

Item #
53

WEBB COUNTY, TEXAS
COMMENTS, RECOMMENDATIONS
AND MANAGEMENT RESPONSES
FOR THE YEAR ENDED
SEPTEMBER 30, 2016

MARGIE R. IBARRA
COUNTY CLERK
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WEBB COUNTY, TEXAS
BY VMR DEPUTY



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

March 30, 2017

To the Honorable County Judge
and County Commissioners
Webb County, Texas

We have audited the financial statements of Webb County, Texas (the "County"), for the year ended September 30, 2016 and have issued our report thereon dated March 30, 2017. As part of our examination, we made a study and evaluation of the County's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and we do not express such an opinion.

However, during our audit we became aware of several matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated March 30, 2017, on the financial statements of the County. Additionally, this letter does not include reportable conditions reported as part of the annual financial report in accordance with *Government Auditing Standards*.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yours truly,

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WEBB COUNTY, TEXAS
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

OVERALL INTERNAL ACCOUNTING CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

We believe that the existing policies and procedures employed by the County are adequate to safeguard the County's assets and insure general compliance with policies and procedures as approved by the County Commission. However, we found during our testing of transactions, compliance and procedures the following:

CURRENT YEAR COMMENTS
(See attached management responses)

Payroll Testing

Comment:

During our payroll testing, several I-9 Forms were not available in the respective employee personnel files. Federal requirements require that all employees hired after 1986 must complete an employment eligibility verification form (Form I-9).

Recommendation:

We recommend the County review all employee files to ensure all documentation is on file. Federal requirements require that all employees hired after 1986 must complete an employment eligibility verification form (Form I-9).

Internal Controls

Comment:

During our review of internal controls we found a deficiency in the segregation of duties regarding payroll processing. The Payroll Department is authorized to add and edit employees to the system.

Recommendation:

We recommend that the County should not authorize the Payroll Department to add new employees to the system. The Payroll Department should be allowed to process payment; however the County should consider transferring the responsibility of adding and editing employees to the Human Resources Department.

PRIOR YEAR COMMENTS (See attached management responses)

Timekeeping

Comment:

In September 2013, the Webb County commissioners amended the personnel policies and procedures manual in accordance with Section 157.021(b) of the Texas Local Government Code, to require that all Webb County hourly employees be required to electronically register their work attendance on a daily basis, utilizing biometric and/or any other approved electronic method. In December 2013, Webb County Commissioners approved the purchase of Time Clock Plus, a biometric timekeeping system. With Biometric verification the common problem of employees clocking in for each other is eliminated. We understand that, as of the date of this report, the following departments have refused to implement the County-wide timekeeping system: Constable Precincts: 1, 3 and 4; County Court at Law #2; District Attorney's Offices; Fire Suppression & EMS Services; Justices of Peace Pct. 1 Place 1, Pct. 1 Place 2 and Pct. 3; Santa Teresita Community Center; and Tax Office. Except for the District Attorney, none of the other departments are using biometric timekeeping systems.

Recommendation:

We recommend that the County require that all departments fully implement the County-wide timekeeping system. County wide utilization and integration will result in improvements to the control and efficiency of payroll processing, reduction in errors in time reported, and prevention of timekeeping fraud.

Current Year Status:

Improvement noted. However, during our payroll testing we found the following departments did not provide timesheets: District Attorney's Offices, Justice of Peace Pct. 1 Place 1, Pct. 1 Place 2, and the Tax Office. See attached management's responses.

Capital Project Accounting

Comment:

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. We noted that the County has several funds that have been established to fund various capital projects. These projects are funded with left over capital funds and monthly transfers from the general fund. Transfers made are based on payroll positions not filled. We observed in some instances non-capital project expenditures are incurred with commissioner's Court approval. Such noncapital expenses are reclassified as general fund expenditures at the end of the fiscal year.

Recommendation:

We recommend that the purpose of these funds be reevaluated, since such funds appear to be functioning more as "contingency funds" in that most of the dollars are spent on non-capital expenditures. We recommend that the county consider creating a nondepartmental contingency line item in its budget to be used for contingencies. Capital projects funds should only be used to account for capital projects and not for contingencies.

Current Year Status:

Item corrected.

Budget process

Comment:

In November 24, 2014 the County commissioner's elected the alternate method of county budget preparation, as authorized under state law, the County established the office of the budget officer effective for fiscal year beginning October 1, 2015. For 2015 (and prior years) the county auditor prepared the budget.

Recommendation:

Based on our review of the budget process currently utilized and discussions with the budget officers and other county officials regarding changes in the budget process, we offer the following recommendations:

- The County should consider developing written budget policies and procedures outlining the specific tasks in developing, recording, and amending the budget. The procedures should outline the specific department responsible for performing each task. We have provided to the County various documents to assist in the development of such polices and procedures.
- The County should consider adopting existing best practices and obtaining input from other counties that have a budget office. Specifically, we recommend that in the future the budget be prepared at the major expense category and not at the line item level as it is currently done. This will reduce the number of changes to the budget and reduce the administrative burden.
- Line-item budget transfers approved by the court are documented in the commissioner's court minutes of meetings. However, for budget amendments, the minutes document the intent, but in some instances, do not fully provide all details of accounts and amounts affected as done for the line item transfers. To improve the documentation of budget amendments, we recommend that the new budget officers consider utilizing a budget amendment form to document the specific funds/accounts to be increased/decreased, along with preparation and/or approval signatures. Such forms should be numbered for reference proposes in the official commissioner's court minutes.

