

**Garza/Gonzalez & Associates**

CERTIFIED PUBLIC ACCOUNTANTS

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**WEBB COUNTY, TEXAS**  
**REPORT ON CONDUCT OF AUDIT**  
Year Ended September 30, 2013

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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Honorable Webb County Judge and Commissioners  
Webb County, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webb County, Texas (the "County"), as of and for the year ended September 30, 2013, and have issued our report thereon dated March 27, 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, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated September 6, 2013. Professional standards also require that we communicate to you the following information related to our audit.

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we have noted certain other matters which are opportunities for improving internal control, operating effectiveness or efficiency and accordingly have included these other comments and recommendations in this report.

This information is intended solely for the use of the Commissioners Court and management and should not be used for any other purpose.

This letter does not affect our report dated March 27, 2014, on the financial statements of the County.

We would like to acknowledge the courtesy and assistance extended by the personnel of the County, during the course of our audit.

*Lanza / Gonyaly*  
*& Associates*

March 27, 2014

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REPORT ON CONDUCT OF AUDIT  
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**I. Auditors' Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133 and State of Texas Single Audit Circular**

As stated in our engagement letter dated September 6, 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 responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County'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 County'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 County'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 County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

**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 September 6, 2013.

### III. Qualitative Aspects of Accounting Practices

#### *Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note I. to the financial statements. We noted no transactions entered into by the County 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.

As described in Note J to the financial statements, the County adopted Statement of Governmental Accounting Standards (GASB Statement) No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65 *Items Previously Reported as Assets and Liabilities*. Accordingly, certain terminology related to net assets/position changed and bond issuance costs are no longer recognized as assets on the government-wide financial statements. This resulted in a prior period restatement to net position which is described in the footnotes to the financial statements.

The County also adopted GASB No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* which resulted in the re-evaluation of potential component units and the inclusion of the Webb County Housing Finance Corporation.

#### *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 following represents the most sensitive estimate's affecting the financial statements:

- Court fines and fees receivable based on historical data of amounts assessed and collected and related allowance for uncollectible accounts based on the current year collections.
- Property tax revenues allowance for doubtful accounts based on the average Historical data.
- Claims payable for the Employee Health Benefits fund is based on claims history and contractual terms and conditions.
- Workers Compensation claims payable are based on actuarial study results.
- Depreciation expense based on a straight-line basis on the useful lives of the asset.
- Recognition of the Annual Required Contribution for Other Post Employment Benefit (OPEB) and the resulting liability based on actuarial methods and assumptions including rates of employee turnover, retirement, mortality and economic assumptions regarding healthcare trends and interest rates.

We evaluated the key factors and assumptions used by management to develop the accounting estimates and determined they are reasonable in relation to the financial statements taken as a whole.

*Financial Statement Disclosures*

The financial statement disclosures are neutral, consistent, and clear.

**IV. Difficulties Encountered in Performing the Audit**

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

**V. 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. Minor reclassifications were proposed during the audit, but no significant misstatements were identified.

We noted no uncorrected misstatements which management determined to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**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 27, 2014.

### **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. Other Issues**

#### *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 each year prior to appointment or 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 appointment.

#### *Supplementary Information*

With respect to the non-major governmental fund combining financial statements and schedule of expenditures of federal and state awards, as listed in the County Comprehensive Annual Financial Report's table of contents; and, 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 audited 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*

Our responsibility for other information in documents containing the County's financial statements and our report thereon does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents.



## **X. Other Comments and Recommendations**

### **Commissioners' Court Approval of Salaries**

Per Attorney General's Opinion JM-192, "salaries paid to county employees require approval by the commissioners court before warrants may be issued but do not require prior approval by the county auditor, although his co-signature is required." We understand that salaries paid by Webb County are currently not approved by Commissioner's Court in accordance with the above requirement due to conflicts between the timing when payroll is issued and the scheduling of the Commissioners' court meetings.

We recommend that the County comply with the above requirement. We recommend that the Webb County consider consulting with legal counsel and other Texas counties to determine the best way to meet this requirement.

### **Prior Year Comments Not Implemented**

#### **Enterprise and Internal Service Funds Operating Deficits**

GAAP mandates the use of enterprise funds when legal requirements or management policy requires that the full cost of providing services (including capital costs) be recovered through fees and charges. Internal Service funds on the other hand function as cost reimbursement devices. Each user fund is required to reimburse its share of operating expenses.

