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March 31, 2016

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, the aggregate remaining fund information, and the budgetary comparison statements of the County of El Paso, Texas for the year ended September 30, 2015. 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 and, if applicable, *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 July 13, 2015. 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 the County of El Paso, Texas are described in Note 1 to the financial statements. As described in Note I to the financial statements, management implemented *GASB Statements No. 68, Accounting and Financial Reporting for Pensions* and *No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date* in fiscal year 2015. Accordingly, the Statement of Net Position and Statement of Activities are presented in accordance with these statements. We noted no transactions entered into by the County of El Paso 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 open health care claims is based on the third party administrator's lag report.
4. Management's estimate of the amortization of bond premiums and deferred loss/gain on refunding is based on 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 the arbitrage compliance specialist.
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, 2015.
9. Management's estimate of the total costs of services yet to be performed for construction projects under non-cancellable contracts is based on 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 based upon the amount that is to be funded and paid per year.
11. Management's estimates for deferred outflow related to the Texas County and District Retirement System of Texas (TCDRS), the Texas Emergency Services Retirement System (TESRS), and the entity's share of net pension liability.
12. 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.

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

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant 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 clearly 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, a disagreement with management is 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 31, 2016.

*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 County of El Paso'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 County'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 certain matters that we believe are opportunities for strengthening internal controls and operating efficiency. 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 Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of funding progress for the retirement plan County of El Paso, and schedule of funding progress other post employment benefits County of El Paso, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information as listed in the table of contents which accompany the financial statements but is not RSI. With respect to this supplementary information 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.

We were not engaged to report on the introductory and statistical sections which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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, appearing to read "Ch Ruddock" followed by a stylized flourish.

### Prior Year Comments

#### Investments

1. Observation: The Public Funds Investment Act requires that a written copy of the investment policy be presented to persons/firms offering to engage in an investment transaction with the entity. An acknowledgement letter from a qualified business representative should be received stating that the policy has been received and reviewed, and that they have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization which are not authorized by the entity's investment policy. It was noted that a new investment policy was adopted in June 2014. As of February 10, 2015, the written copy of the investment policy had not been presented to the firms offering to engage in investment transactions with the County.

Status: This situation still exists. See current year comment 1.

2. Observation: The Public Funds Investment Act states that the governing body shall at least annually, review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions. The term brokers has been described to include investment pools. Upon inquiry of management, the County did not approve this list because they had the understanding that investment pools were not considered brokers.

Status: This situation still exists. See current year comment 2.

#### Cash Reconciliations

3. Observation: We noted that the cash-to-cash reconciliations for the General Fund and individual grants were not being reviewed by a second individual, which could allow an error to go undetected. This appears to be due to a shortage in personnel.

Status: This situation still exists. See current year comment 3.

#### Procurement

4. Observation: Although the County has improved its communication procedures regarding sources of funding on procurement solicitations, it came to our attention during our review of procurement for major programs, that the County still needs to improve its communication of special procurement provisions related to federal and state awards, if any exist, between grants, other departments involved with the scope of work and the purchasing Department.

In two of five procurement solicitations reviewed, we noted the County's local preference policy was included on solicitations funded with federal funds. Procurements funded with federal funds are not allowed to include state or local geographical preferences, except in those cases where applicable Federal statutes expressly mandate or encourage geographic preference, which was not the case with these instances. The one general exception, which did not apply to either instance, is when contracting for architectural and engineering services, provided its application leaves an appropriate number of qualified firms, given the nature and size of the project, to compete for the contract.

However, including the local preference policy did not impact the vendors awarded and would not have changed the outcome.

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

5. Observation: For a certain solicitation, we noted the solicitation file did not include documentation indicating why scenario two was not evaluated. In this proposal, scenario two requested meal prices with acquiring and equipping one preparation kitchen whereas scenario one was to utilize the three existing kitchens. The Purchasing Agent recalls the Director of Family and Community Services preferring to keep the locations throughout the city versus a central location. We also noted the CPI increase for a non-awarded vendor was transferred incorrectly to the final bid tabulation. The error would not have impacted the outcome.

