

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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## **MIDDLE RIO GRANDE DEVELOPMENT COUNCIL**

Carrizo Springs, Texas

### **REPORT ON THE CONDUCT OF AUDIT**

For The Year Ended August 31, 2013

# 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, 2013 and have issued our report thereon dated May 15, 2014. 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 instance of noncompliance with federal requirements (Part X)

This letter does not affect our report dated May 15, 2014 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.



May 15, 2014

MIDDLE RIO GRANDE DEVELOPMENT COUNCIL  
Carrizo Springs, Texas

REPORT ON THE CONDUCT OF AUDIT

For The Year Ended August 31, 2013

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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 November 8, 2013, 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. During the year, the Council adopted Governmental Accounting Standards Board (GASB) Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. With the adoption of GASB Statement No. 63, the net asset reporting requirements are amended in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. 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 an adjusting entry which had the effect of increasing expenditures and accounts payable in the HomeLand Security Program of \$96,976.

We also assisted the Council in the preparation of entries to convert the Council’s financial statements from the modified accrual basis of accounting to full-accrual in accordance with GASB Statement Number 34.

In addition, immaterial misstatements affecting payroll liabilities totaling \$31,745 remain uncorrected at August 31, 2013. Management intends to investigate the differences to determine the proper accounting treatment.

**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 May 15, 2014.

**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 outstanding grant receivables and payable balances for several non-workforce program grants that have ended. The following receivables/payable balances have been outstanding for over a year:

| Grant                                       | Grant Period      | Contract Number    | Receivables (Payable) Amount |
|---------------------------------------------|-------------------|--------------------|------------------------------|
| Economic Development                        | 1/01/03-12/31/03  | 08-83-03811        | \$ 236                       |
| Economic Development                        | 1/01/08-12/31/10  | 08-83-04252        | 1,453                        |
| Community & Economic Development Assistance | 9/01/04 - 8/31/05 | C74216             | 1,096                        |
| Community & Economic Development Assistance | 9/01/05 - 8/31/06 | C75216             | 3,273                        |
| Technology Improvement Program              | 6/01/04-3/31/09   | 2004-LT-BX-K003    | 36                           |
| CJD Planning Grant                          | 9/01/07-8/31/08   | 2063701            | 5                            |
| CJD Planning Grant                          | 9/01/07-8/31/08   | SF-08-I97-14508-09 | 501                          |
| TCEQ Planning Grant                         | 9/01/03-8/31/05   | 582-2-65536        | 88                           |
| TCEQ Planning Grant                         | 9/01/05-8/31/07   | 582-6-78039        | 462                          |
| 911 Planning Grant                          | 9/01/07-8/31/09   | 911 PY 2007        | 1,823                        |
| 911 Planning Grant                          | 9/01/06-8/31/07   | 911 PY 2006        | (104)                        |
| 911 Planning Grant                          | 9/01/08-8/31/09   | 911 PY 2008        | (10)                         |
| 911 Planning Grant                          | 9/01/09-8/31/10   | 911 PY 2009        | (160)                        |
| 911 Planning Grant                          | 9/01/11-8/31/12   | 911 PY 2011        | (513)                        |
| Community & Economic Development Assistance | 9/01/08 - 8/31/09 | C78216             | (14)                         |
| CJD Planning Grant                          | 9/01/08-8/31/09   | 300-9-006          | (172)                        |
| CJD Planning Grant                          | 9/01/08-8/31/09   | 2063702            | (216)                        |
| Total                                       |                   |                    | <u>\$ 7,784</u>              |

We recommend the Council fully resolve all outstanding grant receivables/payable balances.

## **Payroll Liabilities**

Payroll related liabilities appear to be overstated by \$31,745, as of August 31, 2013.

We recommend the Council review the payroll liability accounts on a monthly basis. The review should include comparing the liability balances to the payments made in the subsequent month and any differences should be timely investigated and resolved.

## **MRGDC Foundation Revenues**

Our review of the controls in place over the Foundation revenues detected the following deficiencies:

- Fundraising contributions, which are received through *PayPal*, are deposited to the Council's consolidated checking account, instead of the Foundation's checking account; and
- Receipts are not consistently issued for Foundation fundraising events, such as the Golf Tournament and the Eagle Ford Shale Consortium.

We recommend that all Foundation receipts be directly deposited in the Foundation's checking account. A contribution receipt should be issued for each cash receipt received by the Foundation.

## **Procurement**

The Council's established procurement policies require three (3) price quotations be secured for purchase of goods or services between \$25,000–\$100,000. Our testing of vendor disbursements detected one (1) instance in which the Council did not obtain the required price quotations for the purchase of gas cards, which are distributed to eligible workforce program participants. The vendor was paid \$83,638 during the fiscal year.

We recommend the Council strengthen controls over procurement and adhere to establish policies to ensure compliance.

## **X. Immaterial Instance of Noncompliance with Federal Requirements**

### **Suspension and Debarment**

Federal regulations require the Council to verify that vendors receiving procurement contracts, for covered transactions equal to or exceeding \$25,000, have not been suspended or debarred.

Verification if an entity is suspended or debarred may be accomplished by checking the System for Award Management (SAM) website maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Our testing indicated one (1) instance where the Council did not verify if the vendors were suspended or debarred prior to awarding of the contract. Our subsequent verification of the SAM website indicated the vendors were not suspended or debarred.

We recommend the Council obtain certifications of suspension and debarment or Management perform a review of the SAM website for all vendors participating in federal contracts equal to or exceeding \$25,000 before awarding any contracts in order to comply with federal requirements.