

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF WINDCREST, TEXAS
REPORT ON THE CONDUCT OF AUDIT
For The Year Ended September 30, 2013

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members
of City Council
City of Windcrest, Texas

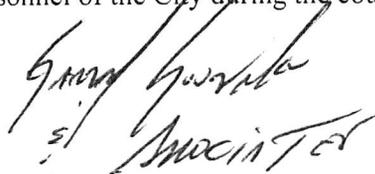
We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Windcrest, Texas (the City) as of and for the year ended September 30, 2013, and have issued our report thereon dated April 16, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

- the conduct of our audit (Parts I – VIII),
- internal control and other matters (Part IX),

This letter does not affect our report dated April 16, 2014, on the financial statements of the City. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure and ensure compliance with state requirements.

This report is intended solely for the use of the Audit Committee, City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by the personnel of the City during the course of our audit.

Handwritten signature in black ink, appearing to read "Garza/Gonzalez & Associates".

April 16, 2014

CITY OF WINDCREST, TEXAS
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I. The Auditors' Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 13, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

We are 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 specifically to identify such matters.

II. Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the City's financial statements are depreciation, and the allowance for uncollectible receivables. Following are the bases used by management for such estimates:

- depreciation is based on estimated useful lives of the respective capital asset class;
- allowance for uncollectible municipal court fines receivable represents 90% of the warrants receivable balance outstanding.
- allowance for uncollectible property taxes receivable represents receivables that have been outstanding for 4 years or more at year end.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The financial statement disclosures are neutral, consistent, and clear.

III. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

IV. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These audit adjustments, not including adjustments made for the Corporation, had the net effect of decreasing liabilities and expenditures by \$73,584.

V. Disagreements with Management

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

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 16, 2014.

VII. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us or determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VIII. Other Issues

Other Information in Documents Containing Audited Financial Statements

Our responsibility for certain supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Matters Discussed with Management Prior to Reappointment

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our appointment.

IX. Internal Control and Other Matters

PRIOR YEAR COMMENTS

All prior year comments were satisfactorily resolved except as follows:

Capital Assets

Our review of internal controls over capital assets indicated the following:

- The capital asset policy does not identify the different types of capital asset classes (i.e. land, buildings, etc.) which are considered capital assets or their useful lives.
- A physical count of capital assets was not performed in the current year and staff is unaware of the date the latest one occurred. As a result, the capital asset subsidiary list may not include all capital assets and may include items that are no longer present.
- Useful lives for furniture and equipment, including vehicles, may not be reasonable since a significant portion of these assets are fully depreciated and yet are still in use.

We recommend the City:

- Include the various capital asset classes and their descriptions and useful lives in the City's asset policy.
- Perform a complete physical inventory count of capital assets at least every two years and reconcile the subsidiary list to the control accounts.
- Review the useful lives of asset classes to ensure the useful lives are reasonable.

Management's Response

A capital asset policy was drafted and presented before City Council. The City Council tabled it until a future date.

Staff has completed a review of the capital assets and identified the items to be updated, or removed once an auction occurs.

Review of the useful lives in the INCODE software program will be reviewed against the capital asset policy once it is approved by City Council.

Payroll

Our testing of 25 payroll transactions indicated the following:

- Various types of extra wages are paid to employees but are not indicated in the pay plan.
- One instance an employee was paid less than the amount indicated as the minimum in the pay plan.
- Five instances the payroll specialist did not sign off, indicating approval, on the personnel action forms.
- One instance the appropriate level of management did not indicate approval on the employee personnel action form.

Staff indicated the pay plan has not been updated for a number of years and do not consider the employee identified above to have been underpaid.

We recommend the following:

- The City should update its pay plan to include all employee positions and type of pay, including but not limited to stipends, extra pay, etc.
- Ensure that a properly approved personnel action form is completed showing pay which coincides with the Council approved pay plan.

Management's Response

The Personnel Policy is under review and re-write. The pay plan is not in the revised drafted personnel policy. Management believes that the pay plan has been included annually in the approved budget thru the Personnel worksheet for each department.

Information Technology

Our review of safeguard controls over information technology indicated that the City does not have a disaster recovery plan which provides for a comprehensive process for the City to effectively recover its mission-critical functions.

We recommend the City develop a disaster recovery plan (DRP) for information technology and for the City as a whole. The State of Texas Department of Information Resources (website www.dir.texas.gov/security/policy/pages/businesscontinuityplanningguidelines.aspx) provides information and resources the City may find useful in developing its own DRP.

Management's Response

A new server was purchased but not totally installed prior to September 30, 2013. Since then the data recovery is in place to get IT related items back in operations quickly after a disaster. Currently the Chief of Police who is our emergency manager is working out the transition phases from this location to another in the event of a disaster.

Public Funds Investment Act

Our testing for compliance with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act (PFIA) noted that the City's investment policy was not provided to the financial institutions for review.

We recommend that the City receive acknowledgment from investment brokers that they have received and reviewed a copy of the City's investment policy.

Management's Response

The Municipal Finance Officer will send out, track and ensure all acknowledgements are received from investment brokers once the new Investment Policy is approved thru Council.

Disbursements

Based on our review of thirty (30) expenditures, we noted the following exceptions:

- One instance the purchase order was not properly approved.
- One instance an employee was overpaid for medical reimbursement. The City subsequently received reimbursement after the issue was reported to them.
- One instance in which an invoice was not available for review.

We recommend the following:

- Ensure that all purchase orders follow the approval path and evidence of approval is properly designated.
- Implement a secondary review process for medical reimbursements.
- Retain all invoices and other documentation necessary to substantiate purchases.

Management's Response

Implemented. Finance Staff and Municipal Finance Officer are reviewing all expenditures prior to checks being cut.