monetary Incentive Disbursements

According to section 1.B.5 of the agreement, "[Jasper United is to…] *Pay Provalus monetary incentives (the "JASPER UNITED Funds") for full time Provalus employees working at the FACILITY as follows:*

(i) In the event at least fifty (50) total full time employees are employed by Provalus at the FACILITY on the date 1 year from the Effective Date, a sum equal to $1800 per new full time employee hired during year 1, subject to the cap stated in paragraph (vi) below;

(ii) In the event at least seventy (70) total full time employees are employed by Provalus at the FACILITY on the date 2 years from the Effective Date, a sum equal to $1800 per new full time employee hired during year 2, subject to the cap stated in paragraph (vi) below;

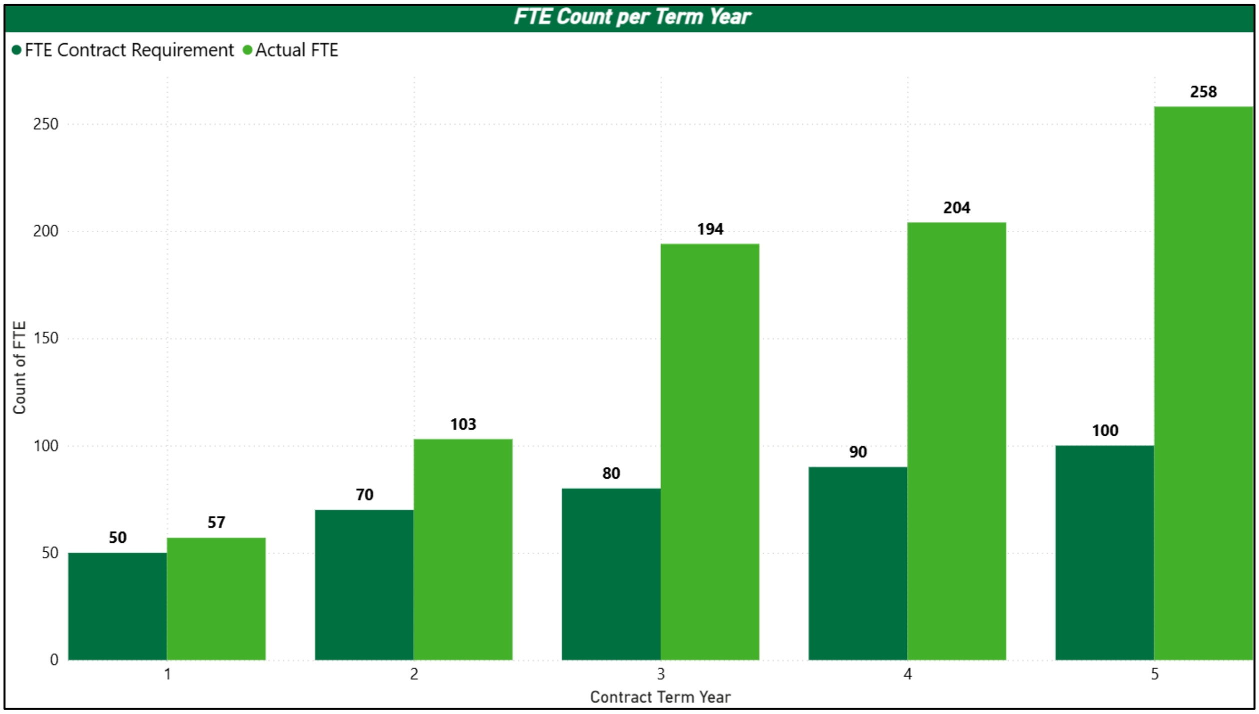
(iii) In the event at least eighty (80) total full time employees are employed by Provalus at the FACILITY on the date 3 years from the Effective Date, a sum equal to $1800 per new full time employee hired during year 3, subject to the cap stated in paragraph (vi) below;

(iv) In the event at least ninety (90) total full time employees are employed by Provalus at the FACILITY on the date 4 years from the Effective Date, a sum equal to S1800 per new full time employee hired during year 4, subject to the cap stated in paragraph (vi) below;

(v) In the event at least one hundred (100) total full time employees are employed by Provalus at the FACILITY on the date 5 years from the Effective Date, a sum equal to $1800 per new full time employee hired during year 5, subject to the cap stated in paragraph (vi) below;

(vi) Provided however, under no circumstances shall JASPER UNITED's obligations under this paragraph 5 shall not exceed $360,000 in total payments to Provalus over a period of 5 years."

The City obtained the Provalus reports of reported employees from JEDCO and provided them for testing and analysis; however, it did not validate the reports at the time of disbursement for the monetary incentive. The following chart illustrates the total number of new full-time Provalus employees, net of terminations, compared to the requirements outlined within section 1.B.5.



