

Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF CARRIZO SPRINGS Carrizo Springs, Texas

AUDIT COMMUNICATION LETTER

For the Year Ended September 30, 2023

Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and City Council
City of Carrizo Springs
Carrizo Springs, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrizo Springs (the City) for the year ended September 30, 2023.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards,

As stated in our engagement letter dated February 2, 2024, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the City's internal control over financial reporting. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control over financial reporting.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We are responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements are depreciation expense; allowance for uncollectible taxes, court fines and utilities, compensated absences, the actuarially determined net pension (asset)/liability and net OPEB liabilities. Following are the bases used by management for such estimates:

- Depreciation is based on estimated useful lives of the respective capital asset class;
- Allowance for uncollectible taxes, court fines and utilities are based on historical data and trends.
- Compensated absences are based on earned balances as of September 30, 2023.
- The net pension (asset)/liability and net OPEB liability is based on actuarially determined amount as of the valuation date, adjusted for activity subsequent to the valuation date through the financial statement date.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The adjusting entries are as follows:

- Adjustment to increase delinquent taxes receivable and the related deferred inflows of resources (unavailable revenue) in the general fund and debt service fund in the amount of \$78,411 and \$33,589, respectively.
- Adjustment to increase sales tax payables in the general fund and gas fund in the amount of \$15,311 and \$20,390, respectively.
- Adjustment to increase utilities receivable and revenues by \$100,032.
- Adjustment to decrease USDA loans payable and expenditures by \$121,000.
- Adjustment to reclassify expenses to capital outlay in the amount of \$284,593.
- Adjustment to record depreciation expense in the amount of \$489,464.

A number of other reclassification entries were also recommended and adopted by Management.

We also assisted the City with adjustments to convert the fund financial statements to entity-wide financial statements in accordance with the requirements of GASB Statement No. 34, No. 68, and No. 75.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreement arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 16, 2024.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Issues

Matters Discussed with Management Prior to Reappointment

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to appointment as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our reappointment.

Supplementary Information

With respect to the combining statements, budget schedules, and pension information, as listed in the City's Annual Financial Report's table of contents; we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America; the method of preparing it has not changed from the prior period; and, the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled such supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements and the auditor's report thereon. If we become aware that such documents were published, we would have a responsibility to read such information, in order to identify material inconsistencies, if any, with the audited financial statements.

Communication of Internal Control Matters

In planning and performing our audit of the financial statements of the City as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, significant deficiencies or material weaknesses may exist that have not been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Internal Control Matters

We noted the following items we are recommending to improve internal control.

Payroll Liabilities

Our review of the general ledger account balances as of September 30, 2023 indicates a number of payroll liability accounts have not been fully reconciled. As a result, there appears to be a net overstatement of payroll liabilities of approximately \$9,546 related to accrued health, accrued FICA and TMRS payable.

Recommendation

We recommend the liability accounts be reviewed and reconciled monthly to ensure that balances are fairly stated. The review should include comparing the liability balances to the payments made in the subsequent month and any differences should be timely investigated and resolved.

Purchase Orders

We noted 9 out of 25 vendor disbursements where a purchase order for goods/services was not prepared as required by the City's purchasing policies. Per the City's Purchasing Manual, a purchase order is required to be prepared *prior* to making purchases to ensure that budgeted funds are available.

Recommendation

We recommend that the City strengthen controls and ensure purchase orders are prepared as required by the City's policies.

Court Fines Report

Our review of the report provided by management of citations status changes indicated that there were reductions in 3,297 citations totaling \$849,148 in gross fines and receivables. Management informed us that there appears to have been a large number of citations/fines that were dismissed on August 28-29, 2023. As of the date of this report, management has not completed its review of the dismissals. As a result, the balance on the general ledger of court fines and related receivables remained unadjusted and reflects the balance from the prior year.

Recommendation

We recommend that management complete its review of the citations dismissed in the system and validate the entries posted in the court fines system. The balance on the general ledger should also be adjusted to reflect the court fines receivable at net realizable value. We also recommend that any court fines dismissals in the system be coordinated with the finance department staff since the two systems are not integrated with each other.

This report is intended solely for the use of the City Council and management of the City and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "George Gonzalez" with a stylized flourish underneath.

August 16, 2024