



Rick Carmona
Mayor

March 7, 2025

Stephanie Thomas
Mayor Pro Tem
District 4

Dear Honorable Mayor and Members of the City Council:

Phil Robison
Deputy Mayor Pro tem
District 5

Mayrani Velazquez
Council Member
District 3

Donna Renee Anderson
Council Member
District 2

Mike Sims
City Manager

As the City of Terrell matures and becomes increasingly complex, we continually look for ways to drive a culture of excellence and service throughout the organization. Texas Municipal League's City Financial Services (<https://www.tml.org/943/City-Financial-Services>) offers a program through which a former municipal finance professional will spend time with a Finance Department. Terrell engaged City Financial Services to spend time with our staff to conduct a review of policies, procedures, and practices after the completion of the financial system implementation and to look for opportunities for efficiency and effectiveness gains.

Keith Dagen was embedded in the City's Finance Department from February 25 through February 28. During his four days on-site, he met with members of the City Manager's Office and the Financial Team. His role was to review and advise, not to do the work. He also conducted a review of Finance Department operations, financial policies and procedures, and financial documents. On March 4, Mr. Dagen provided observations and recommendations resulting from his engagement. A copy of his report is attached for your review. I have also attached the management directives issued after my review of the report. If you have questions for Mr. Dagen, City staff can coordinate a meeting for you.

Mr. Dagen spent 26 years in municipal finance with the cities of Garland and Richardson working in multiple roles. He began his career as a business systems analyst and progressed through various roles, including Director of Finance. Now retired from full-time employment, Keith enjoys teaching fundamentals of government finance to others. He is an active member of the Government Finance Officers Association of Texas ("GFOAT") and previously served as GFOAT's Texas Municipal Retirement System representative, secretary, and president. Since 2010, Keith has been a featured speaker at GFOAT conferences and GFOAT's Governmental Accounting Academy.

We were pleased with his review and look forward to implementing various improvements.

Sincerely,

Mike Sims
City Manager



**TML FINANCIAL BOOT CAMP
RECOMMENDATIONS FOR TERRELL
MARCH 4, 2025**

OVERVIEW:

A TML Financial Boot Camp representative ("TML") was on-site at the City of Terrell Finance Department ("Finance") February 25 through February 28, 2025. Over the course of the engagement, TML met individually with members of the Finance team as well as with representatives from the City Manager's office and various consultants who are currently supporting the Finance team. TML reviewed the City's financial policies and procedures, the City's Finance website, the most recent audit and budgets and performed analysis of accounts payable and purchasing data and reviewed the trial balance.

OBSERVATIONS AND RECOMMENDATIONS:

Observations:

Terrell has not historically been able to issue its audited financial statements by the 180-day deadline contained in Texas Local Government Code §103.003.

Recommendations:

A review of historical audits showed that Terrell typically issues its audited financial statements in the June time frame. March 31 is the deadline for communities that have a September 30 year-end. An appendix to this report has a recommended listing of processes that can be spread throughout the year to quicken the audit process once the fiscal year is complete.

Observations:

The City implemented the Tyler Munis ERP software in January 2024. Finance staff believe that user departments do not utilize the software to its full potential and are not following established processes for credit card and procurement transactions.

Recommendations:

Finance should take a leadership role in becoming the champion for the Tyler software. Team members should record training videos for key processes that can be used to retrain city staff or used by new employees for initial training. Finance should collaborate with departments to provide refresher training opportunities annually. How-to videos should also be recorded for key finance processes such

as accounts payable and payroll that will allow employees to cover for each other when staff members are out.

Observations:

Terrell maintains significantly more bank accounts than peer cities of a similar size. This leads to additional work for staff to reconcile multiple accounts every month as well as to move money between funds. Currently, staff is not reconciling the bank accounts.

Recommendations:

Review and evaluate each bank account to determine if it can be consolidated into the main bank account. Close and consolidate accounts that do not have a legal requirement to be maintained. A third-party consultant will be utilized to catch the City back up on bank reconciliations. Finance should identify and begin training a staff member to take responsibility for reconciliations once they are caught up.

Observations:

The City's chart of accounts is overly complex for a community of Terrell's size. 71 funds are used to report transactions and 1,804 account codes had balances as of the September 2024 trial balance.

Recommendations:

Review and evaluate the chart of accounts for efficiency and consolidate duplicative accounts that are not needed for budgetary reporting purposes. For example, the General Fund has 36 accounts to record "due to/from" transactions between funds. This activity is usually combined into a single account and balances are tracked on a spreadsheet in most communities.