Provalus met all full-time employee requirements to receive a monetary incentive of $1,800 per new hire within the term from Jasper United. According to the contract section above, Jasper United is to pay the incentive for each new full-time employee hired during each term year, subject to a cap of $360,000. A comparison of actual monetary incentive disbursements to the expected disbursements, according to the contract terms and Provalus-reported employee reports, was performed.

The table below outlines the contractual requirements for the incentive disbursement per term year based on the city's actual data.

Contract Term Year	Contractually Required FTE	Actual Reported FTE	Actual FTE New Hires	Contractually Required Monetary Disbursement	Actual Monetary Disbursement	Over/(Under) Required Disbursement
1	50	57	56	$100,800	$120,600	$19,800
2	70	103	59	$106,200	$106,200	$ -
3	80	194	123	$153,000	$ -	$(153,000)
4	90	204	104	$ -	$ -	$ -
5	100	258	123	$ -	$133,200	$133,200
		Total		**$360,000**	**$360,000**	**$ -**

The monetary incentive required to fulfill contract obligations was met and did not exceed the capped amount of $360,000; however, the support provided for the disbursement made for term year one included an employee hired outside of the term year, specifically on 05/07/2018. Additionally, the City's support included employees Provalus did not report on their reports. Lastly, supporting documentation of incentive calculations was not provided for the City's disbursements in subsequent term years. Due to a lack of monitoring and management review controls, the City was unaware of the accurate amount to be paid out for each term year according to the Provalus contract.

Overall, the monetary incentive payments were made in compliance with contract obligations and payable to Provalus. Additionally, the total did not exceed the maximum allowable amount of $360,000.

Recommendations

We recommend that a formal review process be implemented and conducted by an individual separate from the preparer to ensure that calculations, reports, and disbursements performed that demonstrate compliance with economic development incentive contracts are accurate, complete, and appropriate.

Provalus Employee Reports

According to section 6 of the agreement,

"*Beginning with the first month after the Effective Date, and continuing on the first day of each consecutive calendar month thereafter until the expiration of 60 consecutive months from the Effective Date, **Provalus will deliver to JASPER UNITED a report and such other records requested by JASPER UNITED, stating Provalus' number of full time employees employed at the FACILITY for each month in its operations carried on at the FACILITY**, so as to determine the number of Provalus' new full time employees and compliance with the Job Creation Requirements. **Provalus will within 30 days of the end of the month covered by each such report, have an authorized officer of Provalus certify the report as being true and correct, add any additional information as may be requested by JASPER UNITED to determine compliance with the conditions specified by this agreement, including, without limitation, true and correct copies of all payroll reports and IRS Forms W-2, 940 and 941 and deliver all of the foregoing to JASPER UNITED.***"

As stated above, Jasper United has the right to request payroll and IRS documentation to ensure the Provalus reports are accurate and complete; however, this was not conducted for all reported employees. Along with the Provalus reports of reported employees obtained from JEDCO, we also requested the payroll reports, W-2s, and IRS forms 940 and 941 to validate the employment of reported employees. The City obtained from JEDCO and provided 12 Payroll Reports, 47 W-2s, and zero IRS forms. At the end of term year five, there was a total of 258 full-time employees. Due to a lack of documentation, the Provalus reports were not validated for accuracy and completeness by the City. In addition to the lack of documentation, the Provalus reports were not certified by an authorized officer of Provalus that the reports are true and correct, per section 6 of the agreement outlined above.

The table below shows the actual reported full-time employees per year and the number of payroll reports, W-2s, and IRS Forms we received.

Contract Term Year	Actual Reported FTE	Payroll Reports	W-2s	IRS Forms
1	57	-	45	-
2	103	12	2	-
3	194	-	-	-
4	204	-	-	-
5	258	-	-	-

Recommendations

We recommend developing contract monitoring policies and procedures for all contract owners to ensure that all City contracts are being monitored and that the contract terms are being followed by the City's selected vendors. Additionally, we recommend periodically reviewing vendor, supplier, and partner reports against source documentation to verify that reports are accurate and complete. When exceptions are found, the City requires the vendor to provide additional documentation to demonstrate that they are in compliance with the contractual terms.

City of Jasper and JEDCO Joint Venture

The joint venture partnership agreement between the City and JEDCO details the financial obligations involved. Specifically, the City holds a 70 percent venture interest, while JEDCO owns a 30 percent stake.

We reviewed the Jasper United GL Detail and Disbursements reports for fiscal years 2019 through 2023 and verified all disbursements made by the City on behalf of Jasper United to ensure that JEDCO reimbursed the City 30 percent of all expenses. The City's calculation of the 30 percent owed by JEDCO was incorrect for six of the reviewed expenditures, resulting in JEDCO overpaying by $34.13.

