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C-07-261-01-30

January 21, 2008

County of Hidalgo
The Honorable Judge J. D. Salinas and
Commissioners
2812 S. Business Hwy 281
Edinburg, Texas 78539

We are pleased to confirm our understanding of the services we are to provide and our estimate of fees to complete the audits of the County of Hidalgo for the years ended December 31, 2007 and 2008 and at the County of Hidalgo's option 2009 and 2010.

Scope

We will audit the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of Hidalgo (County) as of and for the years ended December 31, 2007 and 2008 and at the County's option 2009 and 2010 which collectively comprises the County's basic financial statements. The scope of the audit of the County's basic financial statements will encompass an audit of the following:

- County of Hidalgo (Primary Government)
- Urban County Program (Related Agency)
- Head Start Program (Related Agency)
- Community Service Agency (Related Agency)

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to accompany the County's basic financial statements. As part of our procedures, we will apply certain limited procedures to the County's RSI. These limited procedures will consist primarily of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI

or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited.

1. Management's Discussion and Analysis

Supplementary information other than RSI, such as combining and individual fund financial statements, also accompany the County's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements.

1. Schedule of expenditure of Federal and State Awards.
2. Combining and Individual Nonmajor Fund Financial Statements
3. Related Agency Financial Statements
4. Budgetary Comparison Schedules

The following additional information accompanying the basis financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion.

1. Introductory Section
2. Statistical Section

Audit Objective

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with the U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole.

The objective also includes report on –

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in the accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB

Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

Our audits will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records, a determination of major programs in accordance with Circular A-133, and other procedures we consider necessary to enable us to express an opinion and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reason with you in advance. If, for any reason we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection of accounting principles; for the fair presentation in the financial statement of the respective position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of Hidalgo and the respective changes in financial position and where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for federal grant award program compliance with applicable laws and regulations and the provision of contracts and grant agreements. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for its decisions and functions. As part of the audit, we will review a draft of the financial statements, schedules of expenditures of federal and state awards and related notes as prepared by management and provide management our comments. In accordance with *Government Auditing Standards*, management will be required to review and approve any changes that we derive from our review prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, management is required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

Management is responsible for making all financial records and related information available to us, including identifying significant vendor relationships in which the vendor

has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Management's responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. Management is responsible for providing its views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format thereto.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or

governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

Audit Procedures – Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and,

accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of County's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the County's major programs. The purpose of these procedures will be to express an opinion on County's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees and Other

We understand that your employees will prepare all cash and other confirmations we request and will locate and organize invoices and information selected by us for testing. Also, you will assist in the copy of any pertinent information necessary for our files and will assist in the preparation of select audit schedules as required. We will work with the management of the County and its related agencies to complete the audit no later than June 30 of the subsequent year audited. The County will prepare and bind its Comprehensive Annual Financial Report (CAFR). We will provide management with 150 copies our report letters for inclusion in the County's CAFR. The County will be responsible for the distribution of its CAFR.

We will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide an original and print-ready master of our reports to the County; however, it is management's responsibility to submit the reporting package (including the financial statements, schedule of expenditures of federal and state awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal

clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The audit documentation for this engagement is the property of Burton McCumber & Cortez, L.L.P. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain workpapers available to the County's cognizant agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such workpapers will be provided under the supervision of Burton McCumber & Cortez, L.L.P. personnel. Furthermore, upon request, we may provide photocopies of selected audit documentation to the aforementioned parties. The parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release or for any additional period requested by the County's oversight agency. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party contesting the audit finding for guidance prior to destroying the audit documentation.

Our estimates of the fees to complete the audit as of and for the year ended December 31, 2007 are set forth below:

County of Hidalgo	\$ 125,000
Head Start Program	30,000
Urban County Program	22,000
Community Service Agency	<u>15,000</u>
Total	\$ 192,000

Assuming that there are no significant changes to the operation of the County, professional standards pertaining to accounting or auditing matters, or other unforeseeable events, our fees to complete the audit of the County and related agencies for the year ending December 31, 2008, 2009 and 2010 will increase by 5% per year from the fees listed above. To extent that there are significant changes in the operation of the County, professional standards pertaining to accounting or auditing matters or unforeseeable events, we will derive a new fee estimate for your consideration and approval.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work might be suspended if your account becomes 45 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all the time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit.

If significant additional time is necessary, we will discuss it with you and arrive a new fee estimate using the hourly rates outlined below before we incur the additional costs:

<u>Experience Level</u>	<u>Hourly Rate</u>
Partner	\$ 190
Manager	\$ 150
Supervisor/In-Charge	\$ 95
Staff	\$ 75

Our audit engagement ends on delivery of our audit report for any one year. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service. This engagement includes only those services specifically described in this letter. Costs and time spent on legal matters or proceedings arising from our engagement, such as subpoenas, testimony or consultation involving private litigation, arbitration or government regulatory inquiries at your request or by subpoena, will be billed separately.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. A copy of our peer review was included in our response to the County Request for Qualifications pertaining to this engagement.

We appreciate the opportunity to be of service to the County of Hidalgo and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Burton McCumber & Cortez, L.L.P.


Ricky Longoria
Partner

The foregoing letter fully described our understanding and is accepted by us.

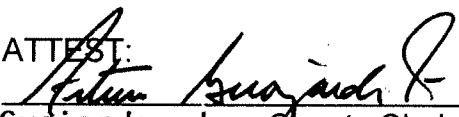
Witness our hands in duplicate originals this 29th day of February, 2008.

COUNTY OF HIDALGO

By 

J.D. Salinas, County Judge

Date

ATTEST:


Arturo Guajardo, Jr., County Clerk

Approved as to Form:
Atlas & Hall, LLP
By: 