CITY OF CALDWELL, TEXAS

SINGLE AUDIT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2023

CITY OF CALDWELL, TEXAS

SINGLE AUDIT REPORT

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SEPTEMBER 30, 2023

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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 Caldwell, 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Caldwell, Texas (the "City") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 22, 2025.

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 entity'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 was for the limited purpose described in the first paragraph of this section 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 that we consider to be material weaknesses.

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AICPA
GAQC Member

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.

The 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 and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas
May 22, 2025

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Honorable Mayor
and Members of City Council
City of Caldwell, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Caldwell, Texas' compliance with the types of compliance requirements identified as subject to audit in the (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City of Caldwell, Texas' major federal programs for the year ended September 30, 2023. The City of Caldwell, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Caldwell, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal 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). Our responsibilities under those standards and the Uniform Guidance 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 of Caldwell, Texas 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 program. Our audit does not provide a legal determination of the City of Caldwell, Texas' 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 of Caldwell, Texas' federal programs.

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 of Caldwell, Texas' 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*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than 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 of Caldwell, Texas' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, 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 of Caldwell, Texas' 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 of Caldwell, Texas' 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, but not for the purpose of expressing an opinion on the effectiveness of the City of Caldwell, Texas' 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 program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 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 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 were not 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Caldwell, Texas as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Caldwell, Texas' basic financial statements. We issued our report thereon, dated May 22, 2025, 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 awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
March 22, 2025

CITY OF CALDWELL, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-through Grantor/ Program Title	Assistance Listing Number	Pass-through Grantor's Number	Federal Expenditures	Pass-Through Expenditures
U. S. Department of Transportation (DOT)				
Passed through Texas Department of Transportation				
TxDOT Aviation Routine Airport Maintenance Program	20.106	M2217CLDW	$ 6,318	$ -
Total Passed through Texas Department of Emergency Management			6,318	-
Total U. S. Department of Transportation (DOT)			6,318	-
U. S. Department of Treasury				
Passed through Texas Department of Emergency Management				
American Rescue Plan Act (COVID-19)	21.027	N/A	117,025	-
Total Passed through Texas Department of Emergency Management			117,025	-
Total U. S. Department of Treasury			117,025	-
U. S. Department of Housing and Urban Development				
Passed through General Land Office:				
Community Development Block Grant	14.228	22-085-051-D304	262,194	-
Total Passed through General Land Office:			262,194	-
Passed through Texas Department of Agriculture:				
Community Development Block Grant	14.228	7220071	884,339	-
Total Passed through Texas Department of Agriculture:			884,339	-
Total U. S. Department of Housing and Urban Development			1,146,533	-
Total Expenditures of Federal Awards			$ 1,269,876	$ -

CITY OF CALDWELL, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all applicable federal awards of the City of Caldwell, Texas. The City's reporting entity is defined in Note I to the City's basic financial statements. Federal awards received directly from federal and state agencies as well as federal awards passed through other government agencies are included in the respective schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using modified accrual basis of accounting, which is described in Note I to the City's basic financial statements.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2023, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

4. INDIRECT COSTS

The City has not elected to use a de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

CITY OF CALDWELL, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Summary of Auditor's Results

Financial Statements:	
Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Items 2023-001 & 2023-002
Significant deficiency(ies) identified that are not considered a material weakness?	None reported
Noncompliance material to financial statements noted?	None
Federal Awards:	
Internal control over major programs:	
Material weakness(es) identified?	None
Significant deficiency(ies) identified that are not considered a material weakness?	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 100.516(a)	None
Identification of major programs:	
Assistance Listing Number:	Name of Program or Cluster:
14.228	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B federal programs.	$750,000
Auditee qualified as low-risk auditee?	No

Findings for Federal Awards

None

CITY OF CALDWELL, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Findings Related to the Financial Statements

Item 2023-001 Cash Account Reconciliations – Material Weakness (Recurring)

Condition: During our audit of the City's cash accounts, we found that although a supervisory review of bank reconciliations is taking place, the reconciliations are not consistently completed in a timely manner. Additionally, the employees responsible for preparing the bank reconciliations also receipt monies and post transactions, which indicates a lack of proper segregation of duties.

Criteria: According to the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* framework for internal control, entities should implement control activities such as timely reconciliations, segregation of duties, and supervisory reviews to ensure the accuracy and reliability of financial reporting.

Cause: The City has not established formal procedures or timelines to ensure that bank reconciliations are completed promptly each month. Furthermore, staffing limitations or informal practices may contribute to inadequate segregation of duties within the cash handling and reconciliation processes.

Effect: Delays in completing bank reconciliations increase the risk that errors or irregularities may not be identified and corrected in a timely manner. In addition, insufficient segregation of duties may increase the risk of undetected misstatements or potential misappropriation of funds.

Recommendation: We recommend that the City formalize procedures to ensure all bank reconciliations are completed promptly following the close of each month. Additionally, the City should strengthen internal controls by assigning the reconciliation review to an individual who is independent of cash handling and transaction posting responsibilities. All reviews should be documented to establish accountability and demonstrate oversight.

Management's Response: The City concurs with the finding and has implemented corrective actions to ensure established procedures are in place and performed.

2023-002 Journal Entries – Material Weakness (Recurring)

Condition: During our audit of journal entries, we found that although supervisory review of manual journal entries is being performed, the City does not have formal, written policies or procedures outlining the expectations and responsibilities related to the authorization, documentation, and review of journal entries posted to the general ledger.

Criteria: According to the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* framework for internal control, management should establish and document policies and procedures to ensure consistent and reliable financial processes. Written procedures help ensure that internal control responsibilities are clearly communicated and carried out consistently.

