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March 23, 2011

Commissioners Court
County of El Paso, Texas
500 E. San Antonio
El Paso, Texas 79901

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of El Paso, Texas for the year ended September 30, 2010, and have issued our report thereon dated March 23, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 17, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by County of El Paso, Texas are described in Note 1 to the financial statements. As described in Note 1 M, during the fiscal year ended September 30, 2010, the County implemented GASB 54 – Fund Balance Reporting and Governmental Fund Type Definitions. We noted no transactions entered into by County of El Paso, Texas 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 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 estimates affecting the financial statements were:

1. Management's estimate of the depreciation is based on estimated useful lives of the related assets.
2. Management's estimate of the allowance for doubtful accounts for taxes is based on historical collection rates and management's analysis of the collectability of the accounts.
3. Management's estimate for health care open claims is based on the third party administrator's lag report.

4. Management's estimate of the amortization of financing costs, bond premium and discounts is based upon the life of the debt.
5. Management's estimate of the contingent liabilities associated with ongoing litigation is based on legal counsel opinions and past experience.
6. Management's zero (\$0) estimate of the allowance for uncollectible "other" receivables is based on management's opinion that an allowance for doubtful accounts is not necessary for fair presentation.
7. Management's estimate of the arbitrage payable is based upon the calculation provided by bond counsel.
8. Management's estimate for accrued wages is based on each employee's salary for the number of days that have been earned and not yet paid by the County as of September 30, 2010.
9. Management's estimate of the total costs of services yet to be performed for construction projects under noncancellable contracts. These estimates are based upon the related contracts and any applicable change orders.
10. Management's estimate of the other post employment benefits (GASB 45) related liabilities is based upon the actuarial study provided by a third party. Management also estimated the portion of the liability that is considered to be long-term which is based upon the amount that is funded and paid per year.
11. Management's estimate of the accumulated unpaid leave benefits payable is based upon the historical experience rate of vacation and sick leave taken, and the number of days accrued. In addition, the current portion due is based upon a historical average used in a year.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

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. During the audit process, year end adjustments were recorded as deemed necessary by management and are available for review. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 23, 2011.

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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as of County of El Paso, Texas's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the County's internal controls in our report dated March 23, 2011. These comments do not affect our report dated March 23, 2011, on the financial statements of County of El Paso, Texas. As part of our audit, we also review prior year's comments and provide a status based on our testing as well as inquiry of management. Please see the attached schedule for the status of prior year comments as well as the current year comments.

This information is intended solely for the use of the Commissioners' Court and management of the County of El Paso, Texas, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Chris Rudder Patten LLC". The signature is written in a cursive, flowing style.

Prior Year Comments

Bids / Procurement

1. Observation: The County's Internal Auditors conducted a review of formal and informal bids in 2009 and reported numerous exceptions in the Purchasing Department. Our own testwork of procurement controls and procedures, which occurred subsequent to year-end, indicated that there continue to be a number of areas which require attention. The following is a summary of our findings:

- Three of the bid tabulations did not agree with the respective vendor bids.
- Three of the bid files did not include a properly completed Bid Checklist.
- One bid file did not include a copy of the Vendor Award Notification.
- Three bid files did not include documentation of the approval by Commissioners Court. However, we were able to verify approval through the County's website.

Status: Per communication received from the County Auditor's Office, the Internal Audit division would periodically review the Purchasing Department's procedures in order to ensure that proper documentation is maintained to evidence compliance with procurement policies. However, we noted similar instances during the current year audit, see the current year comments.

Grants

2. Observation: While performing walkthroughs of the County's internal controls related to grants, we observed that although management is reviewing payroll transactions for appropriateness and allowability to the grants, these reviews are not being documented.

Status: Per communication received from the County Auditor's Office, the grant supervisor now conducts random reviews of the grant files to ensure that the grant accountants document their reviews and approvals of all payroll transactions to demonstrate that charges to the grants are appropriate and according to grant guidelines. We noted no similar instances during the current year audit.

Current Year Comments

Procurement

1. Observation: In performing our inquiries regarding Federal and State compliance, it was noted that vendors who submit bids are required to sign a suspension and debarment certification. However, since the bid threshold has been increased to \$50,000, there appears to be no procedures in place to ensure that vendors with whom the County expends more than \$25,000, using Federal funds, for goods/services not bid out, are not suspended or debarred. Similarly, for sole source purchases and purchases through cooperatives, the County does retain documentation that the vendor is not suspended or debarred.

