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Finding 2023-001 - Transaction Reporting

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- **Transaction Review:** Verify all transactions for the month have been recorded correctly, including invoices, payments, receipts, and journal entries.
- **Account Reconciliation:** Reconcile all balance sheet accounts, such as bank accounts, accounts receivable, accounts payable, etc., ensuring the amounts match the records.
- **Identification of Errors:** Review the general ledger to identify transactions posted to the wrong accounts. This can be done by running reports that highlight any discrepancies or unusual postings.
- **Corrections and Adjustments:** Once errors are identified, make the necessary corrections by reclassifying transactions or adjusting journal entries.
- **Financial Statement Preparation:** Prepare financial statements (like balance sheets and income statements) to ensure they reflect an accurate view of the City's financial position.
- **Reporting:** Generate reports for management and any relevant stakeholders, ensuring they have updated, accurate data for decision-making and analysis.
- **Internal Review and Approval:** Involve key stakeholders in reviewing the closing process and approving the final financials before they're published.

By implementing such a procedure in the new ERP system, the City can ensure better oversight and greater control over financial operations, reducing the risk of errors and improving transparency.

Finding 2023-002 – Accounting System

Type of Finding: Material Weakness and Material Noncompliance

Recommendation: The Director of Finance and head of IT should establish procedures to update and maintain the accounting system regularly to safeguard it and its information.

Actions Taken: The city is making a significant transition to a modern, cloud-based ERP system to enhance security, keep software up to date, and improve reporting capabilities. Moving away from an older, unsupported system like STW is a good step toward better efficiency and scalability. With daily updates and automatic versioning, the City will not only stay current with new features but also be better equipped to handle any emerging security threats.

Finding 2023-003 – Cash

Type of Finding: Material Weakness and Material Noncompliance

Recommendation: Cash receipts should be recorded in the general ledger just like they will clear the bank (the transaction). For example, if The City receives ten checks that will be deposited on a single deposit slip, the entry would be:

Cash in Bank	DR
Municipal Court	CR
Accounts Receivables	CR
Due to/From	CR

The exact process should be used for ACH deposits as they will clear the bank as the amount remitted by the customer. A folder named Deposits should be set up and contain the following: A monthly file containing each deposit transaction (Total Amount and date on the file) with backup included. This will save significant time in reconciling cash, researching items, and obtaining items for the monthly closing, in addition to providing strong oversight, monitoring, or audit processes.

Cash disbursements should also be recorded on a transactional basis, making it easier to reconcile/ agree to the bank statement. For example, if The City is processing ten invoices to be paid with checks that are currently due, the entry would be:

Repairs and Maintenance	DR
Fuel	DR
Other Contractual	DR
Accounts Payable	CR

When checks are disbursed, they should be put in a batch (in a transaction) the entry would be:

Accounts Payable	DR
Cash in Bank	CR

A Folder should be established named Accounts Payable and contain the following: File for each month, each accounts payables batch transaction (Total Amount and date on the file) with back up including copies of invoices. This should be the process of whether invoices are paid by Check or ACH. This will save significant time reconciling cash, researching items, and pulling items for the annual audit.

The City should consider reducing the number of bank accounts they are utilizing to centralize and enhance cash management.

Actions Taken: As part of closing the month, ensuring bank reconciliations are done timely, all cash receipts are recorded and reconciled, and accounts payable are reviewed and reconciled, the City understands that this is crucial for accurate financial record-keeping. The new ERP system will enable the city to reconcile bank accounts using a pooled cash report, and it will also generate an Accounts Payable Reconciliation report to ensure accurate financial records and payments. The City of Eagle Pass, is planning to consolidate its banking operations by moving to a pooled cash account system, which will reduce the number of bank accounts it maintains, potentially leading to cost savings and streamlined financial management.

Finding 2023-004 – Accounts Payables

Type of Finding: Material Weakness and Material Noncompliance

Recommendation: The Director of Finance and head of IT should establish an appropriate system access for all accounting and IT personnel with accounts payable access. Payables may only be cleared from the system by actual payment (check or ACH) or credit memo. The sub-ledger and general ledger should be reconciled monthly as part of the closing procedures.

Actions Taken: The city acknowledges the need to reconcile the accounts payable subledger and this will be a part of the end of the month closing process. Incorporating this into the monthly routine will help ensure more accurate financial records and smoother month-end closings moving forward. By making AP reconciliation part of the monthly closing process, the City will not only improve the accuracy of its financial statements but also enhance internal controls, reduce errors, and ensure that any issues are identified and resolved in a timely manner.

Finding 2023-005 – Self-Insurance – Internal Control

Type of Finding: Material Weakness and Material Noncompliance

Recommendation: Monitoring and Reporting of City's Risk Financing Liabilities - The City should implement a process to monitor and track the liabilities and expenses for unpaid claims associated with its self-insurance programs related to pharmaceutical and healthcare plans and ensure that they are managed and correctly recorded and reported on a timely basis throughout the year.

At least quarterly, management should review the claims and significant claims with the Producer and discuss any necessary actions. Within the policy renewal application, a per employee rate is provided that should be utilized for budgeting and monthly accrual purposes.