Individual object codes are used for unique projects. For example, there is an object code for "Poetry Tank Design" and a different object code for "N Blanche Water Main Replacement." A best practice is to have a single object code for "Capital Outlay" and to record individual project details through the Project Ledger. Explore the potential benefits of using Tyler's Project Reporting module to track capital projects.

Looking at the Fiscal Year 2023 audit, 13 non-major governmental funds had no income or expense activity except for investment earnings. Additionally, three funds reported negative fund balance and two older bond funds still had unspent assets. Evaluate these funds to determine what steps need to be taken to clean up these funds and if they can be closed out. The Information Technology Fund and the Pavilion Rentals Fund should be evaluated in coordination with the City's external auditors. Based on the description included in the audit report, the Information Technology Fund may need to be reclassified to an Internal Service Fund and the Pavilion Rentals Fund may not qualify for treatment as a special revenue fund.

Observations:

The trial balance should be reviewed at least quarterly to clean up any account issues prior to the external audit.

Recommendations:

TML identified several accounts on the trial balance that need to be investigated further. A worksheet has been provided to Finance that shows object codes that use different naming conventions across funds, accounts that had balances that didn't match the character of the account type (for example, an asset with a negative balance) and accounts that had very small balances that should likely be zeroed out. Review these items and make any necessary corrections.

Observations:

The City's financial website was out of date.

Recommendations:

A financial website should be reviewed at least annually and updated with the most current information. For example, the most recent audit and budget documents were not on the Finance page but rather were found in the document archive section while the Finance page contained documents associated with a prior fiscal year. A link to Texas Municipal Reports contained no documents and a section on Monthly Financial Reports had a single document from 2022. Additionally, utility usage information required by Texas Government Code §2265 could not be found on the City's website. This data is usually compiled by Finance staff and found on the financial website of most communities.

Observations:

Several of the City's financial policies need to be updated to conform to the best practices.

Recommendations:

In Section 5.0 of the Financial Policy, the outdated phrase Comprehensive Annual Financial Report and a related acronym have not been updated to reflect appropriate terminology. The old terminology was discontinued by the Governmental Accounting Standards Board in late 2021. Additionally, the requirement to issue this kind of audit report has not been followed. A report in accordance with GFOA standards as required by Section 5.0(A) contains additional statistical information that is not included in the audit report that the City currently receives. Most communities that are the size of Terrell only issue the annual financial report that Terrell issues so don't have this policy requirement.

Section IX(1) of the Investment Policy also contains the outdated phrase Comprehensive Annual Financial Report. Section IV(3) indicates that the investment responsibility is vested in the City Secretary. This language is likely a holdover from a time when the City Secretary also acted as the Finance Director. The Investment Policy contains references to GFOA policies in Section VII(1) regarding allowable investments. A better practice would be to reference state

statutes that govern investments (Texas Government Code §2256). The Investment Policy is also missing a section on allowable collateral that complies with Texas Government Code §2257. A best practice is to include a section on required training for staff members that serve as the City's investment officers.

The City's Purchasing Policy does not contain any information on compliance with Texas Local Government Code §252.0215. This statute requires cities to contact historically underutilized businesses based on a list provided by the State Comptroller's Office. This applies to all purchases that are \$3,000 or more. Additional Purchasing Policy recommendations will be made in a later section of this report.

Observations:

The discussion with Finance noted that City credit cards are issued to both departments and to individuals.

Recommendations:

TML recommends the elimination of all credit cards that are not issued in the name of an employee and making any conforming updates required to the City's Credit Card Policy. Departmental credit cards have a greater risk of misuse as it may be difficult to tell who made a potentially inappropriate purchase. Having them issued to individuals provides the highest-level accountability.

Observations:

Discussions with the Finance team and an analysis of purchasing and payable transactions indicated that purchase orders are not being utilized correctly. Departments request a purchase order at all transactional dollar levels, but only for the value of the current invoice. They do not request a purchase order for the full value of the contract.

Recommendations:

The current purchase order process circumvents the intent of the Purchasing Policy. For example, data for Fiscal Year 2024 showed that 53 purchase orders were issued to WW Grainger with an average value of \$888. At that dollar amount, none of the purchase orders would have required the approval of department heads or the Finance Director. The total of the purchase orders, however, was \$47,070. A single purchase of that amount would have required the approval of a department head and the Director of Finance. It is also close to the amount, \$50,000, that would have required an award by the City Council. Train user departments to enter requisitions for the full amount of the contract, or an estimated amount based on budgeted funds if a full amount is not known. Issue blanket purchase orders for vendors that are shared among differing departments. Actively monitor spending throughout the year to identify any small procurements that might require City Council authorization due to aggregate spending.

