

**Garza/Gonzalez & Associates**

CERTIFIED PUBLIC ACCOUNTANTS

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**MIDDLE RIO GRANDE DEVELOPMENT COUNCIL**  
Carrizo Springs, Texas

**REPORT ON CONDUCT OF AUDIT**

August 31, 2007

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2007 and have issued our report thereon dated March 14, 2008. 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.



March 14, 2008

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL  
Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

August 31, 2007

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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 recognize fee for service revenues earned.

In addition, a summarized schedule of uncorrected misstatements of the financial statements has been provided to management. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We are in agreement that the amounts are immaterial to the financial statements.

### **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**

Payroll Liabilities

Our testing of the payroll liabilities indicated liabilities are overstated on the general ledger by \$19,700. Of this amount, \$10,882 is attributed to health insurance premium over charges and \$7,200 is attributed to workers compensation. The workers compensation rates are adjusted by Staff on an annual basis, however, previous over charges are not considered when adjusting the rates.

We recommend the Council reconcile the payroll liability accounts on a regular basis to ensure the balances are properly stated. The review should include comparing the liability balances to the payments made in the subsequent month. Also, any existing overstatements should be considered in determining the new rates.

Accounts Payable

We noted that three (3) of fifteen (15) invoices totaling \$180,620 selected for testing were not properly recorded in accounts payable at August 31, 2007. Two of those (15) invoices were sent directly by the vendor to a Department Director instead of the Accounting Department. This apparently caused the two invoices to be omitted from accounts payable at August 31, 2007.

We recommend the Council implement procedures to ensure all vendor invoices be required to be remitted to the Accounting Department. Department Directors and vendors should be reminded to promptly forward to the accounting department any vendor invoices.

911 Inter-local Agreements

The 911 Commission contract guidelines require the Council to establish inter-local agreements with each of its Public Safety Answering Points (PSAP's) to outline the responsibilities of implementation of the 911 service and the use of compliance of its funds with applicable laws. We requested for review each of the inter-local agreements between the Council and the PSAP's. Management was unable to locate the existing agreements for our review.

We recommend the Council keeps inter-local agreements with each of its PSAP's in accordance with the 911 Commission contract guidelines.