Actions Taken: The City will implement a process to effectively monitor and track liabilities and expenses for unpaid claims related to the City's self-insurance programs, such as pharmaceutical and healthcare plans, we understand that this is crucial for maintaining accurate financial records and ensuring that expenses are correctly managed and reported throughout the year.

By implementing a clear process for monitoring, tracking, and reporting on self-insurance claims, the City will be able to:

- Ensure timely and accurate financial reporting
- Manage liabilities and expenses for healthcare and pharmaceutical claims effectively
- Align claims expenses with the annual budget and accruals
- Identify significant claims and make informed decisions during quarterly reviews with the Producer.

This approach will provide the City with better control over its self-insurance program and enhance its ability to make data-driven financial decisions.

Finding 2023-006 – Self-Insurance - Contracts

Type of Finding: Material Weakness and Material Noncompliance

Recommendation: Monitoring and Reporting of City's Risk Financing Liabilities – We recommend the City establish a process for the timely review of employee/dependent eligibility, significant claims, the status of stop/loss limits, and employee contribution participation.

Actions Taken: The City will establish a structured process for the timely review of the following critical areas related to employee benefits:

1. **Employee/Dependent Eligibility:** Regularly verify and update the eligibility of employees and their dependents to ensure that only eligible individuals are covered under the benefits plan.
2. **Significant Claims:** Establish a process for monitoring and reviewing significant claims to identify trends and potential risks, helping to manage costs and maintain budget controls.
3. **Stop-Loss Limits:** Implement a review mechanism to track and assess the status of stop-loss limits, ensuring the City's risk management measures are appropriately aligned with its overall healthcare strategy.
4. **Employee Contribution Participation:** Regularly monitor employee participation rates in benefit plans and ensure that contributions are being made correctly, aligning with budgetary needs and plan sustainability.

Finding 2023-007 Capital Asset Accounting

Type of Finding: Material Weaknesses in Internal Control

Recommendation: The City should implement procedures to reconcile all capital asset records to the final audit as issued. Furthermore, procedures should be designed to review all outstanding projects within CIP and ensure that projects are properly identified, removed from capitalization if they don't meet the criteria, and moved to depreciable asset categories in a timely manner.

Also, the City should consider purchasing a capital projects and capital assets accounting software to account for all capital projects and capital assets on a yearly basis.

Actions Taken: The city will take steps during the closing of the month and year-end process to adjust the subsidiary ledgers and related schedules for capital assets and construction in progress (CIP) accounts. Here's a breakdown of the process:

- **Reconciliation and Investigation:** The first step would be to thoroughly investigate and reconcile the capital asset subsidiary ledgers and the CIP accounts to identify the root causes of the discrepancies if any and make the necessary adjustments. This will include looking into the system and processes used for transferring balances and verifying the accuracy of schedules provided.

- **Supporting Documentation:** The second step is to gather proper documentation for the CIP balances, including invoices, contracts, project documentation, and cost records, to substantiate the amounts and movement in the accounts.
- **Internal Controls:** It may be necessary to evaluate and strengthen internal controls over capital asset management, especially related to CIP accounts. This could include reviewing how costs are tracked, the procedures for capitalizing assets, and ensuring that the data rolls forward properly between periods.
- **Auditor Communication:** Since prior audited numbers were not carried over, clear communication with auditors is essential to resolve these discrepancies and ensure that the final financial statements are accurate and reliable.

Finding 2023-008 Balances due to or from the City of Eagle Pass Water Works System

Type of Finding: Material Weaknesses in Internal Control

Recommendation: The City should implement procedures to reconcile all inter-company amounts with the Water Works System, as it currently does with all other funds.

Actions Taken: The recommendation to **reconcile inter-company amounts** with the Water Works System is an important step to ensure accurate financial reporting and internal controls. Here's a breakdown of what this recommendation entails and how the City will implement procedures to address it:

1. **Develop a Standardized Process for Reconciliation:**
 - Ensure that there is a formal process for reconciling inter-company amounts between the City's various funds, including the Water Works System.
 - This could involve creating a reconciliation template or checklist to ensure that all necessary steps are followed when reconciling balances.
 - Ensure the process includes cross-departmental collaboration (e.g., finance, water works, etc.) to verify transactions.
2. **Establish a Regular Reconciliation Schedule:**
 - Reconciliation would be done regularly (e.g., monthly or quarterly), with a designated timeframe for completing and reviewing the process.
 - This ensures that any discrepancies are identified and corrected quickly, and it prevents larger discrepancies from accumulating over time.
3. **Cross-Department Collaboration:**
 - The Finance department will work closely with the Water Works Office to determine if there are specific transactions or fund transfers that need to be reconciled.
 - Set up a collaborative process where each department involved in inter-company transactions is responsible for providing accurate information to the reconciliation team.
4. **Automate or Use Accounting Software:**

- The new ERP System the city is acquiring is capable of tracking inter-company transactions automatically. This reduces manual errors and improves the efficiency of reconciliation.
- The new ERP system will flag any mismatches or discrepancies between departments for quick resolution.

