

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

August 31, 2006

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the basic financial statements of the Middle Rio Grande Development Council (the Council) for the year ended August 31, 2006 and have issued our report thereon dated March 2, 2007. Under generally accepted auditing standards, we are providing you with the information related to the conduct of our audit in Parts I through VIII.

Also, we have included in this report for your consideration other comments and recommendations which are presented in Part IX.

This information 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 Council during the course of our audit.

*Garza / Gonzalez
& Associates*

March 2, 2007

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL
Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

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I. The Auditors' Responsibility Under Generally Accepted Auditing Standards

We were engaged to audit the basic financial statements of the Council and express an opinion on the fair presentation of those financial statements. Our audit covered all funds established by the Council.

The management of the Council has certain responsibilities with respect to the audit of the Council's basic financial statements. Management is responsible for the representations made in the financial statements and for the financial statements themselves. Our responsibility is to express an opinion on the basic financial statements. In order to fulfill our responsibility, we performed the following:

- We assessed the risk that the financial statements could contain a material misstatement.
- We designed and conducted our audit to provide reasonable, but not absolute, assurance of detecting material misstatements.
- We performed procedures on the internal control structure to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach.

We also performed an audit, under provisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State of Texas Single Audit Circular", of the federal and state financial assistance programs that the Council administered during the year. Accordingly, we had the additional responsibility of issuing reports on:

- Compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular.
- The supplementary schedule of expenditures of federal and state awards.

We are also responsible for making sure that the Board of Directors is informed of any illegal acts that came to our attention during the audit.

II. Significant Accounting Policies

The significant accounting policies used by Middle Rio Grande Development Council are described in Note 1 to the basic financial statements. We noted no transactions entered into by the Council during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

III. Management Judgments and Accounting Estimates

The financial statements prepared by management contain various accounting estimates that are based on management's current judgments. Some of these accounting estimates are significant to the financial statements and, because of the possibility that future events may affect them; their ultimate resolution can differ markedly from management's current judgments. Accordingly, we evaluated the reasonableness of these estimates by, among other procedures, obtaining an understanding of how the estimates were developed, considering the Council's historical experience with making accurate estimates, and reviewing subsequent events or transactions. Based on evaluations made, we believe accounting estimates made by management are reasonable in relation to the financial statements, taken as a whole.

IV. Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Significant audit adjustments were required to the following accounts in order to fairly state the account balances:

- Adjustments to deferred revenues, grants receivable and grants payable.
- Adjustments to reflect the change in capital asset threshold resulting in a decrease to capital assets of \$1,925,000, a decrease in accumulated depreciation of \$1,008,000 and reduction on capital assets of \$917,000.
- Adjustments to recognize fee for service revenues earned in the amount of \$146,211.

In addition, we noted an immaterial misstatement of \$11,746 in payroll liabilities that has not been recorded in the general ledger. We concur with management's assessment that the unadjusted difference is immaterial.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. No such disagreements arose during the course of our audit.

VI. Consultation with Other Accountants

To the best of our knowledge management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year.

VII. Major Issues Discussed with Management Prior to Appointment

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

VIII. Difficulties Encountered in Performing the Audit

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

IX. Other Comments and Recommendations

Vacation Leave Policy

The Council's fiscal policy over vacation leave allows employees to carryover to the next year unused vacation up to 240 hours, depending on experience, from one calendar year to another. However, the policy does not indicate a limit in the total number of hours accumulated that are payable to employees upon termination. Its management's current practice to pay the total number of hours accumulated at the time of leave.

We recommend the Council amend its fiscal policy over vacation leave payable to indicate the total number of hours payable to employees upon termination.

Payroll Liabilities

We noted the TWC unemployment liability account is understated on the general ledger by approximately \$8,000.

We recommend that the liability accounts be reviewed and reconciled monthly to ensure that balances are properly stated. The review should include comparing the liability balances to the payments made in the subsequent month. Any significant differences should be resolved.

CCPS Expenditures

Our review of expenditure reports submitted by the Council to TWC for the Child Care Development Block Grant Funds, noted differences between expenditures reported through the BAPA system and expenditures recorded on the general ledger for the months of October 2005, February 2006 and June 2006. As of August 31, 2006 the BAPA expenditures exceeded the general ledger by a net difference of \$37,165.

We recommend expenditure reports be reconciled to the general ledger on a monthly basis. Differences between expenditures reported through the BAPA system and the general ledger should be investigated and adjusted.

Due to Funding Sources

Certain funds report balances that are due to funding sources, such as \$20,000 corresponding to the Elderly Nutrition grants. This liability has not been paid the Council.

We recommend the Council follow up on all outstanding liabilities. Amounts due back to funding sources should be timely refunded or adjusted if management believes the liabilities reported are incorrect.