



August 5, 2025

Honorable Mayor and
Members of City Council
City of Eagle Pass, Texas

**RE: Change of City of Eagle Pass External Auditors for the Fiscal Year Ended (FYE)
September 30, 2024**

At the City Council meeting held on July 31, 2025, the City approved the engagement of a new external audit firm to perform the audit for the FYE 09/30/2024, despite Martinez, Rosario & Company, LLP (MRC)'s existing three-year contract, which extends through September 30, 2025. I come before you to present the full context and facts surrounding the City of Eagle Pass audit for the FYE 09/30/2024.

In the July 31 meeting, the Finance Director, Mr. Felix Castillo, stated that the only reason for changing auditors was that MRC's schedule did not align with the City's timeline. However, MRC was never formally informed of the City's desired audit timeline, other than a statement made by Mr. Castillo during a July 24, 2025, meeting in which he mentioned wanting the audit completed by August 31, 2025. In that same meeting, Mr. Castillo was unable to provide a definitive date for when the City's cash reconciliations and financial records would be complete and ready to audit. Surprisingly, during the July 31 meeting, he asserted that the City's books would be prepared on or before August 4, a date that had never been communicated or committed to MRC.

Mr. Castillo also mentioned during the July 24, 2025, meeting that he would inform me to schedule a meeting with the City Manager and Assistant City Manager to discuss the additional projects to close the books and audit status on either July 28th or 29th. However, MRC was never contacted or invited to participate in such a meeting. In that same July 24th conversation, I suggested bringing the matter to the City Council to present the complete audit plan and timeline. No response has ever been received from Mr. Castillo regarding this recommendation.

On June 27, 2025, I had a telephone conversation with the Assistant City Manager, Ivan Morua, expressing the lack of responsiveness from Mr. Castillo. Also, on June 27, in a meeting with Mr. Castillo and his team, he stated that the bank reconciliation project would be a significant challenge for his team.

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I have also communicated to Mr. Castillo that, based on the City's prior responsiveness and outstanding issues, it would take approximately 60 days to complete the cash reconciliations and close the books correctly, followed by an additional 45 days to complete the audit. This estimate accounts for the delays typically experienced due to the inefficient responsiveness of City staff.

In March 2025, following the release of the September 30, 2023, audit report, Mr. Castillo informed MRC that the books would be ready to be audited by April 15, 2025. Based on this representation, MRC scheduled staff and resources accordingly. Had the April 15, 2025, date been met, the FYE 09/30/2024 audit would have been completed by June 30, 2025.

In early April, Mr. Castillo requested pricing from MRC for assistance with cash reconciliations. On April 8, 2025, MRC provided a change order engagement letter along with a breakdown of hours and staff levels required for the project. Despite multiple follow-ups, MRC received no response until an April 24, 2025, email in which Mr. Castillo stated he was "still awaiting approval." In a subsequent phone call in early May, Mr. Castillo informed MRC that funding was not available for the cash reconciliation project and, therefore, it would not be approved.

It's also important to note that additional work is required this year due to the elevated risk associated with significant findings from the previous audit for the fiscal year ended September 30, 2023. Refer to Exhibit 1 or the published annual audit report for the year ended September 30, 2023.

As outlined in the letter dated July 25, 2025, from Leal & Carter, P.C. to Mr. Castillo, it is evident that their proposed fees and timeline are contingent upon the assumption that the City's books and records will be closed and ready for audit. Specifically, in bullet point #1, they state: "Assuming the fiscal year 2024 trial balances are ready next week, we will perform and complete the FY 2024 audit for the City of Eagle Pass (between 30–45 days from next week) for a range of \$100,000 to \$120,000." This assumption is consistent with MRC's understanding and expectations regarding the audit timeline and prerequisites.

I would like to thank you for the opportunity to serve you as your external auditors, and if there are any additional questions, please feel free to reach out to me.

