



## Management Letter

December 31, 2009

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

The American Institute of Certified Public Accountants issued an auditing standard that must be followed when communicating certain internal control related matters as part of an audit of financial statements effective for audit periods ending on or after December 15, 2006. The new standard (Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, "SAS 112") provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body. Although it replaces a similar standard, it includes some new guidance and revises certain terminology, as defined below. With new definitions, auditors will now be reporting more findings. Also, auditors are now required to report on issues identified in previous years that have not been corrected. This may include not only comments from prior letters, but also other issues that came up during previous audits.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions above as required by SAS 112. Please note that these classifications are based on the potential impact to the financial statement, 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 on internal control related matters is as follows.

In planning and performing our audit of the financial statements of the County for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control. Other matters are any additional noteworthy items that are unrelated to internal control such as compliance with laws and regulations. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Our findings and additional comments are as follows:

**Current Year Matters**

**Other Matters:**

**2009-1. POLICIES AND PROCEDURES - JUSTICE OF THE PEACE COLLECTIONS**

**Finding**

Several dates of receipts were changed in the system to reflect a different date than the actual received date. Deposits are being held in the Justice of the Peace's office overnight and some are held as long as two weeks. There were several receipts reversals/voided in the system and no controls set up to monitor these receipt reversals.

**Recommendation**

We recommend that all money collected should be receipted on the day of collection. Deposits should be made daily and any account adjustment or reversal should be verified and signed off of by the Justice of the Peace.

**Management's Response**

We concur with the recommendation.

**2009-2. ESCHEAT PAYABLE**

**Background**

Under Texas State Property Code Chapter 72, Subchapter B. § 72.101, property is presumed abandoned if the owner of the property does not claim the property within three years. Under Texas State Property Code Chapter 74, Subchapter D. § 74.301, each holder who on June 30 holds property that is presumed abandoned under Chapter 72 shall deliver the property to the comptroller on or before the following November 1 accompanied by the report required to be filed under Section 74.101. Under Texas State *Property Code Chapter 74, Subchapter B. § 74.101*, each holder who on June 30 holds property that is presumed abandoned under Chapter 72 of this code shall file a report of that property on or before the following November 1.

**Finding**

The County has a significant number of checks outstanding at year end. Some of which are up to seven years old.

**Recommendation**

All escheat payable amounts that are older than three years from June 1 of the current year should be reported and delivered to the State no later than November 1. The County should monitor all outstanding checks and record escheat payable in accordance with the Texas State Property Code noted above.

**Management's Response**

We concur with the recommendation.

**2009-3. POLICIES AND PROCEDURES - CAPITAL ASSETS**

**Finding**

The County's capital asset policy capitalizes assets which have a value of \$5,000 or greater and a useful life of greater than one year. Several capital asset additions found did not adhere to the County's capital asset policy.

**Recommendation**

The County should monitor their capital asset schedule and ensure that all additions are in accordance with the capital asset policy.

**Management's Response**

We concur with the recommendation.

**Matters Previously Reported**

***Material Weaknesses:***

**2007-4. ACCOUNTING RECORDS AND ADJUSTMENTS**

**Finding**

The County reviews its accounting information and compares the information to their knowledge of historical events. From time to time, the auditor recommends adjustments to these records, as well as proposes other adjustments needed for preparing full accrual statements in compliance with GASB 34 which are only needed at year end. Although it is common within the government sector, and most private companies, to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect (SAS No. 112 effective year ends on or after December 15, 2006). Since some adjustments and calculations made by the auditor may be material to the financial statements, this weakness in internal control would be classified as material.

**Recommendation**

The County should continue to read its annual financial report and ensure the quality of both the document and the preparer. Changes in operation are not recommended.

**Management's Response**

We concur with the recommendation.

**2007-5. SEGREGATION OF DUTIES**

**Finding**

In many financial areas of the County, including administration of the County's federal award programs, the County lacks segregation of duties. Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the County can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the County. There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered.

**Recommendation**

The County should continue to re-evaluate its segregation of duties and, when possible, assign tasks to strengthen controls.

**Management's Response**

We concur with the recommendation.

***Significant Deficiencies:***

**2008-4. SHARED CASH DRAWERS**

**Finding**

Not all County employees that receive cash payments have their own cash drawer.

**Recommendation**

The County should consider developing a process where each employee will be responsible for their own cash drawer.

**Management's Response**

We concur with the recommendation.

**2007-6. INTERNAL CONTROL ASSESSMENT, COMMUNICATION, AND MONITORING**

**Finding**

Like many local governments of its size and complexity, the County does not have a formal process for assessing risk associated with key controls related to its financial operations and fraud. In addition, while a number of processes are used to communicate internal controls (such as formal actions taken by the Commissioners' Court,

policies and procedures, memos, emails, website and controlling legislation), a single source, such as a complete and up to date policy and procedures manual, does not exist. Likewise, the entity does not have a formal process for monitoring its internal control.

**Recommendation**

The County should continue to monitor the need for more formally established processes to assess risk, communicate controls, and monitor controls. The County should consider having an annual workshop with an audit committee designated by the Commissioners' Court and key personnel to specifically discuss risk and key controls to mitigate those risks. The County's assessment of its risk and evaluation of the effectiveness of controls can then be utilized to determine the sufficiency of the level of documentation.

**Management's Response**

We concur with the recommendation.

***Other Matters:***

**2007-7. ANTI-FRAUD POLICY**

**Finding**

Events in recent years have increased public awareness of fraud and have resulted in a number of regulatory changes which have further focused attention on this subject matter, bringing about a shift in public policy. Consequently, many governments have or are considering adopting a formal anti-fraud policy.

**Recommendation**

The County should consider adopting a formal anti-fraud policy.

**Management's Response**

We concur with the recommendation.

This communication is intended solely for the information and use of management, Commissioners' Court, the County Judge, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties.

*Belt Harris & Associates, LLLP*

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December 31, 2009