5. Document and Review Adjustments:

- Ensure that any adjustments made during the reconciliation process are well-documented, including the reason for the adjustment and supporting documentation.
- Establish a review process where a supervisor or manager checks and approves reconciliations before they are finalized.

Implementing these reconciliation procedures will help the City maintain more accurate financial records, ensure proper internal controls, and support its overall financial integrity. By treating the Water Works System the same as other funds in terms of reconciliation, the City can improve the transparency and reliability of its financial processes.

Finding 2023-009: Credit Card Sales

Type of Finding: Significant Deficiency

Recommendation: We recommend that credit card sales be centrally accounted for and that every Department utilizer and merchant processor be identified. Transactions should be posted daily and at Gross.

For example, the entry should be:

Accounts Receivable CC	DR	
Golf Course Revenue		CR

When the cash received is recorded, the entry will be:

Cash in Bank	DR	
Credit Card Fees	DR	
Accounts Receivable CC		CR

When the merchant statement comes in, it should be reconciled to the books, i.e., A/Rec—CC. The reconciliation will increase or decrease A/Rec or revenue based on net chargebacks/sales, which are not usually large numbers. This should zero out the A/Rec CC for that merchant Processor.

The City of Eagle Pass should consider charging a credit card usage fee or outsourcing the collection to a third party that charges the fee to the customer.

Actions Taken: The City understands the importance of recording transactions at net instead of gross, because it can lead to inaccuracies in financial reporting, as it does not fully reflect the revenues earned. These are some steps the city will take to correct this finding.:

- **Gross vs. Net Accounting:** The Finance department will instruct all departments to record all transactions at gross capturing the total amount charged to customers before any deductions, such as discounts or refunds.
- **Correct Reporting:** The city understands how important it is for financial statements to accurately reflect the total revenue generated. This helps in understanding the overall performance of the City Departments and ensuring compliance with accounting standards.
- **Review and Training:** we will train staff members in accounting practices that emphasize the importance of recording gross revenue. We will also implement a review process to ensure transactions are recorded correctly.

Finding 2023-010: Public Funds Investment Act

Type of Finding: Material Weakness and Material Non-Compliance

Recommendation: The city must develop and implement an action plan to comply with the Act.

Actions Taken: The City understands that staff turnover causes certain activities to cease if no one else is familiar with what needs to be done. To prevent that the Finance Department will propose to City Council to engage with an Investment Advisory Services entity to ensure compliance with the Public Funds Investment Act (the “PFIA”). This company will be an extension of the Finance Staff members to ensure the following:

1. **Investment Policy Review:** Entities must adopt a written investment policy that outlines the investment strategies, responsibilities, and risk tolerance of the organization.
2. **Authorized Investments:** The PFIA specifies the types of investments that are allowed, including government securities, certificates of deposit, and mutual funds that have specific qualities. It’s essential that the investment policies align with these authorized investment types.
3. **Training Requirements:** The Act mandates that individuals responsible for making investment decisions must receive training. This includes understanding the provisions of the PFIA, investment strategies, and the associated risks.
4. **Record Keeping:** Entities must maintain records of their investments, including details on purchase, sale, and performance to ensure accountability and compliance.
5. **Reporting:** Regular reporting on investment performance and compliance with the investment policy is required. This could include quarterly or annual reports to the governing body.
6. **Fiduciary Responsibility:** Public officials have a fiduciary duty to invest public funds prudently and in a manner that prioritizes safety, liquidity, and yield, while adhering to the principles laid out in the PFIA.

Finding 2023-011 - Grant Financial Reporting and Internal Control Over Compliance

Type of Finding: Material Weaknesses

Recommendation: The City should review and revise its accounting policies and procedures to ensure financial processes are in place that will result in timely and accurate financial reporting. Also, adequate accounting staffing must be maintained throughout the year. Therefore, ensuring controls are adequate to enable compliance with grant requirement

Actions Taken: To enhance financial reporting and ensure compliance with grant requirements, the City will consider the following steps:

1. Assessment of Current Policies:

- Conduct a thorough review of existing accounting policies and procedures to identify gaps or areas needing improvement.
- Ensure that policies align with generally accepted accounting principles (GAAP) and state regulations.

2. Establish Clear Procedures:

- Define clear procedures for recording, reporting, and monitoring financial transactions, including those related to grants.
- Implement a standardized process for documenting revenue and expenditures associated with grant funding.

3. Timeliness:

- Set specific timelines for financial reporting and ensure that these deadlines are communicated to all relevant staff.
- Utilize accounting software that facilitates timely reporting and updates.

4. Adequate Staffing Levels:

- Assess current staffing levels to ensure there are enough qualified personnel to handle accounting tasks throughout the year, especially during peak periods like fiscal year-end or grant reporting deadlines.
- Consider cross-training staff to provide coverage during absences or peak workloads.

5. Professional Development:

- Invest in continuous training for accounting staff to keep them updated on financial regulations, accounting software, and best practices in public finance.

Any questions regarding this plan, please contact me at (830) 773-1111.

Sincerely,

Felix Castillo

Felix Castillo
Finance Director
City of Eagle Pass, Texas