Very truly yours,



Ismael N. (Milo) Martinez, CPA
Martinez Rosario and Company, LLP
Certified Public Accountants

Enclosures

Exhibit 1 – Summary of City of Eagle Pass, TX, list of findings from FYE 09/30/2023 Audit

Finding 2023-001 – Transaction Reporting

Type of Finding: Material Weakness and Material Noncompliance

Condition: We noted several significant transactions that were mis-posted in the prior and current years and that had not been corrected.

Finding 2023-002 – Accounting System

Type of Finding: Material Weakness and Material Noncompliance

Condition: We noted that the current accounting system lacks many updates, resulting in a weakness of material internal control.

Finding 2023-003 – Cash

Type of Finding: Material Weakness and Material Noncompliance

Condition: Bank reconciliations are not prepared and approved on a timely basis.

Finding 2023-004 – Accounts Payables

Type of Finding: Material Weakness and Material Noncompliance

Condition: The accounts payable sub-ledger was not reconciled to the general ledger balance timely and effectively.

Finding 2023-005 – Self-Insurance – Internal Control

Type of Finding: Material Weakness and Material Noncompliance

Condition: Monitoring and Reporting of City's Risk Financing Liabilities - The City has three self-insurance programs: dental, pharmaceutical, and healthcare. During our audit, we noted that no process existed to track or record the liability associated with the City's self-insurance programs related to pharmaceuticals and healthcare. The self-insurance plans for pharmaceutical and health were adopted effective October 1, 2020. The City also utilizes a stop/loss policy to mitigate some of its potential exposure for large claims.

Finding 2023-006 – Self-Insurance - Contracts

Type of Finding: Material Weakness and Material Noncompliance

Condition: Monitoring and Reporting of the City's Risk Financing Liabilities—The City has contracted with a third party to process and pay all pharmaceutical and healthcare claims.

Finding 2023-007 Capital Asset Accounting

Type of Finding: Material Weaknesses in Internal Control

Condition: The capital asset subsidiary ledgers did not roll forward from the prior year, and the initial schedules received did not match the prior audited numbers. Furthermore, material balances within construction in progress (CIP) balances had no movement. They were not sufficiently supported, and a previous period adjustment was recorded to remove those balances from the books.

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

Type of Finding: Material Weaknesses in Internal Control

Condition: The balances due between the Water Works System and the City were not in balance, and a material adjustment was required to record the amount due from the Water Works System properly.

Finding 2023-009: Public Funds Investment Act

Type of Finding: Material Weakness and Material Non-Compliance

Condition: We could not determine if the City complies with the State of Texas Public Fund Investment Act (the Act) because the City could not provide evidence documenting compliance with the Act.

Finding 2023-010: Credit Card Sales

Type of Finding: Significant Deficiency

Condition: The City Departments accept credit cards as payment methods for the goods and services

Finding 2023-011

Grant Financial Reporting and Internal Control Over Compliance

Type of Finding: Material Weaknesses

Condition: Findings 2023-001 and 2023-002 in Section II are causing material weaknesses in internal control over compliance. For a detailed discussion of the above findings, see Section II, Financial Statement Findings.

LEAL & CARTER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

FRANK J. LEAL, C.P.A.
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July 25, 2025

Hello Felix, as per our conversation earlier today, here's our quote for audit services for the FY 2024 audit:

1. Assuming the fiscal year 2024 Trial Balances are ready next week, we will perform & complete the FY 2024 audit for the City of Eagle Pass, (between 30-45 days from next week) for a range of \$100,000 to \$120,000.
2. Audit Standards require us to perform Initial Audit procedures on new clients. (on the opening balances from the FY 2023 Audited Financial Statements) The one-time charge to complete these procedures is \$5,000 to \$7,000.
3. Any additional charges outside the scope of the audit will be billed at our hourly rates as follows:
Partner..... \$300/hr
Manager \$ 250/hr
Supervisor \$225/hr
Senior \$200/hr
Staff \$185/hr

(We will discuss & negotiate a fee with you before any additional work is done.)

If you agree to these terms, we can send you a formal engagement letter & start the audit next week,



Roberto Carter
Audit Manager