

 *Oscar R. González, CPA  
&  
Associates, P.L.L.C.*  
*Certified Public Accountants*

208 W. Ferguson Unit #1 • Pharr, Texas 78577

Tel: (956) 787-9909 • Fax: (956) 787-3067

Email: [org110n@aol.com](mailto:org110n@aol.com)

*Oscar R. González  
Melissa González*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
Hidalgo County Emergency Services District No. 3

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hidalgo County Emergency Services District No. 3, as of and for the year ended December 31, 2011, which collectively comprise the Hidalgo County Emergency Services District No. 3's basic financial statements and have issued our report thereon dated August 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hidalgo County Emergency Services District No. 3's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hidalgo County Emergency Services District No. 3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hidalgo County Emergency Services District No. 3's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (2011-1) through (2011-7). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hidalgo County Emergency Services District No. 3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests found no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hidalgo County Emergency Services District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hidalgo County Emergency Services District No. 3's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Oscar R. Gonzalez, CPA & Associates PLLC*  
Oscar R. Gonzalez, CPA & Associates, PLLC  
Certified Public Accountants  
Pharr, Texas

August 22, 2012

**Hidalgo County Emergency Services District No. 3  
Schedule of Findings and Questioned Cost  
For the Year Ended December 31, 2011**

**B. Financial Statement Findings**

**Schedule Reference (2011-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING MATTERS**

Criteria: Individual responsible for accounting should possess the sufficient knowledge to prepare financial statements in accordance with GAAP.

Condition: The District's Individual responsible for accounting possesses the necessary accounting experience to reliably initiate, authorize and process financial data and to report such financial data for internal management purposes. However, their job functions are not designed to require that they maintain current expertise in financial reporting requirements for externally released financial statements that are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) including the presentation format of the financial statements and all of the related footnotes that accompany such financial statements.

Cause: Lack of knowledge about financial statement preparation.

Effect: Accounting staff does not possess the sufficient knowledge to prepare financial statements in accordance with GAAP.

Recommendation: The District's financial staff should obtain training in financial reporting and footnote presentation in order to ensure that its financial statements to comply with GAAP.

Questioned Costs: - \$0 -

**Schedule Reference (2011-2) CONTROLS OVER CERTIFICATE OF DEPOSIT INVESTMENTS**

Criteria: In order for the District to reflect the proper balance in all their assets, all certificate of deposit accounts need to be posted in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current asset balances.

Condition: Investments in certificate of deposits were not recorded in the books; consequently activity on the accounts was not posted nor reconciled on the books of the District.

Cause: Lack of control over investment balances and activity.

Effect: Investments in certificate of deposits were not reflected on the books of the District, and activity was not reconciled.

Recommendation: The balance on all certificate of deposit investments needs to be included in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current balances.

Questioned Costs: - \$0 -

**Schedule Reference (2011-3) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES**

Criteria: Property tax assessed and not collected at the end of the fiscal year must be accrued as property tax receivables, and reduced by its appropriate allowance for uncollectible taxes in accordance with the District's policy.

Condition: No accrual is being made of property tax assessed and not collected by the end of the fiscal year as property tax receivables.

Cause: Lack of controls over the recording of property tax receivable amounts.

Effect: The District's books did not reflect property tax receivables owed to the District.

**Hidalgo County Emergency Services District No. 3**  
**Schedule of Findings and Questioned Cost**  
**For the Year Ended December 31, 2011**

Recommendation: Cutoff procedures need to be performed on property tax receivable balances near after the end of the fiscal year in order to assure that receivables assessed during the fiscal year are included as receivables if not collected by the end of the fiscal year.

Questioned Costs: - \$0 –

**Schedule Reference (2011-4) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE**

Criteria: Proper accrual of transactions in accordance with GAAP requires for the recording of all expenditures using the modified accrual basis of accounting where expenditures are recorded when the related fund liability is incurred.

Condition: Accounts payable cutoff testing procedures revealed that various cash disbursement transactions that were paid after the end of the fiscal year had been incurred during the fiscal year being audited and were recorded as expenditures in the subsequent year.

Cause: Lack of controls over cutoff procedures of accounts payable transactions occurring near after the end of the fiscal year.

Effect: Expenditures that belong to the fiscal year being audited were being recorded as expenditures for the subsequent year.

Recommendation: Cutoff procedures need to be performed on expenditures occurring near after the end of the fiscal year in order to assure that transactions that were incurred during the fiscal year are included as expenditures in the proper year.

Questioned Costs: - \$0 –

**Schedule Reference (2011-5) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON INVESTMENTS**

Criteria: Interest revenue earned but not yet paid to the District on its certificate of deposit investments needs to be recorded as accrued interest receivable and recorded as earned revenue in the appropriate year even if no actual collection has been made.

Condition: No revenue is being accrued on interest earned due to the passage of time of certificate of deposit investments.

Cause: Investments in certificate of deposits have not been recorded on the books.

Effect: No revenue is being accrued on interest earned due to the passage of time of certificate of deposit investments.

Recommendation: Once investments are recorded, cutoff procedures need to be performed on certificate of deposit balances in order to determine the amount of revenue that has been earned due to the passage of time, and not yet collected by the District.

Questioned Costs: - \$0 –

**Schedule Reference (2011-6) LACK OF ACCOUNTING AND INVESTING POLICIES**

Criteria: In order to adequately maintain the processes, authorizations, records and other internal control requirements over purchasing, accounting and investing activities, a written policy must be adopted and authorized by the board of directors and followed as directed.

