

REGULAR AGENDA

AGENDA ITEM 15

Recognize Juvenile Services employees, Scott Matthew, Dave Murray, Sal Lopez, Robyn Murray, and Candace Ferguson for their work on receiving The Justice of the Peace Probation Officer grant and the Pre-Trial Release Program grant.

No action was taken on this agenda item, which will be added to the April 30, 2002 agenda.

AGENDA ITEM 16

Hear presentation from Independent Auditor regarding audit of Fiscal Year 2000-2001.

Chris Pruitt of Pattillo, Brown & Hill, L.L.P., gave a presentation to the court regarding the audit of Fiscal Year 2000-2001. He stated that Williamson County had received an "unqualified opinion," which is the highest form of opinion that can be offered by the outside auditor.

< Attachment >

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 general purpose financial statements of Williamson County, Texas, for the year ended September 30, 2001, we considered the County's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several 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 February 15, 2002, 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, LLP

February 15, 2002

WILLIAMSON COUNTY, TEXAS**COMMENTS AND SUGGESTIONS****FOR THE YEAR ENDED SEPTEMBER 30, 2001****GASB STATEMENT NO. 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement was issued in order to create a new financial reporting model for governmental entities. The effective date for implementing the new standards varies depending on the size of the governmental entity. The County will be required to implement the new standards for the fiscal year ending September 30, 2003.

Some of the new model’s key elements are as follows:

- New government-wide financial statements to be integrated with enhanced fund reporting;
- Presentation of a management’s discussion and analysis (MD&A) as required supplementary information;
- Reporting on infrastructure assets (such as roads and bridges); and
- Budgetary comparison schedules showing the original budget, the final budget and actual amounts on the budgetary basis.

GASB Statement No. 34 makes significant changes in the way state and local governments report their financial statements. County personnel will need to comprehend and implement a vast number of changes in accounting and financial reporting. Implementation will be an ongoing process as new information is developed and new materials are provided by organizations such as the AICPA and GASB. Some matters to consider follow:

- Financial personnel should familiarize themselves with the requirements of the new standards and how they will affect the County.
- The County should consider the availability of the financial information required by the new standards, such as accrual information and capital asset records.
- Management should consider any changes in the accounting system that may need to be made.
- Financial personnel will need to be able to explain the changes in accounting and reporting to users who are unfamiliar with the particulars of accounting.

PAYROLL

The County's payroll software system is independent of the financial accounting software system. The process of posting payroll to the general ledger is performed manually. There have been numerous differences discovered between the amounts posted to the general ledger and the generated payroll reports. The integration problem has led to delays in performing bank reconciliations, the underfunding of payroll and numerous errors in the general ledger. We recommend the County consider the implementation of a payroll system that interfaces with the general ledger accounting system. Until this matter is resolved, the County should continue to reconcile the payroll reports to the information posted to the general ledger.

PERMANENT AND AVAILABLE SCHOOL FUNDS

The County's Permanent and Available School Funds are not maintained on the general ledger or accounted for in a dual-entry accounting system. This makes preparation of financial statements very difficult and time-consuming. Additionally, a comprehensive framework of internal controls does not exist for these funds. We strongly recommend the County integrate these funds into the general ledger accounting system in order to provide proper internal controls over these funds.

POSITIVE PAY

In recent years, check fraud has become a common problem for many local governments. In an effort to deter check fraud, many financial institutions now offer positive pay. Under this process, an issuer and its bank work together to detect check fraud by identifying items presented for payment that the issuer did not issue.

Specifically, an issuer transmits information regarding all issued checks (including check number, amount and date) to its bank. The bank compares checks received for payment against the record of all issued checks. The bank identifies items that do not match the issue amount and check number and presents the rejected items to the issuer for its consideration for payment.

We recommend the County consider implementing positive pay into its check disbursement policies and procedures. This service can be an effective method of protection against check fraud.

RECONCILIATION OF SUBSIDIARY LEDGERS TO GENERAL LEDGER CONTROL ACCOUNTS

During our audit of the County's balance sheet accounts, we noted that no procedures were in place to periodically reconcile the general ledger balances for accounts payable and accounts receivable to a detail listing (subsidiary ledger). A detail listing supporting the amount on the general ledger is an important element in the internal control structure over these accounts. We recommend the County implement procedures to reconcile these subsidiary ledgers to the general ledger balance on a monthly basis. Any differences should be investigated and corrected in a timely manner. This will provide the County with an accurate listing of the items comprising these accounts during the year and assist in detecting errors in a timely manner.

