

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, 2014

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, 2014 and have issued our report thereon dated April 9, 2015. 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)
- immaterial instances of noncompliance with federal requirements (Part X)

This letter does not affect our report dated April 9, 2015 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 9, 2015

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL
Carrizo Springs, Texas

REPORT ON THE CONDUCT OF AUDIT

For The Year Ended August 31, 2014

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

As stated in our engagement letter dated January 14, 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 matters.

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. We noted no transactions entered into by the governmental unit 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.

Management's estimate of the depreciation expense is based on estimated useful lives of assets in service. 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 to grant receivables and revenue by \$97,296,
- Increase to liabilities in the MRGDC Foundation by \$18,448, and
- Increase to revenues and receivables in the MRGDC Foundation by \$93,148.

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 9, 2015.

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.

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

Monitoring of Outstanding Grant Receivables/Payables

The Council's general ledger reflects net outstanding grant receivables of \$12,000 for several non-workforce program grants that ended in prior years.

We recommend the Council determine the collectibility of these net receivables. Any uncollectible receivable accounts should be absorbed by the general fund.

Journal Entry Approval

Fiscal Policy No 10.05.5 requires journal vouchers be prepared, reviewed and approved prior to posting correcting entries to the Council's general ledger. Our review of five (5) journal entries indicated that in two (2) instances, journal vouchers did not contain a Supervisor' approval, in accordance with the Council's policy.

We recommend journal entries be completed along with notes documenting the purpose and be signed by both the preparer and the reviewer.

One-Time Pay Compensation

One-time compensation payments totaling \$237,500 were paid across the board to staff in December 2013. We understand that the Workforce Solutions Middle Rio Grande management approved such payments and that such payments were also approved by the Executive Committee of the Council. However, no specific approval was obtained from the Board of Directors.

We recommend that any future one-time compensation be specifically budgeted and approved by the Board of Directors before such compensation is paid.

X. Immaterial Instance of Noncompliance with Federal Requirements

Semi-annual certifications

Office of Management and Budget (OMB) Circular A-87 requires that the Council have controls in place to ensure that semi-annual certifications be prepared and signed by the employee or supervisory official having first-hand knowledge of the work performed for employees who work solely on a single federal award or cost objective. Where employees work on multiple activities or cost objectives, the distribution of their salaries or wages should be supported by personnel activity reports or equivalent documentation. Our testing of payroll charges to the Area Agency on Aging (AAA) program detected five (5) instances where semi-annual certifications were not prepared for employees working solely on the federal program. The semi-annual certifications were subsequently provided during audit fieldwork.

We recommend the required employee certifications be obtained semi-annually as required to comply with the OMB Circular A-87 federal requirements.

Payroll supporting documentation

OMB Circular A-87 states ‘where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports’. In addition, the personnel activity reports must meet the following standards: (a) they must reflect an *after the fact* distribution of the actual activity of each employee, (b) must account for the total activity for which the employee is compensated, (c) must be prepared at least monthly and must coincide with one or more pay periods and (d) must be signed by the employee. Our testing of payroll expenditures charged to the Oil and Gas Initiative federal program indicated salaries of \$4,655 for one (1) employee were not supported by personnel activity reports.

We recommend that personnel activity reports be prepared for employees who work on multiple cost objectives to ensure compliance with OMB Circular A-87.