



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

Honorable County Judge and  
Commissioners' Court of  
Collin County, Texas

Gentlemen:

In planning and performing our audit of the basic financial statements of Collin County, Texas, for the year ended September 30, 2006, we considered the County's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain 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 23, 2007, on the basic financial statements of Collin 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 management 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, L.L.P.*

February 23, 2007

## COLLIN COUNTY, TEXAS

### CURRENT YEAR COMMENTS

SEPTEMBER 30, 2006

#### **STATEMENT ON AUDITING STANDARDS NO. 112**

In May 2006, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Matters Identified in an Audit*. This new standard is effective for the County's fiscal year 2007 external audit. This auditing standard establishes definitions for "significant deficiencies" and "material weaknesses" in internal controls. We believe that the new definitions will lower the threshold for control deficiencies that must be reported by the external auditor. The result is likely to be an increase in the number of control deficiencies that are reported as a result from external financial audits.

In order to prepare for the implementation of SAS 112, it will be important for the County to understand the provisions of the new standard and to develop a detailed action plan. Several actions to consider are listed below:

- Identify an individual or team that will oversee the preparation for the implementation of this standard;
- Identify and document the key controls that support the various financial processes;
- Determine where the greatest risks of significant deficiencies or material weaknesses can occur;
- Implement an action plan for areas that need strengthening; and
- Prioritize key action steps that can be accomplished this fiscal year.

#### **PERSONNEL FILES**

It is a federal requirement that every employee hired after November 1986, completes an Employment Eligibility Verification Form, Form I-9. This form is to remain on file for the duration of employment. In addition, a copy of the employee's driver's license and social security card are to be included with the I-9 Form. During our review of personnel files, we noted several instances where there was no I-9 Form on file for applicable employees. We recommend the County perform a comprehensive review of all personnel files to ensure that all personnel files for employees hired subsequent to November 1986 contain an I-9 Form.

## **COUNTY CLERK**

Proper authorization of cash transactions is an integral part of any internal control structure. While confirming cash balances for the County Clerk's office, we noted that the signature card for cash accounts at Legacy Texas Bank had not been updated with the new County Clerk's signature. Keeping signature cards up to date is essential in safeguarding assets from misappropriation and in allowing the Clerk's office to obtain the information needed to properly manage these accounts. We recommend the County review its policies and procedures to ensure that proper procedures exist to ensure these types of changes are made in a timely manner.

## **PRIOR YEAR COMMENTS**

### **SEGREGATION OF DUTIES**

#### ***Prior Year Comment:***

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 control are:

- Maintaining custody of assets
- Authorizing transactions
- Recording transactions

One individual's ability to perform functions in two or more of the categories above increases the risk that this individual could create an error and conceal that error without detection in a timely manner.

Currently, one employee at the Justice of the Peace #3-2 is assigned to collect payments, reconcile receipts to cash collections, perform bank reconciliations, and prepare bank deposits.

In a small entity, segregation of duties often presents difficulties due to the limited number of employees. However, even those with few employees may be able to assign responsibilities to achieve adequate segregation. Generally, the County has made significant progress in improving its internal control structure. We support the County's efforts in this regard and encourage the County to continue to evaluate the controls currently in place and separate incompatible duties 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.

#### ***Current Status:***

This matter has been resolved.

## **ASSET RECOGNITION**

### ***Prior Year Comment:***

Proper asset recognition is essential in preparation of the County's financial statements. Currently, the County recognizes fines and fees receivable when the citation is issued rather than by post-adjudication leg date. Fines and fees do not become receivables to the County until a judge has ruled, therefore creating a legally enforceable fine. We recommend the County record its fines and fees receivable when the amounts are known.

### ***Current Status:***

The County is currently developing software that would provide an improved system for tracking and reporting fines and fees receivable.

## **ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

### ***Prior Year Comment:***

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, issued in June 2004, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

From an accrual accounting perspective, the cost of OPEB generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the cost of benefits in periods when the related services are received by the employer;
- Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and
- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Implementation is required for the County in the first fiscal period beginning after December 15, 2007. We recommend the County begin to formulate strategies to meet the demands of the new standard.

***Current Status:***

The County is preparing for implementation for the fiscal year ending September 30, 2009.

**ECONOMIC CONDITION REPORTING: THE STATISTICAL SECTION**

***Prior Year Comment:***

Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*, issued in May 2004, establishes new guidelines for preparing the statistical section of a Comprehensive Annual Financial Report (CAFR). GASB Statement No. 44 enhances and updates the statistical section that accompanies the County's basic financial statements to reflect the significant changes that have taken place in government finance, including the more comprehensive government-wide financial information required by GASB Statement No. 34. The Statistical Section will be required to contain the following five categories:

- Financial Trends – trend information to help readers understand how the County's financial performance and well-being have changed over time.
- Revenue Capacity – information to help readers assess the County's most significant "own source" revenue sources.
- Debt Capacity – information to help readers assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future.
- Demographic and Economic Information – offer demographic and economic indicators to help readers understand the environment within which the County's financial activities take place.
- Operating Information – contains service and infrastructure data to help readers understand how the information in the County's financial report relates to the services the County provides and the activities it performs.

The County will be required to implement the new standard in the fiscal year ending September 30, 2006. We recommend the County become familiar with the new statistical section requirements in order to ensure that all necessary information is available in the year of implementation.

***Current Status:***

The County implemented this standard during the current fiscal year.

**JUSTICE OF THE PEACE OFFICES**

***Prior Year Comment:***

During our examination of the Justice of the Peace's cash control procedures, we discovered opportunities in which internal controls could be strengthened. Currently, all clerks have the ability to dismiss court fines in a manner other than payment. As a result, a risk exists that fines could be paid by offenders, misappropriated and possibly never discovered.

An essential element of any preventive control system is the segregation of duties in such a manner that no single individual could perpetrate an error and conceal it without being discovered in a timely manner. In order to properly segregate duties at the Justice of the Peace offices, we recommend an individual whose duties do not include the receipt of cash verify all court fines that are dismissed in a manner other than payment. Documentation of the disposition of all prenumbered tickets should be retained and periodically verified with the use of random sampling.

***Current Status:***

Unchanged

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We appreciate the opportunity to be of service to **Collin County, Texas**. Should you have any questions or would like to discuss any of the aforementioned, please do not hesitate to call our office.