Additionally, the buildout and renovation of the building purchased by Jasper United for Provalus exceeded the City Council-approved budget of $2,954,238 by $206,124 in change orders. Change order documentation was provided for $48,918, and the then Finance Director/City Manager approved all but four of the change orders.

Recommendations

We recommend implementing a formal review process conducted by an individual separate from the preparer to ensure that calculations, reports, and disbursements are accurate, complete, and appropriate. Additionally, we recommend that reviews be formally documented with a signature and date for all disbursements exceeding the $5,000 threshold.

Contractually Permitted Allowable Expenses

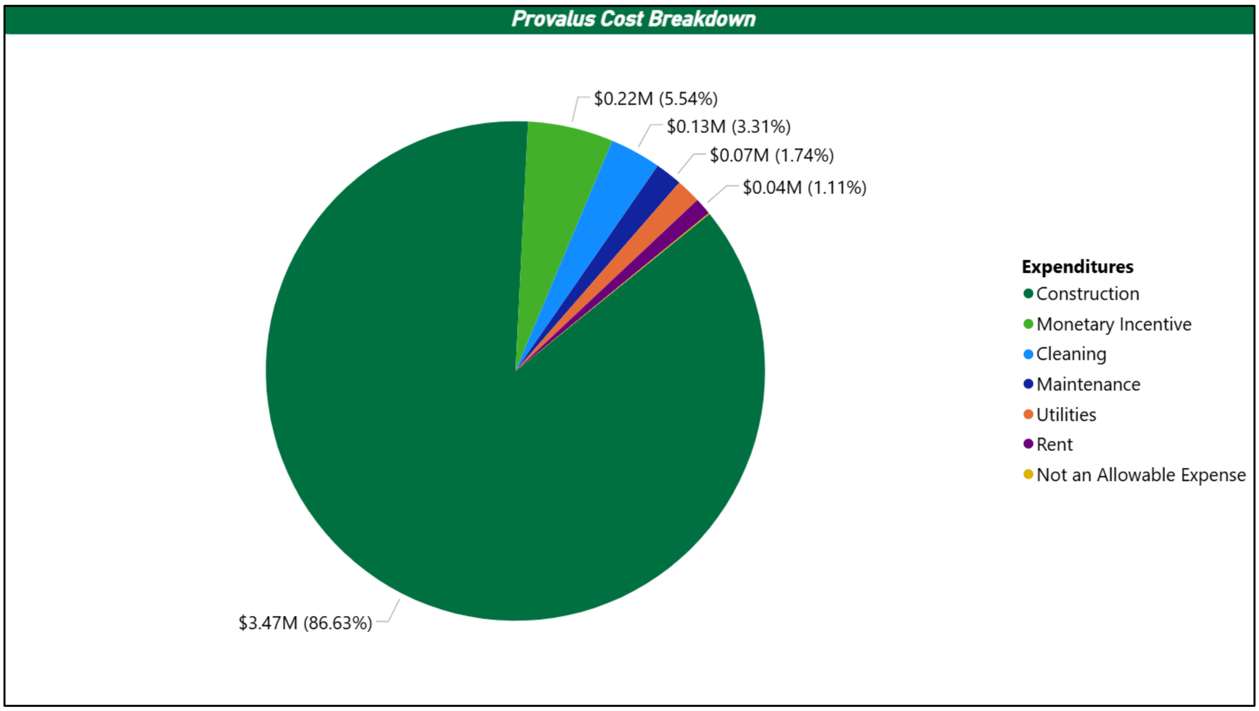
The agreement between Jasper United and Provalus specifies which expenses Jasper United will cover on Provalus's behalf for the 101 E. Houston Street facility and any other temporary facility in use. The permitted expenses include the following:

- Building purchase and renovation
- Maintenance and cleaning throughout the term of the agreement

- Water, Sewer, and Electricity for a period of one year from the occupancy date
- Provide a temporary location with free rent, utilities (water, sewer, electricity), maintenance, and cleaning until the new 101 E. Houston Street facility is ready for occupancy.

We reviewed all Jasper United disbursements from fiscal years 2019 to 2023 to verify they comply with the authorized categories listed in the agreement. We found 12 expenditures that do not align with or adhere to the agreement, totaling $2,570.81. These payments were for the gas utility bill; however, Jasper United was only supposed to cover water, sewer, and electricity utilities.

Except for the gas utility, all other payments made by the City on behalf of Jasper United were proper and followed contractual terms.



This graph shows the different types of expenses Jasper United incurred on behalf of Provalus and the amount for each. Most of the cost is from the facility purchase and renovation (construction), while the non-allowable expense, or gas utility, accounts for the least.

Recommendations

We recommend implementing a formal review process conducted by an individual separate from the preparer to ensure that Jasper United pays for only allowable expenses.