We noted that the County's two enterprise funds and internal service funds are not self-sustaining. The combined unrestricted net asset deficit for the two enterprise funds as of September 30, 2013 is (\$4,539,531). This deficit in unrestricted net assets has resulted in spite of the General Fund's annual transfers to cover debt payments.

The Employee Health Benefits and the Employee Retiree OPEB Fund internal service funds were subsidized in the current year with \$1,192,284 of transfers from other funds, primarily the Worker's Compensation Reserve internal service fund. In addition, since transfers are made to the fund instead of user charges, the funds that pay for the services are not recognizing expenditure in the function line item that should be paying for the service.

We recommend that the County reevaluate its policies regarding the operations of each of the enterprise and internal service funds. If the intent is for each of these operations not to be self-sustaining, then management should consider accounting for these operations in the General Fund. On the other hand, if management intends for the operations to be fully or partially self-sustaining, a plan should be developed to eliminate the deficits. For Internal Service funds user charges should be established and budgeted. Change the fees and charges structure as necessary to recover costs at least over a five year period.

#### **Fraud Policy and Hotline**

Although State law and County personnel policies prohibit fraud, the County does not have a formal fraud policy in place to establish the government's plans to deter prevent and detect the occurrence of fraud.

We recommend the County establish and adopt a formal fraud policy. In addition, the County should consider establishing a hotline resource, or similar instrument that allows individuals to anonymously report potential fraudulent activity at the County. Best practices for fraud prevention and detection recommend that organizations permit the confidential, anonymous reporting of concerns about fraud or abuse to the appropriate responsible parties. Many governments have established this mechanism through a hotline that employees, and sometimes the public, can use to make allegations of fraud, waste, and abuse. Some other local jurisdictions have phone and internet-based fraud or whistle blower hotlines.

### **Court Fines Collections**

As of the end of the year, the County has approximately 22 million dollars of uncollected court fines and fees. The County currently does not participate in existing third party automated systems which enhance the collection of unpaid fees. For example the Texas Department of Public Safety OMNI system will not allow the renewal of a driver's license if there are unpaid traffic violations. Court fines receivable are comprised of the following:

Department	Fines Receivable
Justice of the Peace Pcnt.1 Place 1 - Hector Liendo	\$ 882,934
Justice of the Peace Pcnt.1 Place 2 - Oscar Liendo	761,526
Justice of the Peace Pcnt.2 Place 1 - Ramiro Veliz, Jr.	5,695,087
Justice of the Peace Pcnt.2 Place 2 - Ricardo Rangel	1,798,331
Justice of the Peace Pcnt.3 - Alfredo Garcia	878,138
Justice of the Peace Pcnt.4 - Oscar O. Martinez	8,782,899
District Clerk - Esther Degollado	1,515,892
County Clerk - Margie Ramirez Ibarra	1,750,560
	\$ 22,065,367

We recommend that the County consider utilizing collection systems such as the TDPS OMNI and/or other similar collection systems.

### **Internal Audit Plan**

The County auditor's internal audit division performs various auditing functions required by State law and functions in many cases as a consultant to the other County departments. One of the key best practices in internal auditing is the implementation of a formal annual audit plan including risk assessment. The objective of the process of risk assessment is to identify and prioritize potential audit areas which pose the greatest risk and liability to the County. This process provided a tool to assign available audit personnel for the purpose of reducing the risk and liability exposure.

We recommend that the County considers the development and implementation of a formal audit plan which includes risk assessment.

### **Unbilled Services**

We noted that the County provides emergency medical services (EMS), Fire protection, and garbage collection services free of charge to residents and businesses located in County areas where such services are not provided by the City of Laredo or other municipalities. Governmental entities normally charge individuals and businesses service recipients for these types of services. Expenditures incurred related to providing such services totaled \$1,801,550 and \$1,985,601, for 2012 and 2013 respectively.

We understand that a committee was established in 2009 to determine the possibility of establishing fees for garbage collection services rendered; however, as of the present, rates have not been established and services continue to be provided at no charge.

We recommend that the County consider billing for services provided to individuals and/or businesses that receive services. This will establish a more equitable basis for financing the services provided by the County among its citizens.

### **Capital Asset Inventory**

The County's purchasing department performed a capital assets inventory in the current year. The Capital asset inventory was not reconciled to the capital assets recorded and the general ledger. This reconciliation is necessary to ensure that capital assets reported in the financial statements are in existence and in the custody of the County.

We recommend that the physical inventory be reconciled to the County's follow the Government Finance Officers Association best practices for capital assets which states that not less than once every five years the central accounting function should ensure that procedures are performed to verify the reliability and completeness of the data on file in each department concerning capital assets.