

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL Carrizo Springs, Texas

REPORT ON THE CONDUCT OF AUDIT

For The Year Ended August 31, 2015

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Middle Rio Grande Development Council
Carrizo Springs, Texas

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Middle Rio Grande Development Council (the Council) for the year ended August 31, 2015 and have issued our report thereon dated April 1, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, OMB-Circular A-133 and the State of Texas Single Audit Circular and that we communicate to you other information related to our audit. Our responsibilities and other information is provided in the following sections of this report:

- the conduct of our audit (Parts I – VIII)
- internal control and other matters (Part IX)

This letter does not affect our report dated April 1, 2016 on the basic financial statements of the Council. Our comments and recommendations have been discussed with the appropriate members of management, and are intended to improve the internal control structure and to ensure compliance with federal requirements.

This report is intended solely for the use of the Board of Directors and should not be used for any other purpose.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of the Middle Rio Grande Development Council during the course of our audit.



April 1, 2016

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL
Carrizo Springs, Texas

REPORT ON THE CONDUCT OF AUDIT

For The Year Ended August 31, 2015

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I. The Auditor's Responsibility Under U.S. General Accepted Auditing Standards, Government Auditing Standards, OMB Circular A-133 and the State of Texas Single Audit Circular

As stated in our engagement letter dated October 9, 2015, 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.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, we examined, on a test basis, evidence about the Council's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" and the State of Texas Single Audit Circular, applicable to each of its major federal and state programs for the purpose of expressing an opinion on the Council's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Council's compliance with those requirements.

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 judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such

II. Qualitative Aspects of Accounting Principles

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Middle Rio Grande Development Council are described in Note 1 to the financial statements. In fiscal year 2015, the Council adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension- an amendment of GASB Statement No. 27*. GASB 68 requires state and local government agencies, to report the actuarially determined Net Pension Liability in its financial statements. Previously the Council, in accordance with GASB Statement No. 27, disclosed in the notes to the financial statements the plan description, funding policy, and, the state, Council, and employee contributions as 100% of the Annual Required Contribution and reported the state and Council contributions as an expense. The impact of adopting GASB 68 was a restatement to beginning net position by a reduction of \$974,948, recognition of \$466,362 in Deferred Outflows of Resources, \$89,665 in Deferred inflow of Resources, a net decrease in pension expense of \$113,377, and, reporting a Net Pension Liability of \$1,238,268.

We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate(s) affecting the financial statements was depreciation and net pension liability.

Management's estimate of the depreciation expense is based on estimated useful lives of assets in service and the estimate of the net pension liability is based on the 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 depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent and clear.

III. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

IV. 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. We recommended the following adjusting entries:

- Decrease unearned revenues and increase revenues in the other non-major funds by \$21,819.
- Decrease uncollectible grant receivable recorded in the non-major funds and increase expenditures in the general fund by \$12,321.
- Record contribution payable and related expense of \$50,000 in the Foundation fund.

One misstatement affecting payroll liabilities in the amount of \$16,343 remains uncorrected. Management has determined this amount is considered immaterial, both individually, and in the aggregate. We concur with management's determination.

Additionally we assisted the Council in the preparation of adjustments to reflect the entity-wide financial statements.

V. 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 disagreements arose during the course of our audit.

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 1, 2016.

VII. Management Consultations 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.

VIII. Other Issues

Major Issues 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 retention as the Council's auditors.

However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our reappointment.

Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis and the Texas County District Retirement System pension information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information

With respect to the combining nonmajor schedules, schedule of expenditures of federal and state awards and the schedule of expenditures by grant, accompanying the financial statements, 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 the 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 auditors' 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.

IX. Internal Control and Other Matters

Census Data Reporting

Our review of the employee census data submitted to the Texas County and District Retirement System (TCDRS) by the Council for ten (10) employees indicated the following errors:

- Two (2) instances in which the incorrect gender was assigned to employees
- One (1) instance in which the incorrect age was reported
- Two (2) instances in which the years of service reported were under reported.

We recommend the Council implement procedures to ensure data submitted to TCDRS is complete and accurate. Such procedures can include obtaining secondary reviews prior to submitting the data.

Time sheet approval

The Council's fiscal policy #10.06 requires Department Supervisors to 'review and approve' timesheets prior to submission for payroll processing. An IT employee assigned to the 911 Program was not setup in the accounting system to be approved by the 911 Department Supervisor. As such, the employee's timesheets were approved by the Controller instead of the 911 Program Supervisor.

We recommend the Council adhere to established policies and ensure employee timesheets are properly setup to be approved by their immediate Department Supervisor.

Internal Service Fund Operating Deficit

Generally Accepted Accounting Principles (GAAP) permits internal service funds be used for activities that provide goods and services to other funds or departments on a cost reimbursement basis. The Council uses an internal service fund to account for indirect cost activities; however, we noted that the Council's internal service fund is not self-sustaining. The unrestricted net position deficit as of August 31, 2015 is \$51,171.

Charges for services should be sufficient to recover operating costs of providing the applicable services. We recommend that the subsequent year indirect cost plan should factor the beginning deficit into the current year indirect cost rate.