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**Burton McCumber & Cortez, L.L.P.**  
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June 30, 2014

To the Honorable Commissioners' Court  
And the District Judges  
County of Hidalgo, Texas

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 Hidalgo, Texas (County) for the year ended December 31, 2013. 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 January 30, 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 the County are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the County implemented Statement of Governmental Accounting Standards (GASB Statement) No. 65, Items Previously Reported as Assets and Liabilities, in 2013. 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 County's financial statements were:

1. Management's estimate of the allowance for un-collectible taxes is based on historical tax revenues, historical loss levels, and analysis of the collectability of individual accounts.
2. Management's estimate of the annual required contribution for the Texas County and District Retirement System (TCDRS) were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2013, the basis for determining the contribution rate for the 2013 calendar year.

3. Management's estimate of the Landfill Closure and Post-closure Care Cost liability is based on the ratio of landfill capacity.
4. Management's estimate of the Workers' Compensation Fund claims liability.
5. The estimated useful lives of fixed assets and related depreciation.

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

The County provided us its December 31, 2013 trial balance in early April 2014. We then commenced the audit on the understanding that the trial balance was the County's auditable trial balance and would require few, if any, adjustments. However, subsequent to the submission of the trial balance, a total of 61 County prepared adjusting journal entries were provided to us for posting. Some of these adjustments were dated as late as mid-June. It has been our commitment to complete the County audit by June 30 and this deadline was met. However, a trial balance that is submitted to us for audit that then requires numerous subsequent adjustments creates inefficiencies in completing the audit as well as creates significant challenges in meeting the required deadline.

#### *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. A total of 61 adjustments were posted. These adjustments were provided by the County as part of their normal year-end reconciliation process. After these adjustments were recorded, there were no misstatements detected as a result of audit procedures and corrected by management which 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 June 30, 2014.

#### *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.

### Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 of the basic financial statements. We did not express an opinion or provide any assurance on the information because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

In addition, our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements taken as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section were presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, related agency financial statements and budgetary comparison schedules are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information was subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. We opined that the combining and individual nonmajor fund financial statements, related agency financial statements and budgetary comparison schedules were fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion or provide any assurance on them.

### Restriction on Use

This information is intended solely for the use of the Honorable County Judge, County Commissioners, District Judges and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Burton McHugh & Co., LLP*

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June 30, 2014

To the Honorable Commissioners' Court  
And Honorable District Judges  
County of Hidalgo, Texas

In planning and performing our audit of the financial statements of the County of Hidalgo, Texas (County) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit we became aware of several immaterial matters that are opportunities for strengthening internal controls and operating efficiency. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our reports dated June 30, 2014 issued in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*. In addition, this letter does not affect our report dated June 30, 2014, on the financial statements of the County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Burton McCumber & Cortez, L.L.P.*

**Hidalgo County - Primary  
Summary of Other Comments and Recommendations  
December 31, 2013**

DEPARTMENT/ AGENCY	Comment
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**FINANCIAL STATEMENT**

County Clerk Adult Probation	<b>&amp; Criteria and Condition:</b>	The County Clerk Agency Fund account receivable and certain Adult Probation accounts receivable were deemed uncollectable. However, these departments will not write-off uncollectible amounts due to the affect on the general fund.
	<b>Cause and Effect:</b>	Hidalgo County does not have a policy that specifies the amount of time that should pass before an account is written off.
	<b>Questioned Cost:</b>	\$0
	<b>Recommendation:</b>	We recommend a policy be implemented that sets forth the criteria for writing off accounts.
	<b>Management Response:</b>	The County Clerk continues to look at the possible collectability of the accounts and is extending its study to credit balances in civil cases.

Purchasing	<b>Criteria and Condition:</b>	Estimated useful lives for capital assets including improvements and buildings are not consistent with the County's Capital Asset Guide. In addition, the Capital Asset Guide must be updated to ensure consistency with what is reported in the CAFR.
	<b>Cause and Effect:</b>	The County could be using a useful life that is inappropriate for the asset and should revise the useful life.
	<b>Questioned Cost:</b>	\$0
	<b>Recommendation:</b>	We recommend the County update or ratify its capital assets purchasing policy.
	<b>Management Response:</b>	In 2014, the County Auditor's Accounting Division will evaluate the current useful lives for all categories of assets with the assistance of the Purchasing Fixed Assets Division in order to determine the appropriate life for each. Criteria will be based on the County's past experience with similar assets.

**Hidalgo County - Primary  
Summary of Other Comments and Recommendations  
December 31, 2013**

DEPARTMENT/ AGENCY	Comment
Unclaimed Money	<p><b>Criteria and Condition:</b> The Unclaimed Money Fund has an account in the amount of \$84,909 that has not changed in many years. This money was received from a third party administrator. Based on an investigation of the administrator, it was determined these funds belonged to the County; however little to no documentation was provided. The County has been carrying this amount as unclaimed money without researching further in order to clear the item.</p> <p><b>Cause and Effect:</b> The County has not determined what to do with the returned money. The County has been rolling over this liability for many years, where it could possibly be revenue.</p> <p><b>Questioned Cost:</b> \$0</p> <p><b>Recommendation:</b> We recommend the County research this account and determine if it should be recorded as miscellaneous revenue.</p> <p><b>Management Response:</b> The County Treasurer's Office is researching the amount of \$84,908.53. The majority of the funds were transferred into the Unclaimed Money Fund with journal entry (AJE-9131) in 2009. These funds were from the County's Self-Insured Fund, backup documentation does not identify what these funds consist of and further research is needed to determine if these funds may possibly be considered revenue.</p>
CSA	<p><b>Criteria and Condition:</b> During our review of cash and year-end bank reconciliations, although immaterial, an unresolved difference was identified between the General Fund's reconciled book balance and the total cash per trial balance.</p> <p><b>Cause and Effect:</b> Cash bank reconciliation was not properly reconciled to the trial balance.</p> <p><b>Questioned Cost:</b> \$0</p> <p><b>Recommendation:</b> We recommend cash reconciliations be properly reconciled to the trial balance.</p> <p><b>Management Response:</b> A cash adjustment will be made to reconcile both totals. In addition, CSA Fiscal will monitor more closely, the ending balance of bank cash, and book cash to ensure we're reconciled all the way through end of the year. In addition, we will do a final review of year end book and bank to ensure that both book and bank balance equal, and the December Bank Reconciliation is accurately presented to auditor.</p>
CSA	<p><b>Criteria and Condition:</b> During our review of the capital assets listing, we noted several outdated assets.</p> <p><b>Cause and Effect:</b> There is no policy or procedure in place to perform and maintain a physical account of fixed assets; providing opportunity for theft or misplacement.</p> <p><b>Questioned Cost:</b> \$0</p> <p><b>Recommendation:</b> We recommend the Agency consider adopting a policy or procedure to perform physical counts of capital assets, for which a ledger is maintained, to ensure obsolete assets are properly removed.</p> <p><b>Management Response:</b> From the fixed asset list, we will determine which equipment is no longer in service due to age, or inoperable. Fixed Assets will be revised without these items, and removed items will be declared surplus items.</p>