

CITY OF TERRELL, TEXAS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2024

CITY OF TERRELL, TEXAS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and
Members of the City Council
City of Terrell, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas (the "City"), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 20, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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.

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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2024-001 and 2024-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
January 20, 2026



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE
AND THE STATE OF TEXAS GRANT MANAGEMENT STANDARDS**

Honorable Mayor and
Members of the City Council
City of Terrell, Texas

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited the City of Terrell, Texas' (the "City") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *State of Texas Grant Management Standards* (TxGMS) that could have a direct and material effect on each of the City's major federal and state programs for the year ended September 30, 2024. The City's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and TxGMS. Our responsibilities under those standards, the Uniform Guidance, and TxGMS are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal and state programs.

OFFICE LOCATIONS

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NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and TxGMS will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and TxGMS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and TxGMS, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program 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 or state 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and TxGMS. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the State of Texas *Grant Management Standards*

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, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon, dated January 20, 2026, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and *TxGMS* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
January 20, 2026

CITY OF TERRELL, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Federal/State Grantor/Pass-through Grantor/ Program Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Expenditures	Pass-through Expenditures
Federal Awards:				
<u>U. S. Department of Agriculture</u>				
Passed through Texas Soil and Water Conservation Board:				
Watershed Rehabilitation Program	10.916	CEDAR87A-FED-89001	\$ 2,243,831	\$ -
Total Passed through Texas Soil and Water Conservation Board			<u>2,243,831</u>	<u>-</u>
Total U.S Department of Agriculture			<u>2,243,831</u>	<u>-</u>
<u>U. S. Department of Housing and Urban Development</u>				
Passed through Texas Department of Housing and Community Affairs:				
COVID-19 - Community Development Block Grant	14.228	70800001009	<u>723,122</u>	<u>-</u>
Total Passed through Texas Department of Housing and Community Affairs			<u>723,122</u>	<u>-</u>
Total 14.228			<u>723,122</u>	<u>-</u>
Direct Programs:				
Section 8 Housing Choice Vouchers Program	14.871	N/A	3,333,356	-
Section 8 Housing Choice Vouchers Program	14.871	N/A	<u>331,975</u>	<u>-</u>
Total Housing Voucher Cluster			<u>3,665,331</u>	<u>-</u>
Total Direct Programs			<u>3,665,331</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>4,388,453</u>	<u>-</u>
<u>U.S Department of Transportation</u>				
Passed through Texas Department of Transportation:				
Airport Improvement Program	20.106	21CRTEREL	13,000	-
Airport Improvement Program	20.106	22CVTEREL	32,000	-
Airport Improvement Program	20.106	M2218TERE	47,116	-
Airport Improvement Program	20.106	M2418TERE	<u>100,000</u>	<u>-</u>
Total 20.106			<u>192,116</u>	<u>-</u>
Highway Planning and Construction	20.205	RTR091811103	<u>374,304</u>	<u>-</u>
Total 20.205			<u>374,304</u>	<u>-</u>
Total Passed through Texas Department of Transportation			<u>566,420</u>	<u>-</u>
Total U.S. Department of Transportation			<u>566,420</u>	<u>-</u>
<u>U.S. Department of Treasury</u>				
Passed through Texas Division of Emergency Management:				
COVID-19 - Coronavirus Local Fiscal Recovery Fund	21.027	2021 CLFRF	<u>2,792,444</u>	<u>-</u>
Total Passed through Texas Division of Emergency Management			<u>2,792,444</u>	<u>-</u>
Total U.S. Department of Treasury			<u>2,792,444</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 9,991,148</u>	<u>\$ -</u>

CITY OF TERRELL, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2024

Federal/State Grantor/Pass-through Grantor/ Program Title	Pass-through Entity Identifying Number	Expenditures	Pass-through Expenditures
State Awards:			
<u>Texas Soil and Water Conservation Board</u>			
Direct program:			
Watershed Rehabilitation Program - Matching Funds	CEDAR87A-RHB-ESF-520-21	\$ 1,147,806	\$ -
Total direct programs		1,147,806	-
Total Texas Soil and Water Conservation Board		<u>1,147,806</u>	<u>-</u>
<u>Texas State Library & Archives Commission</u>			
Direct program:			
Interlibrary Lending Reimbursement Program	ILL 903897	2,443	-
Total direct programs		2,443	-
Total Texas State Library & Archives Commission		<u>2,443</u>	<u>-</u>
Total Expenditures of State Awards		<u>\$ 1,150,249</u>	<u>\$ -</u>
Total Expenditures of Federal and State Awards		<u>\$ 11,141,397</u>	<u>\$ -</u>

CITY OF TERRELL, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES FEDERAL AND STATE AWARDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and *Texas Grant Management Standards* (TXGMS). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and State awards programs of the City. The City's reporting entity is defined in Note I of the basic financial statements. Federal awards received directly from federal or state agencies, as well as awards passed through other government agencies, are included on the Schedule of Expenditures of Federal and State Awards.