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

6. Observation: In accordance with federal regulations, 24 CFR Section 85.36, procurement by competitive proposal must identify all evaluation factors and their relative importance (24CFR85.36(d)(3)(i)). Although the County identified several factors that would be considered to determine award to the responsible firm, the exact criteria and relative importance (weights of the criteria) were not identified. The results of the solicitation yielded only one response. The awarded vendor performed on a contract with similar scope for the local housing authority so we believe the vendor was qualified to perform the work and services required of the project and the profit margin was reasonable. It is possible that the single response on the project may have been attributed to unclear evaluation criteria. The sole responding vendor also commented through an email included in the solicitation file that the proposal was a bit confusing.

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

## Current Year Comments

### Investments

1. Observation: The Public Funds Investment Act requires that a written copy of the investment policy be presented to persons/firms offering to engage in an investment transaction with the entity. An acknowledgement letter from a qualified business representative should be received stating that the policy has been received and reviewed, and that they have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization which are not authorized by the entity's investment policy. It was noted that the fiscal year 2015 investment policy was not adopted until after year end. As of March 15, 2016, the written copy of the investment policy had not been presented to the firms offering to engage in investment transactions with the County.

Recommendation: We recommend management ensure that a written copy of the investment policy be sent to firms engaging in investment transactions with the County in a timely manner and that acknowledgment letters are received from the firms. By implementing this process, management will help ensure the County maintains compliance with the Public Funds Investment Act. Furthermore, we recommend management ensure that the investment policy for a current fiscal year be adopted at the beginning of the fiscal year.

2. Observation: The Public Funds Investment Act states that the governing body shall at least annually, review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions. The term "brokers" has been described to include investment pools.

Recommendation: We recommend management ensure that a list of qualified brokers is adopted at least annually and, in order to be in compliance with the Public Funds Investment Act the list should include all investment pools as well.

### Cash Reconciliations

3. Observation: We noted that the cash-to-cash reconciliations for the General Fund and individual grants were not being reviewed by a second individual which could allow an error to go undetected. This situation appears to be due to a shortage in personnel.

Recommendation: To strengthen internal controls, management should implement a process whereby a review of the bank reconciliations is performed by a second individual. In addition, this review should be documented by initials or other similar manner.

### Cash Receipts – Tax Office

4. Observation: While conducting a test of controls on the tax office cash receipts, it was noted that the Employee Daily Cash Deposit Record form could not be provided for our review of 22 days out of the 25 days selected for testing. Upon inquiry of management, these forms are retained for a maximum of six months before discarding. Per internal auditors' recommendation, the tax office began scanning these forms for record retention in fiscal year 2016.

Recommendation: In order to strengthen controls over cash receipts, we recommend management continue to scan the Employee Daily Cash Deposit Record form for record retention. In addition, we recommend tax office personnel discuss their plans to discard documentation with internal audit prior to disposal.

### **Budget Amendments**

5. Observation: While conducting a test of controls over the budget amendments, we noted one instance in which the budget amendment form was not initialed by the accounting clerk indicating review of proper posting into the system. Upon inquiry, the accounting clerk reviewed the budget amendment in the system; however, initialing the form was overlooked.

Recommendation: We recommend management ensure that the accounting clerk initial the budget amendment as evidence of review of the budget amendment posting in the system. Furthermore, if the accounting clerk is out on leave and another individual is responsible for reviewing the budget amendment posting in the system, we recommend they be properly trained on the process and initial the budget amendment form after verifying it was posted correctly.

### **TCDRS**

6. Observation: While conducting a review of the procedures related to submitting personnel data to TCDRS, we noted one instance in which the employee's gender and age information did not agree with the 2014 Census Report and three instances in which the names did not agree exactly with the 2014 Census Report.

Recommendation: We recommend management implement monitoring controls over census data which should be performed on a periodic basis.

### **Payroll**

7. Observation: We noted two instances in which the blanket certification for fully funded employees covering the period of 10/1/14 to 3/31/15 (first period) was signed on the same date(s), i.e., January 2016, by the employees, Supervisor and Project Director as the certification covering the period of 4/1/15 to 9/30/15 (second period). As such, it cannot be confirmed that this certification was prepared/completed on a semi-annual basis as required by OMB A-87.

Recommendation: We recommend that in the future, management ensure the required certifications are signed close to the end of the six month period they cover to comply with guidelines of OMB A-87 which state certifications should be "prepared at least semi-annually." In addition, to comply with the new Uniform Grant Guidance, which replaces OMB 87, the County should consider documenting this process in the related procedure manual.