General Operations

The General Operations subject area, as described in the City's scope of work (Exhibit A), for this audit pertains to payments made by the City to any City employee, vendor, or other personnel associated with a City employee for a service provided or a business transacted to ensure they were properly authorized, procured, and disclosed.

We compared the names and addresses of listed City employees and elected officials with those of vendors to find matches between the two lists. We then compared the listing of employees and matched them to the disbursements and GL detail reports to identify payments made to city employees, vendors, and other personnel connected to a City employee, totaling $591,621. After interviews with City management, we were informed that conflict of interest disclosure forms have not been utilized or completed by City employees and elected officials, which violates Local Government Code Chapters 171 and 176.

Additionally, we identified one payment made to a City employee where authorization and payment documentation could not be located or provided; however, the amount of $153.00 was deemed immaterial. Furthermore, this was the only payment missing documentation and is therefore considered an isolated incident.

Lastly, all payments reviewed complied with procurement policies; however, according to City policies and procedures, purchases between $5,000 and $50,000 do not require bids or quotes, though it is recommended. We recommend requiring bids or quotes for purchases made at a threshold below $50,000.

Recommendations

We recommended that the City develop and implement a Conflict-of-Interest Policy and Disclosure Form for, at minimum, City employees and elected officials to complete annually or sooner if conflicts arise. The City has implemented this recommendation. Additionally, we recommend requiring bids or quotes for purchases made at a certain threshold below, such as $15,000, and up to $50,000.

DETCOG Building

The City purchased 210 Premier Drive in Jasper, Texas, in 2004, intending to lease it to DETCOG. The rental income from DETCOG was meant to cover the City's monthly loan payments. However, DETCOG ended its lease with the City effective July 15, 2019, and agreed to continue paying rent at a lower rate of $8,000 per month until January 31, 2020, or the last day of any month before that, with at least 30 days' written notice.

Contractual Term Year	Monthly Rent		Contractual Term Year	Monthly Rent
1	$ 12,667.00		11	$ 13,992.25
2	$ 12,793.67		12	$ 14,132.17
3	$ 12,921.61		13	$ 14,273.49
4	$ 13,050.82		14	$ 14,416.23
5	$ 13,181.33		15	$ 14,560.39
6	$ 13,313.14		16	$ 14,705.99
7	$ 13,446.28		17	$ 14,853.05
8	$ 13,580.74		18	$ 15,001.58
9	$ 13,716.55		19	$ 15,151.60
10	$ 13,853.71		20	$ 15,303.12
Total $3,331,674				

Building Cost to the City

From January 2005 through the loan term, the expected rental income from DETCOG was $3,331,674, aligning with the loan amortization schedule. Between October 2018 and December 2019, the actual rental income from DETCOG totaled $198,206, dropping to $8,000 per month starting in October 2019. Additionally, two rent payments for November and December 2018 were each $43.12 less than the expected and agreed-upon monthly rent. The City also received rental income from Provalus, which moved into the building in January 2020 and paid the City $3,225 per month until September 2020.

Fiscal Year	Loan Payments	Rental Income	Expenses	Net Cost to City
2019	$ 174,292	$ 174,206	$ -	$ (86)
2020	$ 176,035	$ 53,025	$ 2,750	$ (125,760)
2021	$ 177,795		$ 14,378	$ (192,173)
2022	$ 179,573		$ 51,587	$ (231,160)
2023	$ 181,369		$ 20,582	$ (201,951)
Total	**$ 889,064**	**$ 227,231**	**$ 89,297**	**$ (751,130)**

The building at 210 Premier Drive ultimately cost the City approximately $751,130, which includes loan payments, net rental income, and other expenses related to maintaining the structure during fiscal years 2019 through 2023.