Condition: The District's policies and procedures did not have a policy in place that adequately describes the processes, authorizations, records and other internal controls required in order for the District to maintain effective control and accountability over purchasing, accounting and investing transactions.

**Hidalgo County Emergency Services District No. 3**  
**Schedule of Findings and Questioned Cost**  
**For the Year Ended December 31, 2011**

Cause: Lack of control over accounting and investing activities.

Effect: The District does not have an accounting or investment procedures manual.

Recommendation: Implement an accounting and investing procedures manual as soon as possible, in order to ensure that the process, authorizations, records and other internal control requirements are being observed as established.

Questioned Costs: - \$0 –

**Schedule Reference (2011-7) COLLATERIZED CASH DEPOSITS**

Criteria: The cash deposits should be covered by either FDIC Insurance or Collaterized Securities.

Condition: During the audit we found that the deposits were not fully insured. The amount not insured by Lone Star National Bank at December 31, 2011 was \$265,049.

Cause: Lack of control over accounting and investing activities.

Effect: The District does not have an accounting or investment procedures manual.

Recommendation: The District should consider reviewing the insured deposits on a monthly basis.

Questioned Costs: - \$0 –

**HIDALGO COUNTY EMERGENCY SERVICES DISTRICT NO.3**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended December 31, 2011**

**Schedule Reference (2010-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING**

Recommendation: The District's financial staff should obtain training in financial reporting and footnote presentation in order to ensure that its financial statements to comply with GAAP.

Current Condition: Not Corrected

**Schedule Reference (2010-2) CONTROLS OVER CERTIFICATE OF DEPOSIT INVESTMENTS**

Recommendation: The balance on all certificate of deposit investments needs to be included in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current balances.

Current Condition: Not Corrected

**Schedule Reference (2010-3) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES**

Recommendation: Cutoff procedures need to be performed on property tax receivable balances near after the end of the fiscal year in order to assure that receivables assessed during the fiscal year are included as receivables if not collected by the end of the fiscal year.

Current Condition: Not Corrected

**Schedule Reference (2010-4) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE**

Recommendation: Cutoff procedures need to be performed on expenditures occurring near after the end of the fiscal year in order to assure that transactions that were incurred during the fiscal year are included as expenditures in the proper year.

Current Condition: Not Corrected

**Schedule Reference (2010-5) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON INVESTMENTS**

Recommendation: Once investments are recorded, cutoff procedures need to be performed on certificate of deposit balances in order to determine the amount of revenue that has been earned due to the passage of time, and not yet collected by the District.

Current Condition: Not Corrected

**Schedule Reference (2010-6) LACK OF ACCOUNTING AND INVESTING POLICIES**

Recommendation: Implement an accounting and investing procedures manual as soon as possible, in order to ensure that the process, authorizations, records and other internal control requirements are being observed as established.

Current Condition: Not Corrected

**HIDALGO COUNTY EMERGENCY SERVICES DISTRICT No. 3**

**Corrective Action Plan**

**For the Year Ended September 30, 2011**

**Schedule Reference (2011-1) FINANCIAL STATEMENT PREPARATION AND OTHER REPORTING MATTERS**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: The District's financial staff will obtain training in financial reporting and footnote presentation in order to ensure that its financial statements to comply with GAAP.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2011-2) CONTROLS OVER CERTIFICATE OF DEPOSIT INVESTMENTS**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: In order for the District to reflect the proper balance in all their assets, all certificate of deposit accounts will be posted in the books of the District and reconciled at least quarterly in order to assure that the District has accurate and current asset balances.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2011-3) CONTROLS OVER ACCRUAL OF PROPERTY TAX RECEIVABLES**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: Cutoff procedures will be performed on property tax receivable balances near after the end of the fiscal year in order to assure that receivables assessed during the fiscal year are included as receivables if not collected by the end of the fiscal year.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2011-4) CONTROLS OVER ACCRUAL OF ACCOUNTS PAYABLE**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: Cutoff procedures will be performed on expenditures occurring near after the end of the fiscal year in order to assure that transactions that were incurred during the fiscal year are included as expenditures in the proper year.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2011-5) CONTROLS OVER ACCRUAL OF INTEREST EARNED ON INVESTMENTS**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: Once investments are recorded, cutoff procedures will be performed on certificate of deposit balances in order to determine the amount of revenue that has been earned due to the passage of time, and not yet collected by the District.

Anticipated Completion Date: As soon as possible.

**HIDALGO COUNTY EMERGENCY SERVICES DISTRICT No. 3**

**Corrective Action Plan**

**For the Year Ended September 30, 2011**

**Schedule Reference (2011-6) LACK OF ACCOUNTING AND INVESTING POLICIES**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: The entity will implement an accounting and investing procedures manual as soon as possible, in order to ensure that the process, authorizations, records and other internal control requirements are being observed as established.

Anticipated Completion Date: As soon as possible.

**Schedule Reference (2011-7) COLLATERIZED CASH DEPOSITS**

Name of Contact: Rudy Zamora, Fred Karle, Louie Kieffer, Donato Salinas, Joe Peralez

Corrective Action Planned: The entity will implement an accounting and investing procedures manual as soon as possible, and assure the bank is insuring the deposits. They will also observe the pledges are enough to cover their interest.

Anticipated Completion Date: As soon as possible.