

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL

Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

August 31, 2009

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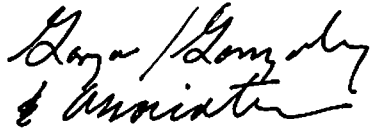
Board of Directors
Middle Rio Grande Development Council
Carrizo Springs, Texas

We have audited the basic financial statements of the Middle Rio Grande Development Council (the Council) for the year ended August 31, 2009 and have issued our report thereon dated March 22, 2010. 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 that are presented for your consideration. This letter does not affect our report dated March 22, 2010 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 are summarized in Part X.



March 22, 2010

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL
Carrizo Springs, Texas

REPORT ON CONDUCT OF AUDIT

August 31, 2009

TABLE OF CONTENTS

	PAGE
I. Our Responsibility Under U.S. General Accepted Auditing Standards.....	1
II. Planned Scope and Timing of the Audit.....	1
III. Qualitative Aspects of Accounting Principles	1
IV. Difficulties Encountered in Performing the Audit.....	1
V. Audit Adjustments.....	2
VI. Disagreements with Management	2
VII. Management Representations.....	2
VIII. Management Consultations with Other Independent Accountants.....	2
IX. Major Issues Discussed with Management Prior to Reappointment.....	2
X. Other Comments and Recommendations.....	3

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

As stated in our engagement letter dated August 12, 2009, 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 August 12, 2009.

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, three (3) adjustments as follows:

- 1) To decrease health insurance liability by \$27,845;
- 2) To decrease compensated absences liability by \$54,246; and
- 3) To increase the pension liability by \$49,856.

We also assisted the Council with adjustments to match revenues to expenditures and to reflect grant receivables, payables and deferred revenue in accordance with accounting principles.

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 March 22, 2010.

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 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 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 reappointment.

X. Other Comments and Recommendations

Account Coding

Our testing of 10 (ten) payroll disbursements paid from the Workforce Investment Act programs indicated one transaction was coded to the wrong program totaling \$5,410. Management coded the transaction to the proper fund subsequent to our review.

We recommend the Council strengthen their review procedures over disbursements to ensure transactions are properly coded to the right fund, account and program activity.

Bank Reconciliations

Our testing indicated one outstanding check totaling \$ 54,399 was incorrectly posted on the August bank reconciliation for the consolidated account. Adjustments were required to the general ledger to fairly state the account balance.

We recommend the Council continue to provide training and supervision to staff preparing the bank reconciliations to ensure they are properly prepared.