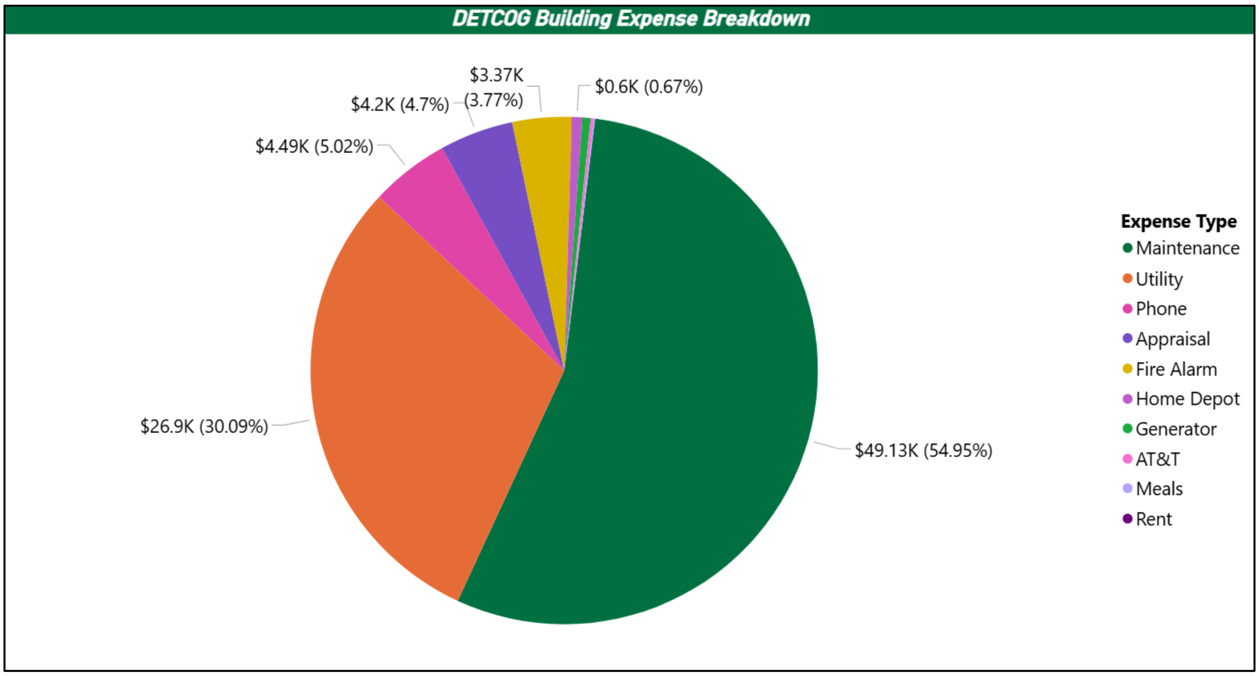
Despite its intent to offset purchase and maintenance costs through tenant leases, the lease agreement lacked provisions to protect the City from revenue loss in the event of the tenant's early termination. The City lacked sufficient safeguards for liabilities after DETCOG relocated; however, it could recover its expenses by selling the building for at least the total cost to the City.

Building Expenditures

Expenditures from ownership, use, and maintenance of the DETCOG building were also reviewed to detect potential fraud or improper payments. Using the general ledger detail report, we examined all activity recorded in four accounts: 4124 DETCOG Building Maintenance, 4344 Premier Dr. Property Expense, 3624 Rental Income, and 4345 Loan Payments.

Our analysis did not reveal any fraud or financial mismanagement; however, it identified recording errors without financial misstatements and a lack of segregation of duties. In two cases, a City-issued Bank of America credit card was used by a City employee who did not obtain documented approvals for the expenditures before payment. The expenses were minor and supported by documentation; therefore, this is considered an isolated incident and an opportunity for improvement.

The following chart provides a breakdown of the expenditures incurred for the DETCOG building from 2019 through 2023.



Recommendations

We recommend that the City analyze the total costs that need to be recovered when leasing any City-owned assets to outside parties. Further, the City should develop robust monitoring procedures to ensure the lessees meet their financial and operational obligations under these lease agreements. Additionally, we recommend including contract provisions that protect the City from any financial liabilities caused by early contract termination or noncompliance.

Proposition A Jasper Charter

According to City communications and publicly available board meeting minutes, on January 3, 2022, Council Member Anderson Land, Jr. submitted a petition to the City Secretary requesting an amendment to the City of Jasper's Home-Rule Charter, specifically related to utility rates. The petition gathered the required number of signatures, prompting the City Council to submit a proposed ordinance for a vote by the City's qualified voters. The proposed ordinance was scheduled for a vote on May 7, 2022, in the election.

Before the election, the existing ordinance states,

"*The utility rates shall go up by the annual national inflation rate as calculated by the Consumer Price Index (CPI-U) for the previous calendar year each October 1 beginning in 2024. The rate of increase will not exceed three (3) percent any given year.*"

Whereas the proposal would revise this regulation of rates to the following,

"*The City of Jasper shall not charge more than ten percent (10%) above the cost of any utility it provides to its customers.*"

Proposition A was voted on by qualified voters of the City of Jasper in the election held on May 7, 2022. With a majority FOR vote, the proposition, or ordinance, was passed, approved, and adopted on May 10, 2022.

The new rates ordinance allows the City Council to increase utility rates by up to ten percent above the utility's cost, whereas previously, the City was only permitted to raise rates by up to three percent of the previous year's set rate. This ordinance permits increases rather than decreases in utility rates.

Our analysis revealed that the City has complied with the adopted ordinance. Still, the rates are not set at a level necessary to recover the full utility costs. The table below illustrates the average percentage charged below the statutory ceiling according to the City Ordinance for each rate class. This is based on what they are currently being charged compared to the baseline rate of what they could be charged under the approved City Ordinance to cover expenses.