INDIRECT COSTS

The City has elected not to use the de minimis indirect cost rate as allowed in the Uniform Guidance.

CITY OF TERRELL, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

I. Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes, 2024-001 and 2024-002
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal and State Awards:

Internal control over major programs:	
Material weakness(es) identified?	None
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of Uniform Guidance?	None
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Any audit findings disclosed that are required to be reported in accordance with TXGMS?	None
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Identification of major programs:

Federal Assistance Listing Number	Name of Federal/State Program or Cluster:
14.871	Housing Voucher Cluster
21.027	Coronavirus Local Fiscal Recovery Fund
State	Watershed Rehabilitation Program - Matching Funds

Dollar threshold used to distinguish between type A and type B Federal programs	\$750,000
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Dollar threshold used to distinguish between type A and type B State programs	\$750,000
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Auditee qualified as low-risk auditee for federal single audit?	No
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CITY OF TERRELL, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

II. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Government Auditing Standards

**Item 2024-001 – Reconciliation of cash and interfund balances
Material Weakness in Internal Control over Financial Reporting**

Criteria

Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. This includes the implementation of control activities that ensure that significant account balances are properly stated. Cash and investment balances should be reconciled to bank statements, and interfund receivables and payables should balance against one another.

Condition

During the prior fiscal year, the City began the process of implementing new software for its finance-related functions. During this process, certain control activities, such as bank reconciliations, were not performed according to normal schedules; additionally, these processes underwent changes resulting from the transition of one software to another. As a result, some bank reconciliations were not performed for extended periods of time, and not all accounting transactions affecting cash were recorded timely.

Cause

The City's internal control was not sufficient to ensure that all transactions and reconciliations were recorded timely. Additionally, these conditions were exacerbated by turnover in the finance office, and the City's processes were not documented to a degree that would have allowed for timely transition of new staff.

Effect

Errors were discovered in the reconciled balances for cash and due to/from other funds. This resulted in a restatement of beginning fund balance in the General Fund by \$597,234, for transactions not recorded properly in prior years.

Recommendation

We recommend that the City strengthen procedures over bank reconciliations to ensure timely completion of all reconciliations, as well as ensuring that all transactions have been recorded within the period.

Management's Response

We agree with the finding. Management has identified a breakdown in internal control over the timely reconciliation of cash and interfund balances. Corrective actions are underway to strengthen and formalize reconciliation procedures, including documented processes and supervisory review, to ensure reconciliations are performed timely and transactions affecting cash are recorded accurately throughout the fiscal year.

CITY OF TERRELL, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

II. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Government Auditing Standards (Continued)

**Item 2024-002 – Reconciliation of land held for sale
Material Weakness in Internal Control over Financial Reporting**

Criteria

Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. This includes the implementation of control activities that ensure that significant account balances are properly stated. In the context of land held for resale, an asset account, this includes the maintenance of internal control that ensures account balances reconcile to supporting documentation.

Condition

The Terrell Economic Development Corporation (TEDC), a blended component unit of the City, reports land held for resale. In prior years, and throughout fiscal year 2025, TEDC's process for reconciling this balance was to roll forward the previous year's listing using data from the general ledger about land that was purchased and sold during the year.

As part of closing fiscal year 2025, TEDC performed a comprehensive review of the account, comparing the listings to external property records. During this review, it was determined that the account was materially misstated.

Cause

TEDC's historical process for reconciling land held for resale relied primarily on information internal to the accounting records, in addition to focusing on changes during the current year. The process did not reconcile the ending balance to supporting documentation as of each fiscal year-end date.

Effect

This deficiency led to material errors in the land held for resale accounts to be undetected in prior years. This led to a restatement of those accounts by \$840,396, as well as a reduction of TEDC's fund balance as of the beginning of fiscal year 2025.

Recommendation

We recommend that management formalize the process performed for fiscal year 2025 and ensure that the balances are reconciled to supporting documentation as of each future fiscal year-end date.

Management's Response

We agree with the finding. Management has initiated steps to formalize and document an annual reconciliation process for land held for resale, including reconciliation to supporting external property records at each fiscal year-end, to ensure balances are properly stated.

III. Findings and Questioned Costs for Federal and State Awards

None reported.

CITY OF TERRELL, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

None