The Purchasing Policy indicates that bids or quotes are not required for purchases up to \$2,500. However, user departments are still required to enter in a requisition

for these items rather than just directly input an invoice. TML evaluated 4,515 purchase orders and 3,263 of them were for amounts up to \$2,500. Consider changing practice so that departments do not enter requisitions for items not requiring bids or quotes unless the item is part of a sequence of purchases that requires a purchase order or blanket purchase order as described in the paragraph above.

The current purchasing authority levels are as follows: \$0 to \$2,500 (no approval needed); \$2,500.01 to \$15,000 (quotes required and approval needed by department head or designee; \$15,000.01 to \$49,999.99 (formal written quotes required and approval by the Finance Director or ACM; \$50,000.00 or more (formal bidding process allowed by law plus approval of the City Manager and the City Council). TML recommends changing the lowest tier to \$0 to \$3,000 since the \$3,000 metric is where quotes must be solicited from historically underutilized businesses. Because of the HUB requirement, consider requiring a Finance staff member to approve purchases between \$3,000.01 and \$15,000 to ensure consistent application of the requirement.

Under current policy, credit cards can be used to make purchases up to \$500. An analysis of 3,352 checks in Fiscal Year 2024 showed that 971 checks were written for \$500 or less. 1,885 checks were written for amounts under \$2,500. Consider expanding the use of credit card payments for small dollar items, even for ones associated with purchase orders. The City's Tyler software should allow users to record credit card payments to a purchase order. Increasing credit card spending would cut down on the number of checks being written and could provide added efficiencies.

Observations:

The Finance team has not emphasized training or continuing education opportunities. During Fiscal Year 2024, there were no expenses charged to the Finance budget for training or travel except for some basic mileage reimbursements.

Recommendations:

TML recommends that all Finance employees actively take advantage of training opportunities. There are multiple government-specific training partners, such as the Government Finance Officers Association of Texas and the national Government Finance Officers Association that offer annual conferences, professional certifications and other training programs. Auditing firms often provide continuing education programs with an emphasis on governmental finance topics.

APPENDIX

BEST PRACTICES TO PREPARE FOR EXTERNAL AUDITS

The following list represents key processes that can be performed throughout the fiscal year which then can speed up the process of preparing financial statements once the fiscal year is complete.

Monthly:

- Complete bank and investment reconciliations within 5 business days of month-end.
- Complete all month-end journal entries within 5 business days of month-end.
- Issue monthly financial reports and provide to department heads and city management for review.
- Complete all administratively necessary account reconciliations within 10 business days of month-end, such as accounts payable and accounts receivable.
- Review capital accounts for non-capital charges and make journal entries as needed to reclassify spending.

Quarterly:

- Issue quarterly financial reports that are provided to the city council. This can also be done with monthly reports depending on the needs of the City.
- Add fixed assets for any projects that were completed during the quarter. Record disposals for any assets that were taken out of service during the quarter.
- Review the account trial balance for all funds.

After Final Debt Payments:

- Record year-end entries for interest accruals, amortization of premiums and discounts and reclassifications between short-term and long-term amounts due once final debt payments are made.
- Record necessary year-end entries for lease and SBITA agreements.

October:

- Review all material accounts payable transactions and ensure that all transactions for the prior year are recorded to the correct year.
- Update receivable balances for sales tax, property tax and other receivables.
- Make a journal entry to accrue payroll expenses as of September 30.
- Once monthly reconciliations are complete, review a trial balance for all funds

November:

- Record final entries needed for year-end with the goal of being able to provide auditors with all requested documents by the end of the month.

TML Recommendations Recap

TML Observation	City Manager Directive
1. Audit Schedule	Finance Department staff tasked to phase in implementation of the schedule recommendation for the Audit of FY25 and FY26 Financials
2. Tyler Munis	Finance Department to work with other City Departments to implement the recommendations
3. Bank Accounts	Reviewed this topic with the Finance department on 3/6; recommendation will be followed
4. Chart of Accounts	Reviewed this topic with the Finance department on 3/6; recommendation will be followed
5. Trial Balance	Reviewed this topic with the Finance department on 3/6; recommendation will be followed
6. Financial Website	Staff added recent information, including the Unaudited FY24 Financial Report, to the website effective March 7. Finance Department will continue follow-up
7. Financial Policies	Assistant City Manager and Finance Director will update for Council review in Summer 2025
8. Credit Cards	Some recommended changes made as immediate action, remaining phasing in during March 2025
9. Purchasing	Met with all Department Heads on 3/6 to discuss immediate updates/improvements. The Finance Department will utilize the recommended Tyler Munis process to quality control
10. Training	Reviewed this topic with the Finance department on 3/6; recommendation will be followed