Rate Class	FY 2022	FY 2023
Residential	-19%	-22%
Commercial	-15%	-16%
Large Commercial	-36%	-49%
Multi Unit	-40%	-33%
Industrial	-53%	-63%

By not charging customers the baseline rate to recover costs, the City undercharged utility customers, on average, 35 percent in utility charges during fiscal years 2022 and 2023.

To conduct our analysis, we used prior rate documentation provided by the City, audited financial statements, adopted budgets, and the rate analysis conducted by Senergy. However, the City did not have any documentation of its own calculation of utility rates for the fiscal years under review.

Recommendations

We recommend the City document a formal process within standard operating procedures for determining and calculating utility rates each year. Further, we recommend that the City retain evidence of the calculations, have an independent review, and digitize all documentation and supporting materials.

Cambridge Project

The Cambridge Project is a power infrastructure and revenue-sharing initiative between regional power entities, the Sam Rayburn Municipal Power Agency (SRMPA) and the Vinton Public Power Authority (VPPA). Some financial benefits flow to the City through SRMPA distributions.

All expenses paid by the City using Cambridge Project funds were reviewed to ensure they were properly authorized and procured. Based on interviews with City Management, all disbursements or uses of Cambridge Project funds were required to be approved by City Council beginning in fiscal year 2024. While not an official policy requirement for fiscal years 2019 through 2023, all payments except for Jasper United expenses, to include cleaning, maintenance, utilities, and a monetary incentive disbursement, were provided to Council for its approval. The table below provides this breakdown, with other payments representing those that were presented and approved by Council.

	Jasper United				Other Capital Projects
Fiscal Year	**Cleaning Payments**	**Maintenance Payments**	**Utility Payments**	**Monetary Incentive**	**Other Payments**
2019	$ -	$ -	$ -	$ -	$ 5,164,667
2020	$ -	$ -	$ -	$ -	$ 4,021,206
2021	$ 33,000	$ 1,226	$ 31,214	$ 101,025	$ 5,747,639
2022	$ 32,000	$ -	$ -	$ -	$ 12,308,145
2023	$ 48,000	$ 1,150	$ -	$ -	$ 9,711,216
Total	**$ 113,000**	**$ 2,376**	**$ 31,214**	**$ 101,025**	**$ 36,952,873**

Additionally, all but one expenditure complied with procurement policies and best practices. An $80,000 expense for the Fiber Optic project lacked documentation to verify compliance with procurement policies and laws requiring competitive bidding for purchases of $50,000 or more. The fiber optic contract was awarded as a sole source; however, the City did not document or maintain certain specific justification for the sole source award.

Recommendations

We recommend establishing a formal policy documenting the expenses, outside of regular policy mandates, required to be presented to the Council for approval.

Additionally, we recommend that the City follow procurement practices in accordance with policies and laws, in particular, written justification for non-competitive bidding, i.e., sole source procurements. The

City should retain evidence to support procurement compliance and digitize all documentation and supporting materials.

Recommendations

Based on our audit results and observations, we recommend the following:

- We recommend that a formal review process be implemented within the finance division and conducted by an individual separate from the preparer to ensure that calculations, reports, and disbursements are accurate, complete, and appropriate. Additionally, we recommend that the results of these reviews be formally documented with a signature by supervisors or department heads and a date for all disbursements exceeding the $5,000 threshold (*See Results A & C*).
- We recommended that the City develop and implement a Conflict of Interest Policy and Disclosure Form, to be completed annually by, at minimum, City department directors and elected officials—or sooner if a conflict arises—and that the City maintain documentation of all submitted disclosures *(See Results B*).
- We recommend that the City follow procurement practices in accordance with policies and laws, particularly written justification for non-competitive bidding, i.e., sole-source procurements. The City should retain evidence to support procurement compliance and digitize all documentation and supporting materials *(See Results B*).
- We recommend the City document a formal process within standard operating procedures for determining and calculating utility rates each year. Further, we recommend that the City retain evidence of the calculations, have an independent review, and digitize all documentation and supporting materials *(See Results C*).
- We recommend developing contract monitoring policies and procedures for all contract owners to ensure that all City contracts are being monitored and that the City's selected vendors are following the contract terms. Additionally, we recommend periodically reviewing vendor, supplier, and partner reports against source documentation to verify that reports are accurate and complete. When exceptions are found, the City requires the vendor to provide additional documentation to demonstrate that they comply with the contractual terms *(See Results D*).
- We recommend including contract provisions that protect the City from any financial liabilities caused by early contract termination or noncompliance *(See Results D*).

Management should implement a corrective action plan to address the observations described above. The plan should indicate who is responsible for implementing the corrective action and the date by which it will be implemented.