Recommendation: The County should implement procedures to document compliance with this requirement for vendors to whom the County expends more than \$25,000, including sole source vendors and vendors selected through cooperatives. The County Auditor's Grants division has informed us that they are planning on working out the details with the Purchasing department to ensure that verification is obtained before the time of purchase.

2. Observation: During our walkthrough we noted that the sealed bid packets received are kept in an unlocked file cabinet, and when they are taken to be opened there is no documentation to indicate they have been checked against the bid log.

Recommendation: We recommend that the bid log be used as a crosscheck to ensure that all bids received are included in the opening of the bids.

3. Observation: Local Government Code 262.024(a)(7) and 262.024(c), states that after accepting a signed statement from the County official who makes purchases for the County as to the existence of only one source, the County must enter in its minutes a statement to that effect. Based on our inquiry, this is not done on a consistent basis.

Recommendation: We recommend that steps be taken to ensure the County is in compliance with the law cited above, and that the Commissioners' Court minutes recognize all sole source vendors.

4. Observation: We noted in one instance that an explanation for not awarding the bid to the lowest bidder was not included with the bid documents. After our inquiry, we were provided correspondence to support the decision to award to another bidder, which appeared proper.

Recommendation: The bid files should be complete and document all information related to the award. We recommend the person(s) responsible for evaluating and recommending the award, include remarks on the bid tabulation when the lowest bidder (measured in dollars) is not awarded.

Current Year Comments (Continued)

Payroll

5. Observation: During our review of state payroll compliance, we requested the semiannual certifications for selected employees completed during the fiscal year. The certifications for employees paid with Texas Juvenile Probation grants for the fiscal year were dated the date of our request, which was over two months after the end of the fiscal year. The certifications for employees paid with Texas Automobile Burglary and Theft Prevention Authority grants for the fiscal year were not prepared on either a periodic or semi-annual basis.

Recommendation: The State of Texas Single Audit Circular requires that federal audit requirements be applied to state grants. The County should review the applicable standards to ensure the requirements regarding time distribution are met. Per OMB Circular A-87, Attachment B, paragraph 8.h. and UGMS II (B)(11)(h)(5,7), time distribution certifications should be prepared on a periodic basis at least semi-annually.

Capital Assets

6. Observation: Tagging of various controllable items purchased with a U.S. Department of Homeland Security grant was not performed until the day of our physical review, which was after our inquiry regarding the tag ID numbers for various items purchased. As such, the items were not tagged in accordance with OMB A-133 and the County of El Paso policy.

Recommendation: We recommend the person(s) responsible for tagging all controllable items ensure that all items are tagged in a timely manner in accordance with applicable local, state, or federal policies.

7. Observation: Based on our testwork related to selected capital assets, it was noted that certain capital assets had the incorrect cost recorded in the County's inventory system (FAACS). Although adjustments to the costs were made subsequent to our inquiry, the controls over this area allowed incorrect information to be recorded in FAACS.

Recommendation: We recommend the person(s) responsible for recording capital assets ensure that all assets are recorded at their actual cost, and management should consider implementing periodic reviews of this system.

County of El Paso, Texas

Passed Adjustments

September 30, 2010

Account Description	Government Wide (Exhibit 1)		Government Wide (Exhibit 2)		Governmental Funds (Exhibit 3)		Governmental Funds (Exhibit 4)	
	Balance Sheet		Income Statement		Balance Sheet		Income Statement	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
1 Cash Revenue To recognize deposits in transit not included in the Consolidated Fund - account 8032483 per our review of October 2010 bank statement, see WP 9A-2.	40,530			40,530	40,530			40,530
2 Expense Cash To recognize outstanding checks dated prior to 09/30/10 not listed as outstanding in bank reconciliation, see WP 9A-3		58,719	58,719					
3 Fund balance/Net Assets Expense To recognize in the proper year construction related expenditures not recognized by client in FY 2009 and that were paid during FY 2010, see WP 9A-7.	21,411			21,411	21,411			21,411
4 Expense Accounts Payable To recognize expenses that were processed subsequent to year end, but relate to FY 2010 as noted in WP 9J-3 and 9J-3.1		125,355	125,355			125,355		125,355
	61,941	184,074	184,074	61,941	61,941	125,355	125,355	61,941