



Management Letter

March 29, 2018

To the Honorable County Judge and
Members of the Commissioners' Court of
Polk County, Texas:

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to Polk County, Texas (the "County"). Accordingly, the County's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2017, 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 a basis for designing our auditing procedures for the purpose of expressing an 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be other matters.

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.

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

Our findings and additional comments are as follows:

CURRENT YEAR MATTERS:

Other Matters:

2017-001. BANK ACCOUNT RECONCILIATIONS

Condition

As of year end, it appeared that the County Auditor's office had not been reconciling the bank statements received from the Tax Assessor-Collector and District Clerk's office to the general ledger in a timely manner.

Recommendation

The County Auditor's office should reconcile all statements to the general ledger in a timely manner at the end of each month.

2017-002. CAPITAL ASSETS

Condition

It was noted during the audit that the County does not have a system to track construction in progress additions. There were multiple material capital asset additions that were not picked up by the client. It was also noted that transferred and sold assets were not being properly disposed of in the software.

Recommendation

To ensure the proper recognition of assets and related depreciation expense, the County should reconcile the capital asset detail from prior years and post any necessary adjustments to the financial reporting software. The County should establish procedures to track construction in progress from the initiation of all projects through their respective completions.

2017-003. DEFICIT FUND BALANCE

Condition

We noted that the grant fund reported a deficit fund balance of \$51,791.

Recommendation

The County should monitor expenditures in the grant fund and budget for transfers as necessary to cover applicable expenses.

2017-004. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Finding

As disclosed in the notes to the financial statements, expenditures in the road and bridge, debt service and several nonmajor funds exceeded appropriations at the legal level of control.

Recommendation

The County should ensure that expenditures do not exceed appropriations approved by Commissioners' Court in accordance with the local government code. If the original authorization is insufficient, an amendment should be proposed to Commissioners' Court in sufficient time so as not to impede the County's normal procurement process.

New Pronouncements

2017-005. GASB STATEMENT NO. 75 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Background

The County currently provides health insurance benefits to retirees, which the Governmental Accounting Standards Board (GASB) classifies as Other Post Employment Benefits (OPEB), and makes the County subject to advance actuarial and accounting requirements. The complexity of the accounting requirements points out the underlying challenges with making a promise today for a benefit in the future and the fiscal impact of that policy decision.

In June 2015, GASB Statement No. 75 ("GASB 75"), *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*. GASB 75 establishes new standards of accounting and financial reporting for OPEB provided to the employees of state and local government employers and is effective for fiscal years beginning after June 15, 2017. Accordingly, the County will be required to comply with this new standard for fiscal year 2018.

Finding

As noted on the Schedule of Funding Progress on page 85 in the County's Comprehensive Annual Financial Report, the County's OPEB liability has reached approximately \$15 million as of the date of the last actuarial study on December 31, 2016. Since the last actuarial study in 2014 the liability had increased by approximately \$5.5 million. The rate of increase would appear to be unsustainable. In addition to the actual economic impact, the recognition of this liability as required by GASB 75 in 2018 will result in a deficit unrestricted net position of approximately \$15 million based on the December 31, 2016 valuation, but will be over \$20 million deficit if valued as of September 30, 2018.

Recommendation

The County should consult with its actuary to determine if all assumption utilized are correct and determine which plan benefits are causing the greatest liability. The County should consult with attorney and bond counsel on the longterm impact to the County on bond ratings and determine what adjustments, in funding or benefit, are needed to ensure the County is able to meet its obligations while honoring promises made.

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We would like to thank the members of Commissioners' Court, the County Judge, and the County's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

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