

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL

Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

August 31, 2010

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, 2010 and have issued our report thereon dated April 21, 2011. Under generally accepted auditing standards, we are providing you with the information related to the conduct of our audit in Parts I through 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.

During our audit, we noted certain matters involving internal control and compliance with applicable laws, policies and regulations that are presented for your consideration. This letter does not affect our report dated April 21, 2011 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/or compliance and are summarized in Part X.

A handwritten signature in cursive script that reads "Garza / Gonzalez & Associates". The signature is written in black ink and is positioned above the date.

April 21, 2011

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL
Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

August 31, 2010

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I. Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 5, 2010, 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.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated October 5, 2010.

III. Qualitative Aspects of Accounting Principles

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. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 (were): depreciation and grants receivable.

Management's estimate of the depreciation expense is based on estimated useful lives of assets in service and the estimate of contracts receivable is based on the subsequent year receipts. 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.

IV. Difficulties Encountered in Performing the Audit

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

V. Audit Adjustments

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 proposed, and management adopted, two (2) adjustments as follows:

- 1) Aging program reclassifications of \$282,000 from Deferred Revenue to Due to Funding Source for funds remaining after end of grant period.
- 2) Various reclassifications between State and Federal Revenues and State Grant Receivable and Federal Grant Receivables.

We also assisted the Council in the preparation of entries to convert financial statements to entity-wide financial statements.

VI. 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.

VII. Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 21, 2011.

VIII. 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.

IX. Major Issues Discussed with Management Prior to Retention

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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

X. Other Comments and Recommendations

Child Care Program Eligibility

During the review of (25) twenty- five child care participant files selected for testing, we noted the following:

- one (1) file did not have the required parent letter that the child care services would be terminated. Also, the application and Eligibility Certification for Services, Form 2050, was not signed by staff.
- one (1) file did not have the correct parent fee calculated.

We recommend eligibility is properly updated in the system and documentation is properly completed and signed.

Timesheets

Two (2) instances were noted where the employees' hours per timesheets were less than the 80 hours the employee was compensated for. In both instances, it was determined that the employees were correctly compensated. However, the timesheets on file were not the final version of the timesheets.

We recommend that staff thoroughly review the timesheets prior to processing payroll to ensure they are complete and accurately represent hours worked during the pay period prior to processing payroll transactions.

Procurement

Our review of (5) five procurement files selected for testing detected the following:

- The Council utilized a procurement method for the purchase of Child Care supplies/equipment that was not listed in accordance with the acceptable methods as per the Council's Fiscal Policy # 10.04. However, the method utilized was an acceptable method in accordance with the Texas Workforce Commission's financial grant administration manual;
- Three (3) awarded vendors for Child Care equipment/supplies that were tested were not specifically listed by name on the official Board meeting minutes;
- Two (2) vendors selected within the 911 Program were not approved/ratified by the Council's Board.

We recommend the following:

- The Council should update its policies to reflect current procurement methods utilized;
- List vendor names who are awarded contracts in future Board meeting agendas and minutes;
- Ensure awarded vendors selected during the procurement process are presented to the Board for approval consideration.

Semi-Annual Certifications

OMB Circular A-87, states “where employees are expected to work solely on a single Federal award... their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.” Our testing of timesheets over the Area Agency on Aging (AAA) program indicated the Council did not obtain the required semi-annual certifications in accordance with the guidance prescribed as per OMB Circular A-87.

We recommend the required certifications be obtained at least semi-annually in order to comply with the requirements as per OMB Circular A-87.

Interest Bearing Accounts

The Public Safety Interoperable Communication (PSIC) grant guidelines requires that funds received by grantees must be deposited in an interest bearing account. Our review indicated that funds received by the Council related to the PSIC program were not deposited into an interest bearing account during the year, as required.

We recommend the Council adhere to PSIC program guidelines and deposit funds received from the PSIC program into an interest-bearing account.