INTEREST INCOME

The Texas Juvenile Probation Commission (TJPC) requires that interest earned on TJPC funds be used for the provision of juvenile probation services. However, interest generated from TJPC funds is not being allocated to the County's Juvenile Probation Department. Instead, the interest earned on these funds is recorded in the General Fund. We recommend the County compute and allocate interest earned on these funds to the Juvenile Probation Department as required by TJPC.

REVENUE CLEARING ACCOUNT

Currently, revenue is receipted through the Treasurers' office and coded to a clearing account. The Auditors' office then clears the amounts from this account and posts them to the correct general ledger revenue line item. During the fiscal year, the clearing account was not cleared in a timely manner. This contributed to a delay in reconciling bank accounts and proper revenue recognition. In order for the County to have accurate and timely financial information, this account should be cleared on an ongoing basis within a 2-3 day period.

INTERFUND TRANSACTIONS

Interfund payables and receivables should be recorded when one fund incurs an expenditure that is attributed to another fund and reimbursement is required. These accounts should always agree to each other and should be cleared when repayment is made. At year-end, interfund payables and receivables did not balance. We recommend the County reconcile these accounts on a monthly basis to detect errors in a timely manner.

FIXED ASSET ADDITIONS

Several discrepancies were noted while auditing the County's fixed assets. For example, we found many capital additions that had not been added to the general fixed assets account group. We suggest the County perform a physical inventory at least every two years and reconcile this to the accounting records. Inventorying property is not difficult, but can be time-consuming and requires a considerable amount of preparation and organization.

CAPITALIZATION THRESHOLD

The term "fixed assets" is used to describe assets that are used in operations and that have initial lives extending beyond a single reporting period. Not all capital items with useful lives extending beyond a single reporting period are required to be reported in the County's financial statements. Specifically, items with extremely short useful lives (e.g., less than two years) or of small monetary value are not required to be capitalized. The monetary measure used to determine whether a given capital asset should be reported on the balance sheet is known as the "capitalization threshold." During our audit of fixed assets, we noted that the County's capitalization threshold is small for a government this size.

Capitalization is primarily a financial reporting issue. The County's principal concern in establishing specific capitalization thresholds should be the anticipated information needs of the users of its financial statements. We recommend that the County consider the following guidelines in establishing capitalization thresholds for its fixed assets:

- Consider establishing a capitalization threshold of \$5,000 for individual items.
- Exercise control over noncapitalized capital items by establishing and maintaining adequate control procedures at the departmental level. While it is essential to maintain control over all of the County's capital items, there exist much more efficient means than capitalization for accomplishing this objective in the case of smaller capital items. Furthermore, capital asset management systems that attempt to incorporate data on numerous smaller capital items are often costly and difficult to maintain and operate.
- Items should only be capitalized if they have an estimated useful life of at least two years following the date of acquisition.
- The County may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets.
- Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables).

PERSONNEL FILES

Employees' personnel files are stored in unlocked wooden cabinets. These cabinets are located in an office that does not restrict access by payroll office personnel and maintenance employees. Personnel files should be located in a fireproof, secure location and access should be restricted to provide adequate safeguards of confidential personnel information.

BLANK CHECK STOCK

Several areas of concern were noted when examining the storage of blank check stock. For instance, the County received a shipment of misprinted checks. During the audit fieldwork, these checks were stored on the floor in the Treasurers' office. In addition, check stock is normally stored in metal cabinets that are not fireproof and access is not limited to authorized employees. Also, the Payroll Department is issued check stock to produce payroll. The check stock provided to the Department is not accounted for prior to its release by control number or any other means.

Protection of the County's check stock is an essential element in the prevention of the misappropriation of funds. We recommend the County destroy any unusable check stock, secure the location where check stock is stored and limit access to authorized personnel only. Additionally, as check stock is issued to the Payroll Department, only the amount used to perform payroll should be released and the sequence should be documented and reconciled.

CASH REFUNDS

During our evaluation of internal controls in the County Clerk's office, we found that cash is mailed when refunds are made to customers who mailed in their payments. Mailing cash to customers does not provide adequate internal controls over these disbursements. We strongly recommend the County Clerk discontinue this practice.