Appendix A – Forensic Audit Objectives and Scope

1. Objectives of the Forensic Audit

- **Fraud Detection:** Identify fraudulent activities, misappropriation of funds, or embezzlement.
- **Financial Mismanagement:** Review financial transactions to uncover mismanagement, inefficient use of public funds, or violation of financial policies.
- **Compliance Verification:** Ensure the City of Jasper complies with relevant laws, regulations, and financial guidelines.
- **Identification of Irregularities:** Investigate any unusual or suspicious patterns in financial transactions and accounting records.
- **Reporting & Recommendations:** Provide a clear, concise, well-documented report outlining the findings, methodologies used, and any discrepancies discovered.

2. Scope of Audit Areas

- **Jasper United:** Detailed review of all financial documents, including ledgers, budgets, invoices, receipts, bank statements, and contracts.
- **General Operations:** Documentation relating to any family member of a city employee, regardless at what level the employment was or is, or a city employee themself who engaged in business with the City of Jasper and received payments from the City of Jasper, regardless the service rendered or business transacted. The documentation should also include the authorizing party's names and titles along with the authorization's date. Proof of proper disclosure statements by employees and/or family members should also be provided.
- **DETCOG Building:** Review of financial documents and contracts.
- **Proposition A Jasper Charter:** Review and give documentation to show if Proposition A has been implemented.
- **Cambridge Project:** All expenses paid by the City of Jasper utilizing the Cambridge Project funds, along with any and all documentation regarding every item the funds were tied to or dedicated to. The documentation should include, but not be limited to, the name and title of the authorizing person, the date of the authorization, the total amount of the expense, the date(s) of the expense, the description of the item these funds were used for, the name or names of the contractor, agent, service provider, dealer, broker or any other person deemed the benefactor of the funds spent, any and or all required financial or relative disclosures, if applicable, along with documentation of bids received for each item these funds were used for.

Appendix B – Interviewees

- Greg Kelley, City Manager
- Robbie Peek, Finance Director
- Liz Jarrell, City Secretary/Elections Clerk
- Taylor Fomby, Finance Assistant/Deputy City Secretary
- Kim Fowler, Purchasing Clerk/Purchasing Agent

Appendix C – Plan of Corrective Action

PLAN OF CORRECTIVE ACTION
FOLLOWING FORENSIC AUDIT THAT WAS COMPLETED 09/30/2025

By order of the Council, UHY Advisors MidAtlantic, Inc. performed a forensic audit for fiscal years 2019 through 2023. Within the Scope of Work, the Council requested a comprehensive evaluation of the City's financial activity concerning five subject areas: Jasper United, General Operations, DETCOG Building, Proposition A Jasper Charter, and Cambridge Project.

The forensic audit did not identify any instances of fraud. Still, it was determined that internal controls to detect and prevent fraud, financial mismanagement, and inaccurate reporting are weak and need improvement to monitor controls sufficiently. Their assessment identified the following:

1. **Management review controls are weak to ensure accuracy, completeness, and appropriateness of financial records and disbursements.**
2. **The City is not in compliance with Local Government laws and regulations regarding conflicts of interest and procurement bidding requirements.**
3. **The City lacks consistent, sufficient documentation to support disbursements and the accuracy and completeness of calculations for utility rates and Jasper United reimbursements.**
4. **The City's contract management processes are weak and lack sufficient monitoring controls to ensure vendors, suppliers, and/or partners adhere to contractual terms and obligations.**

Based on these observations, the following UHY recommendations were made:

- We recommend that a formal review process be implemented within the finance division and conducted by an individual separate from the preparer to ensure that calculations, reports, and disbursements are accurate, complete, and appropriate. Additionally, we recommend that the results of these reviews be formally documented with a signature by supervisors or department heads and a date for all disbursements exceeding the $5,000 threshold.
- We recommended that the City develop and implement a Conflict of Interest Policy and Disclosure Form, to be completed annually by, at minimum, City department directors and elected officials—or sooner if a conflict arises—and that the City maintain documentation of all submitted disclosures.
- We recommend that the City follow procurement practices in accordance with policies and laws, particularly written justification for non-competitive bidding, i.e., sole-source procurements. The City should retain evidence to support procurement compliance and digitize all documentation and supporting materials.
- We recommend the City document a formal process within standard operating procedures for determining and calculating utility rates each year. Further, we recommend that the City retain

evidence of the calculations, have an independent review, and digitize all documentation and supporting materials.

- We recommend developing contract monitoring policies and procedures for all contract owners to ensure that all City contracts are being monitored and that the City's selected vendors are following the contract terms. Additionally, we recommend periodically reviewing vendor, supplier, and partner reports against source documentation to verify that reports are accurate and complete. When exceptions are found, the City requires the vendor to provide additional documentation to demonstrate that they comply with the contractual terms.
- We recommend including contract provisions that protect the City from any financial liabilities caused by early contract termination or noncompliance.

