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March 13, 2013

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

We have audited the primary government 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, 2012. We did not audit the financial statements of the discretely presented component units, those statements were audited by other auditors. 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 June 19, 2012. 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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2012. 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 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, 2012.
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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or 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 13, 2013.

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 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 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 13, 2013. These comments do not affect our report dated March 13, 2013, 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.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information 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.

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,

Handwritten signature in cursive script that reads "Ch Ruddock P.A. LLC".

Prior Year Comments

Procurement

1. 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 for sole-source vendors.

Status: It appears the County has implemented corrective action. The County implemented the Purchasing Review Panel; department heads submit plans to purchase items to the Purchasing Review Panel before they are allowed to go to Commissioners Court for approval. Either the Purchasing Agent or Assistant Purchasing Agent will participate as a member of the panel, and should now be aware of sole-source purchases.

Payroll

2. Observation: During our review of federal payroll compliance, we noted that one Certification of Salaries and Wages Charged to Federal Awards provided for review for the month of April 2011 for an employee funded 100% by a federal award was dated at the time of our request, January 4, 2012. In addition, during our review of state payroll compliance, we noted that the grant personnel activity reports prepared for one employee did not include the date of the employee's or supervisor's signature which is necessary to confirm that the reports were attested to after the fact, per OMB A-87 requirements.

Status: We noted no similar instances during the current year audit.

3. Observation: During our review of federal and state payroll compliance, we noted instances where four employees who were 100% funded with federal grants and four employees who were 100% funded with state grants were included on the Certification of Salaries and Wages Charged to Federal or State Awards form for periods during which they were not actually paid through the particular grant.

Status: We noted no similar instances during the current year audit.

4. Observation: The County did not maintain the required time distribution documentary support for one employee who charged 25% of worked time to a state major program.

Status: We noted no similar instances during the current year audit.

Prior Year Comments (Continued)

Investments

5. Observation: During our review of the investment policy, it was noted that no resolution was adopted as evidence of the review of the investment policy during 2010. Evidence of the review of the investment policy existed for September 2009 and for September 2011. Per Sec. 2256.005 (e) of the Texas Government Code, the County of El Paso, Texas shall review its investment policy and investment strategies not less than annually. A written instrument should be adopted by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies.

Status: We noted the fiscal year 2012 investment policy was approved in compliance with the law cited above.

Current Year Comments

Procurement & Suspension and Debarment

1. Observation: In one instance, the County was unable to provide evidence that a purchase from a vendor utilized a purchasing cooperative. We contacted the vendor directly, who provided us with evidence of their participation in a purchasing cooperative, which is an allowable procurement method.

Recommendation: To enhance the internal control system and review process, we recommend the procurement method (i.e. GSA, Bid #__, etc) be noted on all purchase orders to provide evidence of the method used.

2. Observation: In one instance, we were unable to verify Commissioners Court approval for the Texas Cooperative Purchasing Network (TCPN) and Commissioners Court order granting the exemption for food purchases. Per our inquiry to the Purchasing department personnel, the approval for TCPN was provided by the Court about 5-6 years ago and the court order granting exemption for food purchases was granted 30 years ago.

Recommendation: We recommend the County maintain accessible records documenting any actions which are applicable to future years, or incorporate them into the Purchasing Policy manual.

3. Observation: During the fiscal year ended September 30, 2012, it appears the County was verifying non-suspension and debarment of vendors with payments of \$25,000 or more after the purchases with the vendor have been made. This after-the-fact control over suspension and debarment for 1) sole-source purchases, 2) purchases through interlocal-cooperatives and 3) purchases between \$24,999 and \$50,000, would not detect a disallowed vendor until after the allowable purchases have occurred. It appears this control would not prevent non-compliance from occurring; it only prevents further non-compliance from occurring.

Recommendation: To ensure full compliance with federal suspension and debarment requirements, the County's Purchasing Department should implement pro-active controls. One such control is to obtain suspension and debarment certifications from all vendors prior to issuing a purchase order. Another option is to research each vendor on www.Sam.gov which includes a list of all suspended and debarred vendors.

Current Year Comments (Continued)

4. Observation: The County does not have official written policies in place for procurement and contracts which cover federal suspension and debarment requirements. As a recipient of direct federal awards, the County should address the following as part of its official written policies, as indicated in OMB A-133 Section __.36(b)(1), and 2 CAFR section 215.43:
- 1) Require contract files to document significant procurement history;
 - 2) Methods of procurement authorized including selection of contract type, contractor selection or rejection, and the basis of contract price;
 - 3) Verification that procurement provides full and open competition;
 - 4) Cost or price analysis, including contract modifications;
 - 5) Obtaining and reacting to suspension and debarment certifications;
 - 6) Other applicable requirements for procurement under Federal awards to be followed;
 - 7) Contain or reference the federal requirements;
 - 8) Prohibit the award or subaward, contract, or any other agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and
 - 9) Require staff to determine that entities receiving subawards of any value, and procurement contracts equal to or exceeding \$25,000, and their principals are not suspended or debarred, and the means that will be used to make that determination, i.e, checking the www.Sam.gov; obtaining a certification; or inserting a clause in the agreement.

Recommendation: We recommend the Department consider the directive a priority due to turnover in staff, and appropriately address the criteria noted in our observation. Subsequent to our review, the County adopted a Federal Debarment and Excluded List Policy that appears to address items 5, 8 and 9 listed above.

5. Observation: During the course of making our standard inquiries, it came to our attention that the County has no formal method of communicating the source of funding and special procurement provisions related to federal and state awards, if any exist, to the Purchasing Department.

Recommendation: To ensure compliance, the County should consider implementing procedures whereby the Purchasing Department can be notified of the source of funds, and whether any specific grant provisions related to procurement exist. The County recently implemented a form that must be submitted when a department would like to put an item on the agenda, which includes a discussion of the "fiscal impact." This form could also be used to document the source of funds (local, state or federal), and whether any procurement provisions dictated by the grant-need to be addressed. After approval by the Court, a copy of the form could then be routed to the Purchasing Department.

Current Year Comments (Continued)

Nonpayroll Transactions

6. **Observation:** During our review of nonpayroll expenditures of the Sheriff Justice Forfeiture account, we noted one instance where an employee was reimbursed for estimated travel costs, but then later submitted supporting documentation for costs incurred which were less than those estimated by an insignificant amount. On the date of our review, management followed up with the employee, who was still not able to provide receipts for the additional expenditures incurred and, as such, management collected the excess funds from the employee.

Recommendation: Management should implement a process to verify travel advances with actual receipts submitted after the travel is completed.

Grant reconciliations

7. **Observation:** Our review of the grant reconciliation for a state major program indicated that some of the related revenues were not recognized during the prior year. Subsequent to our review management recorded a prior period adjustment to recognize this revenue in the proper period.

Recommendation: We recommend management develop policies and procedures that are designed to ensure all grant accounting records are periodically reconciled and agree to supporting documentation. This is especially important at the end of the fiscal year, and at the end of each grant period.