INTERNAL AUDIT PROGRAMS

Internal audits are not always performed from written audit programs. We recommend the Auditor's office develop written programs to assist employees in carrying out their responsibilities and conduct audits in accordance with those programs. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. The form of the audit program and the extent of its detail will vary with the circumstances.

CODING OF TRANSACTIONS

We found instances where both revenues and expenditures were coded to the same general ledger account number. This practice will understate both the revenue and expenditure amounts for these transactions. All revenue and expenditures should be recorded in separate general ledger account numbers in order to provide an accurate accounting of the County's transactions.

FEE OFFICES

During our testing of internal controls, several issues were noted concerning the segregation of duties for certain fee offices. Specifically, we noted the following:

Tax Assessor/Collector Office

One employee reconciles the VIT bank account, has sole custody of the checkbook and is a signor on the account. Additionally, the signature stamp is not kept in a secure location.

Justice of the Peace Precinct 1

An authorized check signor performs the bank reconciliation.

Justice of the Peace, Precinct 2

The checking account only requires one signature for disbursements.

County Attorney

The employee who receipts funds received through the mail also opens the mail and is allowed to sign checks. This employee also prepares bank reconciliations.

District Clerk

One employee is responsible for all duties associated with the Jury Fund.

An essential element of any internal control system is the separation of functions in such a manner that no single individual could perpetrate an error and conceal it without the error being discovered in a timely manner. Three general categories of functions that should be separated to achieve effective internal control are:

- Custody of assets; i.e., check writing, handling cash, wire transfer capability
- Recording control functions; i.e., preparation of bank reconciliations
- Authorization functions; i.e., generation and authorization of transactions

One individual's ability to perform functions in all of the categories above indicates a risk exists that this individual could create an error, intentionally or unintentionally, and cover that error without detection in a timely manner.

Proper segregation of duties is always difficult in smaller offices. However, we recommend incompatible duties be separated to the extent possible. Of course, when considering any changes to the current internal control structure, the costs of implementation should be weighed against the benefits derived.

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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.

AGENDA ITEM 17

Hold Public Hearing on resubdivision of Tract 34, North San Gabriel Ranches.

Judge Doerfler announced the public hearing on the proposed resubdivision of Tract 34, North San Gabriel Ranches, open at 10:00 a.m. on Tuesday, April 23, 2002.

County Engineer Joe England addressed the court concerning the proposed resubdivision.

Judge Doerfler announced the public hearing on the proposed resubdivision of Tract 34, North San Gabriel Ranches, closed at 10:03 a.m. on Tuesday, April 23, 2002.

AGENDA ITEM 18

Consider approving resubdivision of Lot 34, North San Gabriel Ranches.

Moved: **Commissioner Boatright**

Seconded: **Commissioner Hays**

Motion: To approve resubdivision of Lot 34, North San Gabriel Ranches, into a 3-acre tract and a 1-acre tract, contingent upon compliance with deed restrictions.

Vote: **5 - 0**

AGENDA ITEM 19

Discuss and consider preliminary plat approval of Riley Estates.

Moved: **Commissioner Boatright**

Seconded: **Commissioner Hays**

Motion: To approve preliminary plat of Riley Estates.

Vote: **5 - 0**

AGENDA ITEM 20

Discuss and take appropriate action on CR 368 and 369.

No action was taken on this agenda item, which will be added to the April 30, 2002 meeting.

AGENDA ITEM 21

Hold public hearing on resubdivision of Lot 37, Whitetail, Section 2.

Judge Doerfler announced the public hearing on the proposed resubdivision of Tract 34, North San Gabriel Ranches, open at 10:15 a.m. on Tuesday, April 23, 2002.

County Engineer Joe England addressed the court concerning the proposed resubdivision.

Judge Doerfler announced the public hearing on the proposed resubdivision of Tract 34, North San Gabriel Ranches, closed at 10:18 a.m. on Tuesday, April 23, 2002.

AGENDA ITEM 22

Consider approving resubdivision of Lot 37, Whitetail, Section 2.

Moved: **Commissioner Heiligenstein**

Seconded: **Commissioner Hays**

Motion: To approve the resubdivision of Lot 37, Whitetail, Section 2, from one 5-acre lot into two 2.5-acre lots, contingent on the lien holder signing a release.

Vote: **5 - 0**