

PB&H
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To The Honorable County Judge and
Commissioners' Court
Williamson County, Texas

In planning and performing our audit of the basic financial statements of Williamson County, Texas, for the year ended September 30, 2007, we considered the County's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of certain matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated March 5, 2008, on the financial statements of Williamson County, Texas.

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.

Pattillo, Brown & Hill, L.L.P.

March 5, 2008

WILLIAMSON COUNTY, TEXAS

COMMENTS AND SUGGESTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

ANIMAL SHELTER

We discussed processes over receiving and disbursing funds with animal shelter employees. During our inquiry, we noted that the animal shelter does not disburse funds, but requests disbursement of funds through the purchase order process used by the County's purchasing department. The process over receiving funds at the animal shelter includes each cashier using their own cash drawer and reconciling consecutively numbered computer-generated receipts to funds received daily. Each day, the reconciliation is verified by the Director and the funds are deposited with the County Treasurer. Currently, we do not have any comments in regards to the animal shelter's processes over receiving and disbursing funds.

DOCUMENTING PROCESS OVER COMMUNICATION

Currently, the County has a process to communicate relevant information among all offices and departments. We recommend a written form of these procedures be prepared to prevent any misunderstanding of the County's process. A written form should address what offices and departments need to be informed of certain transactions when they occur. For example, if the County donates a building to another entity, the department overseeing the accountability of buildings for financial reporting needs to be informed of such transaction. Documenting this process will facilitate the ease of training new personnel and/or existing personnel who may be responsible for these duties in another employee's absence.

PRIOR YEAR COMMENTS

STATEMENT ON AUDITING STANDARDS NO. 112

Prior Year Comment:

In May 2006, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Matters Identified in an Audit*. This new standard is effective for the County's fiscal year 2007 external audit. This auditing standard establishes definitions for "significant deficiencies" and "material weaknesses" in internal controls. We believe that the new definitions will lower the threshold for control deficiencies that must be reported by the external auditor. The result is likely to be an increase in the number of control deficiencies that are reported as a result from external financial audits.

In order to prepare for the implementation of SAS 112, it will be important for the County to understand the provisions of the new standard and to develop a detailed action plan. Several actions to consider are listed below:

- Identify an individual or team that will oversee the preparation for the implementation of this standard;
- Identify and document the key controls that support the various financial processes;
- Determine where the greatest risks of significant deficiencies or material weaknesses can occur;
- Implement an action plan for areas that need strengthening; and
- Prioritize key action steps that can be accomplished this fiscal year.

Current Status:

Management is aware of the new auditing standard.

BOND ISSUANCE COSTS

Prior Year Comment:

We noted that the listing of construction in progress provided by the County included bond issuance costs. Bond issuance costs should be reported as deferred charges in the government-wide financial statements and amortized over the life of the related debt. We recommend the County maintain an amortization schedule of bond issuance costs individually by each debt issue. This will provide the County with the information necessary to expense bond issuance costs properly in the government-wide financial statements.

Current Status:

This matter has been resolved.

DEFERRED CONTRIBUTIONS

Prior Year Comment:

Currently, the County reports assets under construction that will be contributed to another entity as construction in progress in the statement of net assets. Construction in progress should exclude the accumulated costs of capital assets under construction that will be contributed upon completion to another entity. These costs should be reported in a noncapital asset account, such as deferred contributions. Once the completed asset is transferred to another entity, the asset should be removed from the statement of net assets by a charge to contribution expense. We recommend the County maintain a separate listing of the construction costs of an asset that will be donated to another entity from the construction costs of capital assets that will be retained by the County. This information will allow the County to exclude costs of assets under construction that will be contributed to another entity from construction in progress on the statement of net assets.

Current Status:

This matter has been resolved.

CAPIAS PRO FINES RECEIVABLE

Prior Year Comment:

During our audit of the District Clerk's fines receivable, we noted a detail listing (subsidiary ledger) that includes items that are considered receivables for financial reporting purposes was not readily available. We recommend that the County generate a detailed listing of capias pro fines receivable at the end of the fiscal year in order to facilitate the preparation of its financial statements.

Current Status:

This matter has been resolved.

ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Prior Year Comment:

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, issued in June 2004, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

From an accrual accounting perspective, the cost of OPEB generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the cost of benefits in periods when the related services are received by the employer;
- Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and
- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Implementation is required for the County in fiscal year September 30, 2009. We recommend the County begin to formulate a strategy to meet the requirements of the new standard.

Current Status:

Management is aware of the new standard and is working towards formulating a strategy to meet the new requirements.

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We appreciate the opportunity to be of service to **Williamson County, Texas**. If you have any questions or require further information, please do not hesitate to contact our office.