Cause: The City has not prioritized the development of formal written policies for journal entry processing, relying instead on informal practices and staff knowledge to carry out supervisory reviews.

Effect: In the absence of formal documentation, there is an increased risk that journal entries may not be reviewed or authorized consistently or in accordance with best practices. This could lead to errors or misstatements in the financial records, especially in the event of staff turnover or changes in roles.

Recommendation: We recommend that the City establish and implement written policies and procedures that clearly define the responsibilities and expectations for the authorization, documentation, and review of journal entries. These policies should include criteria for supporting documentation, designated reviewers and approvers, and the timing of reviews to ensure accountability and consistency.

Management's Response: The City concurs with the finding and has implemented corrective actions to ensure established procedures are in place and performed.

CITY OF CALDWELL
TEXAS

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CITY OF CALDWELL, TEXAS

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

2020-001 CASH ACCOUNT RECONCILIATIONS - RECURRING

During our audit of cash, we determined that the City does not perform a supervisory review of monthly bank reconciliations for the City's cash accounts. We noted that the employees responsible for bank reconciliations also receipt monies and post transactions without any review or oversight by other employees or elected officials. We recommend that the City put procedures in place to review all monthly bank reconciliations for accuracy.

Current Status: Progress has been made, but timing of bank reconciliations was delayed. See current year finding.

2020-002 JOURNAL ENTRIES - RECURRING

During our audit of journal entries, we determined that the City does not perform a supervisory review of manual journal entries posted to the general ledger. Further, the City lacks written policies outlining the expectations for journal entry authorization, documentation, and review. We recommend establishing and following written policies and procedures on the expectations and responsibilities related to the authorization, documentation, and review of journal entries.

Current Status: The City does perform supervisory review of manual journal entries posted to the general ledger, but written policies outlining the expectations for journal entry authorization, documentation, and review were not available. See current year finding

2020-003 PURCHASING POLICY - RECURRING

During our review of the City's internal controls, we found that the City lacks a formal purchasing policy. Although the City may have an informal policy, we recommend the City adopt a more formal and comprehensive purchasing policy, approved by City Council, which would provide detailed guidance to employees and management. This will help to ensure consistency, even if there is staff turnover. The purchasing policy should be evaluated regularly and updated periodically, as necessary. It should be readily accessible to all applicable employees.

Current Status: This matter has been resolved.

2015-003 INTERFUND RECEIVABLES AND PAYABLES - RECURRING

During our audit, we determined that the City does not have procedures in place to ensure that all interfund receivable and payable are properly reconciled. We recommend that the City put procedures in place to ensure these interfund receivables and payables are reconciled on a monthly basis to ensure that any errors in recording transactions are corrected in a timely manner.

Current Status: This matter has been resolved.

2012-001 INVENTORY - RECURRING

During our review of the City's internal controls over inventory, we found that the City had inadequate controls over the access to, and records for inventory items. We noted that the Water/Sewer and Electric supervisors and their employees have access to inventory items. Additionally, we found that the City does not track the items purchased and placed into inventory or the items taken out of inventory during the year. Instead, the City only takes a physical inventory count at year-end.

We recommend the City implement procedures to secure inventory by limiting physical access to the inventory to only a limited number of individuals. Additionally, records should be maintained to track items being added to and taken from inventory during the year so that these records can be reconciled to the inventory count performed by City personnel at year-end.

Current Status: This matter has been resolved.

2009-001 ACCOUNTS PAYABLE - RECURRING

During our audit, we noted instances in which a check was written after year-end for goods received prior to year-end and the expense was posted to the year in which the check was written. Expenses should be posted in the year in which the goods or services are received regardless of when the invoice is paid. If the invoice is paid in the subsequent year, accounts payable should be increased for this amount. We recommend procedures be implemented to ensure that accounts payable is properly stated at year-end.

Current Status: This matter has been resolved.

2009-003 COURT FINES AND FEES - RECURRING

During our review of the City's general ledger, we noticed that court fines and fees were being posted to liability, revenue and expense accounts. We recommend when court fines and fees are paid by customers, the entire amount paid be posted to a liability account. Quarterly, when the City remits a large portion of these fines and fees to the state, the City should post a reduction to the liability. The City should also post an entry to revenue for the portion of the fines and fees that the City is allowed to retain. No expenses for court fines and fees should be posted by the City.

Current Status: This matter has been resolved.

2009-004 OUTSTANDING ITEMS - RECURRING

During our testing of outstanding items on the bank reconciliations, we noticed a large deposit for property taxes collected by the County before year-end but not remitted to the City until after year-end. We recommend deposits be posted to the general ledger in the month in which they are received to ensure that cash and property taxes receivable are properly stated.

Current Status: This matter has been resolved.

2009-005 UTILITY SALES TAX - RECURRING

Sales tax received from customers for utilities is being posted to a revenue account. When the sales tax is remitted to the state each quarter, the payment is being posted to an expense account. At year-end there is no liability being posted for the amount of sales tax collected in January that is not remitted to the state until February. We recommend the City post all sales tax received from customers to a liability account, and when this sales tax is remitted to the state the checks be posted to offset the liability. Any differences between the amount collected and the amount remitted to the state should be investigated to ensure that customers are being billed correctly and the correct amount is being remitted to the state.

Current Status: This matter has been resolved.

CITY OF CALDWELL
TEXAS

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CITY OF CALDWELL, TEXAS

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Contact Person – Renee McCoy
Anticipated Completion Date – May 31, 2025

CORRECTIVE ACTION PLAN:

2023-001 – Material weakness for financial statements.

The City concurs with the finding and has implemented corrective actions to ensure established procedures are in place and performed timely.

2023-002 – Material weakness for financial statements.

The City concurs with the finding and has implemented corrective actions to ensure established procedures are in place and written.

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