



Communication with Those Charged with Governance

To County Auditor, Judge and Commissioners of
Karnes County

We have audited the financial statements of the Karnes County as of and for the year ended September 30, 2021, and have issued our report thereon dated March 14, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 19, 2021, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Karnes County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and others in our firm, as appropriate, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Karnes County is included in Note A to the financial statements. The following changes in accounting policies were made in 2021:

Sales Tax – The County traditionally recorded sales tax in the month received from the comptroller. However, each remittance represents sales tax collected at the merchants two months prior. Adding an accrual for two months of sales tax at year end captures the activity in the fiscal year. So, management agreed to add the accrual this year. A prior period adjustment was recorded to make the same change to the prior year for consistency.

Emergency Services District – Previously the County has reported the Emergency Services District as a fund of the County. The ESD has been legally separated and its activity removed from the 2021 financial report.

Governmental Accounting Standards Board Statement 84 – This statement imposes new reporting requirements for fiduciary funds: accounts the County holds for the benefit of others. Previously, only the total balance was required to be reported. Now, the balance and summarized activity is required to be reported. These amounts have not been recorded in the County's financial software. The statement also puts a renewed emphasis on appropriately identifying funds as County funds or fiduciary funds.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

1. Useful lives of depreciable assets
2. Allowance for uncollectible property tax
3. Mortality rates, investment returns, discount rates, health care cost trends and other expected conditions related to
 - a. Pension plan
 - b. Retiree Insurance

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Karnes County's financial statements related to the net pension liability, total other post-employment liabilities, prior period adjustments, and tax abatement.

Significant Difficulties Encountered during the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.

Representations Requested from Management

We have requested certain written representations from management in a separate letter dated March 14, 2022.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Karnes County's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We assisted management with recording routine accruals such as property tax receivables, accrued wages, accrued compensated absences, depreciation and capital lease obligations.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Karnes County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Karnes County's auditors.

We noted the prior auditor communicated a matter that has not yet been addressed:

Stale Outstanding Checks

The 2020 audit included a recommendation for the County to research and appropriately dispose of stale outstanding checks on the bank reconciliations. We noted discussions of this in the court minutes, but the stale checks were still reported on the September bank reconciliations. The County should research these outstanding items to void or escheat checks as required.

During our audit, we became aware of the following areas for improvement that the County may consider:

Accrued Compensated Absences

The County's financial software (Incode) is where payroll is processed. However, vacation balances are only tracked in TimeClock Plus. A significant accrual for the annual report is a calculation of the liability for accrued but unused time off. If vacation balances were tracked in Incode, the calculation of the liability would be conducted automatically in Incode, using the payroll information already in the system. Instead, reports have to be run from TimeClock Plus and manually updated from pay rates in Incode to calculate the liability at year end. This is a manual, time consuming process that is prone to errors. Consider tracking vacation in Incode to facilitate year end reporting.

Court Software

Currently Justices of the Peace and the District/Court Clerk are using a mix of Hill Country and Odyssey software to track cases and record receipts. Hill Country lacks some of the advanced features of Odyssey as well as some controls to prevent manipulation of the data. In addition, the County Auditor does not have access to either system. A centralized, hosted offering of Odyssey would provide access to the Auditor, improve controls over the data in the system, and allow for streamlining fine and fee setup. Furthermore, cash receipting in Odyssey can be standardized to simplify deposit records for Incode posting.

GEO Group Contract

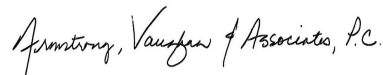
We noted the contract with GEO Group includes an annual administrative fee to be paid to the County each year of \$125,000. This fee was set in 2014 and the contract stipulated for an annual increase to the fee in accordance with the consumer price index. In 2021, the county received \$125,000, with no adjustment for inflation since the original agreement. The County may wish to review payments made and discuss this with GEO Group.

Purchasing Agent

The County conducts significant procurements subject to Texas procurement laws. Currently, each office primarily handles their own procurement and retains the records. For increased oversight, the County could consider adding a purchasing agent position to assist the offices with compliance requirements and record retention. This would also increase transparency and uniformity across offices.

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

Respectfully,



Armstrong, Vaughan & Associates, PC
March 14, 2022