Current Year Status:

Status unchanged.

Self-Insurance Internal Service Funds

Comment:

The County has three self-insurance internal service funds: The employee health benefits, the worker's compensation reserve funds, and the employee retiree OPEB fund. These funds are required to utilize full accrual accounting and bill the user department/funds for costs incurred. As noted in prior year and in the current year, these funds have reported operating losses and have required transfers from the general fund in subsequent years to offset the losses.

Recommendation:

We recommend the County develop and implement billing policies and procedures to periodically and systematically adjust rates so that financing of the self-insurance operations is done through the year instead of having to make transfers after year-end. In addition the County should consider establishing reserve funds to fund catastrophic losses.

Current Year Status:

Status unchanged.

Interfund Balances

Comment:

Governmental accounting standards indicate that interfund loans be reported as interfund receivables in lender funds and interfund payables in borrower funds. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

Recommendation:

We recommend the County continue with its plan to continue reducing the deficits and refunding inter-fund balances.

Current Year Status:

Status unchanged.

Capital Asset Inventory Reconciliation

Comment:

Capital assets recorded in the accounting records should be reconciled to physical inventory of assets to ensure that assets recorded are in existence and in the custody of the County. This process involved not only performing the physical inventory but also performing a comparison of the assets recorded to the items in existence. The County's purchasing department has performed capital assets inventories; however, the capital assets inventory has not been completely reconciled to the capital assets recorded in 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.

Recommendation:

We recommend that the County continue in its effort to conduct a physical inventory and reconcile to the County's capital asset subsidiary records by September 30, 2016.

Current Year Status:

Status unchanged.

Unbilled Services

Comment:

We noted that the County provides emergency medical services (EMS), Fire protection, and garbage collection services are not provided by the City of Laredo or other municipalities. Governmental entities normally charge individuals and business service recipients for these types of services. Expenditures incurred related to providing such services totaled \$2,010,517 and \$2,508,414 for 2014 and 2015 respectively.

We understand that the County has recently began to work on proposed garbage collection service rates; however, as of the present, rates have not been established and services continue to be provided at no charge.

Recommendation:

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.

Current Year Status:

Status unchanged.

Court Fines Collections

Comment:

As of the end of the year, the County has approximately \$24 million 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. License plate readers are another viable option to increase fine collections. Court fines receivable are comprised of the following.

FY 2015	Department	Gross Court Fines	Allowance for Uncollectibles	Fines Receivable
	Justice of the Peace Pcnt. 1 Place 1 Hector Liendo	\$ 985,656	\$ 668,669	\$ 316,987
	Justice of the Peace Pcnt. 1 Place 2 Oscar Liendo	680,134	344,488	335,646
	Justice of the Peace Pcnt. 2 Place 1 Ramiro Veliz, Jr.	5,872,068	3,047,016	2,825,052
	Justice of the Peace Pcnt. 2 Place 2 Ricardo Rangel	2,051,947	1,376,856	675,091
	Justice of the Peace Pcnt. 3 - Alfredo Garcia	984,138	407,236	576,902
	Justice of the Peace Pcnt. 4 - Oscar O. Martinez	9,321,832	3,561,872	5,759,960
	District Clerk - Esther Degollado	2,215,985	1,519,501	696,484
	County Clerk - Margie Ramirez Ibarra	1,910,943	1,310,334	600,609
		<u>\$ 24,022,703</u>	<u>\$ 12,235,972</u>	<u>\$ 11,786,731</u>

FY 2016	Department	Gross Court Fines	Allowance for Uncollectibles	Fines Receivable
	Justice of the Peace Pcnt. 1 Place 1 Hector Liendo	\$ 1,057,452	\$ 779,342	\$ 278,110
	Justice of the Peace Pcnt. 1 Place 2 Oscar Liendo	724,458	376,283	348,175
	Justice of the Peace Pcnt. 2 Place 1 Ramiro Veliz, Jr.	5,758,148	3,066,790	2,691,358
	Justice of the Peace Pcnt. 2 Place 2 Ricardo Rangel	2,175,264	1,511,591	663,673
	Justice of the Peace Pcnt. 3 - Alfredo Garcia	993,758	417,776	575,982
	Justice of the Peace Pcnt. 4 - Oscar O. Martinez	8,991,703	3,606,572	5,385,131
	District Clerk - Esther Degollado	2,453,529	1,824,444	629,085
	County Clerk - Margie Ramirez Ibarra	2,104,423	1,564,849	539,574
		<u>\$ 24,258,735</u>	<u>\$ 13,147,647</u>	<u>\$ 11,111,088</u>

Recommendation:

We recommend the County consider utilizing collection systems such as the TDPS OMNI and/or other similar collection systems. We understand that in 2015 the County contracted with a vendor; however, per our inquiries the software has yet to be installed.