CORRECTIVE ACTION BASED ON UHY RECOMMENDATIONS:

1. Corrective action implemented September 1, 2025: Finance Director and/or Finance Assistant will review all invoices for disbursements. The review process is as follows:

A. Once the Accounts Payable Clerk has entered invoices into the Accounts Payable software, the unpaid invoice report will be generated for a specific disbursement cycle. The Finance Director and/or Finance Assistant will match the report to the invoice to be paid, ensuring that all documentation and authorizations are in place, and all vendor and invoice information has been entered into the software correctly before approving payment.

B. Payment authorizations and/or purchase orders must be signed by the employee making the purchase. If that employee is not the department head, then payment authorizations and/or purchase orders must also be signed by the employee's department head/supervisor.

C. Any payment authorization and/or purchase order for a purchase for $5,000 or more must be approved and signed by the City Manager.

D. For purchases between $100,000 and $100,000, the employee/department head must obtain and document three (3) quotes to ensure due diligence in expending City funds.

E. For purchases $100,000 or more, the City must advertise for bids using the competitive bidding process or use a buying cooperative, such as BuyBoard, Smart Buy, HGAC, TIPS USA Purchasing Cooperative, Sourcewell Buying Cooperative, etc. (Local Government Code Chapter 252). There are exceptions to this statute in the Local Government Code Chapter 252 for emergency/disaster situations. But this determination will be made by the City Manager.

F. Once all the above documentation is identified as indicated and all information has been entered into the software correctly, the invoice will be approved by the Finance Director and/or the Finance Assistant and released within the Accounts Payable software for payment.

2. Corrective action implemented August 14, 2025 – All employees and elected officials for the City of Jasper are required to sign a Conflict of Interest Policy acknowledgement form with Human Resources. A mandatory meeting was held on August 14, 2025 where all employees at the meeting signed the policy acknowledgement form. Those employees that were absent signed at a later date until 100% of the employees were in compliance. The elected officials and appointed officers are required to sign the policy acknowledgement form as well.

3. Corrective action implemented September 1, 2025: Prior to September 1, 2025 procurement practices for purchases of $50,000 or more were to ensure that competitive bidding through advertisement was followed, or purchase was made through a buying cooperative. UHY identified a project with a vendor that these practices were not followed. However, the City claimed this vendor to be a sole source for fiber optic configuration and installation but failed to document the sole source. As a corrective action, the City will adhere to the updated Local Government Code Chapter 252, requiring competitive bidding for purchases of $100,000 or more, or use a cooperative buying program to make the purchase. There are exceptions to these two requirements outlined in the Local Government Code Chapter 252 that may exempt these requirements and will be addressed on a case-by-case basis by the City Manager and will be documented accordingly.
4. Corrective action was implemented in 2024. An independent energy consultant performed a utility rate analysis with a cost-of-service study for electrical rates during the 2023-2024 fiscal year and for water and sewer rates during the 2024-2025 fiscal year. Both studies revealed a need for increased rates, and recommendations were made to the Council based on these studies. The council implemented rate increases in water and sewer rates in April 2025. However, for fiscal year 2024-2025 and 2025-2026, the Council voted not to increase electrical rates. Using the rate analysis from the consultant, calculations of recommended utility rates based on the costs to provide services, while complying with the City's charter, were implemented by City staff during budget preparation for fiscal year 2024-2025 and for 2025-2026.
5. Corrective action has partially been implemented in that, within the last two years, the only contracts the City has been involved in are grant-funded. The grant administrator, the engineer, the city manager, the public works director, and the department supervisors have monitored these contracts. For future grants, the City Staff recommends continuing this procedure. However, for any future agreements that are implemented by the City that do not involve grant funds, City staff recommends the following:

   A. The City Manager will hold a contract initiation meeting with key staff members to review contract requirements, risk assessment, and form a contract monitoring plan at that time to assign roles to appropriate staff to ensure adherence to the contract by all parties involved as well as maintain proper internal controls.
6. UHY's recommendation to include contract provisions that protect the City from any financial liabilities caused by early contract termination or noncompliance references an agreement between the City of Jasper and Deep East Texas Council of Governments. DETCOG's early termination of its agreement to occupy the building located at 310 Premier Drive in Jasper caused the City to have to pay the remainder of the loan on the property. This agreement was reviewed by City Council, the City Manager, and legal counsel at that time, with no apparent consideration of an early termination clause to avoid any financial burden to the City. City staff recommends a case-by-case review of any such contracts in the future by holding a contract composition meeting with Council Members, Legal Counsel, and key city staff members to protect the city from financial liabilities caused by early termination, or any other provision that may be harmful to the City, before initiating any agreement with other entities.