Current Year Status:

Status unchanged.

Fraud Policy and Hotline

Comment:

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.

Recommendation:

As in prior years, 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.

Current Year Status:

Status unchanged.

Internal Audit Plan

Comment:

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.

Recommendation:

As in prior years, we recommend the County considers the development and implementation of a formal audit plan which includes risk assessment.

Current Year Status:

Improvement noted.

We appreciate the opportunity to be of service to Webb County, Texas. If you should have any questions or require further information, please do not hesitate to call.

**Report on Conduct of Audit
Webb County's Management Response
Year Ended September 30, 2016**

The following are Webb County's management responses to the Independent Auditors' Letter to Management as part of audit for the fiscal year. The planned or corrective action (responses) mentioned herein is a compilation of management responses.

Overall Internal Accounting Control Responses

Current Year Comments

Payroll Testing

Commissioners' Court recently transferred personnel/payroll functions from the Treasurer's Office to the Human Resources Department including the management and securing of County personnel files. Since obtaining the task of preparing I-9s, Human Resources has diligently complied with federal law and has signed up with the E-Verify system, as mandated by law, to prepare the I-9s electronically.

Internal Controls

On March 20, 2017, Webb County converted from New Worlds System in which the Treasurer's Payroll Department added and edited employees to Tyler Technologies. Tyler Technologies is now training the Human Resources Department to fulfill its duties including adding and editing employees to the system.

Prior Year Comments

Timekeeping

From the four departments which did not provide timesheets for payroll testing, two (2) departments have adopted the County's timekeeping system, Time Clock Plus (TCP), in April 2017:

- Justice of Peace Pct. 1 Place 1 – Adopted TCP as of April 2017
- Justice of Peace Pct. 1 Place 2 – Adopted TCP as of April 2017
- District Attorney's Office – Will implement TCP by October 1st
- Tax Office – Declines to be part of the County's timekeeping system and has its own electronic system

Capital Project Accounting

The Capital Outlay Fund and the Building Improvement Fund will no longer be used. Funds from the General Fund salary savings will now be transferred to the Contingent Reserve Fund. The Contingent Reserve Fund is required to be combined with the General Fund for annual financial reporting requirements promulgated by Governmental Accounting Standard Board Statement No. 54, Fund Balance Reporting and Governmental Type Definitions.

Budget Process

The budget office is currently initiating the budget process for fiscal year 2017-2018. This will be the 3rd county budget that is prepared by the office since the commissioner's court elected this method in 2015 under Subchapter C of the Texas Local Government Code.

Last year, Webb County upgraded their financial operating software, however, only the budget module was launched and fully operational. This fiscal year all modules within the software will be operational, which enables a more accurate accounting of the county's finances.

We are currently finalizing budget policies and procedures for presentation and approval to the court for the upcoming fiscal year.

Self-Insurance Internal Service Funds

The Court adopted a new insurance carrier that promised to reduce claims. The Court adopted to increase employee's health insurance premiums effective July 2017. Transferring in money from other sources like the General Fund may become necessary to avoid deficits in the Internal Service Funds. Past practice of carrying deficits in the Internal Service Funds is not acceptable. Efforts to budget sufficient funds to meet expected expenses will be determined by relying on historical data.

Inter-fund Balances

In 2014, the County committed to liquidate the deficit inter-fund balances within four years. The County has transferred one fourth of the fund deficit and the amount of annual expenses over revenues so that fund deficits will not increase. The County will continue with its plan to eliminate the deficits within the remaining two fiscal years.

Capital Asset Inventory Reconciliation

Significant progress has been made in the reconciliation of the capital asset physical inventory to the capital asset subsidiary as of the 2015 fiscal year examination.

Unbilled Services

Article 3 §52 of the Texas Constitution prohibits gifts of public funds. According, Commissioners' Court implemented a fee for garbage collection services in April 2017. The County will also explore how to bill for Fire/EMS services.

Court Fines Collections

The County's new judicial software, Odyssey, facilitates the implementation of the Texas Department of Public Safety OMNI program which is an effective collection and enforcement tool that restricts offenders' ability to renew their driver license for outstanding offenses. Justices of the Peace will present the program to Commissioners' Court for their approval so the necessary contractual agreements are put in place. Commissioners' Court, at the Tax Assessor-Collector request, approved contractual agreements between the Tax Assessor-Collector, Texas Scofflaw and third party vendor, Scofflaw Inc. to improve the County's Collection Program. The Scofflaw Program, which would permit the Tax Assessor-Collector to reject vehicle registration renewals of customers with outstanding fees or fines or who had failed to appear in a Justice of the Peace court, has not been implemented by the Tax Assessor-Collector.

Fraud Policy and Hotline & Internal Audit Plan

A draft of the Fraud Policy has been completed and will be presented to the Policy Committee. In addition, we will be exploring whether it would be more cost effective to outsource the fraud hotline services rather than an in-house solution.

Improvement was noted in the development and implementation of a formal audit plan which includes risk assessment.