

COUNTY OF NUECES, TEXAS

MANAGEMENT LETTER

SEPTEMBER 30, 2012

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March 28, 2013

The Honorable Judge and Commissioner's Court
County of Nueces, Texas

We have audited the accompanying financial statements of the County of Nueces, Texas, for the year ending September 30, 2012 of which our report was dated March 28, 2013, thereon. As part of our examination, we made a study and evaluation of the county's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The administration of the County of Nueces, Texas, is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

In addition, our study and evaluation made for the limited purpose described in the first paragraph, would not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the County of Nueces, Texas, taken as a whole.

Our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements of the County of Nueces, Texas, may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the September 30, 2012 accompanying financial statements, and this letter does not affect our report on these financial statements issued March 28, 2013.

**MONTHLY CLOSE-OUT PROCEDURES/OUTSTANDING CHECKS/TIMELY DEPOSITS
COMPUTERIZED RECEIPTS**

Finding No. ML2012-01. As mentioned in the prior audits, various county departments had outstanding checks over six months old, some checks were up to several years old. The following departments had outstanding checks during the year:

1. District Clerk: Trust I&II, Non Interest Trust, Child Support (several negative balance accounts occurred during the fiscal year)
2. District Attorney: Hot Check Fund
3. County Sheriff: Jail Trust Acct, Cash Bond Acct
4. County Clerk: Fee Account, Collections Acct, School Fund Acct
5. Property Tax: Property Tax Acct, Motor Vehicle Acct
6. Coastal Management
7. CSCD: Restitution Acct, Trust Acct, Residential Acct
8. Juvenile Restitution Acct
9. Other Dept: Expense Clearing Acct, General Service Acct

Recommendation No. ML2012-01. For accountability purposes, we recommend that all outstanding checks be reviewed and outstanding checks should be voided or reissued according to Nueces County Escheating Policy and/or analyze the appropriate action for those funds. Additionally, in the District Clerk Child Support accounts, negative balances should be researched and remedied.

MANAGEMENT'S RESPONSE: We agree with recommendation. The county auditors office is continuously working with the departments to get these checks reissued or submit to treasury for state unclaimed property reporting. Currently, Inmate Trust Account has submitted monies to treasury for unclaimed property for checks issued through 9/30/2011. County Clerk Collections and Fee accounts have already voided checks and are in process of gathering information needed to submit to treasury for unclaimed property. Tax Office has committed to turn over stale dated checks for Motor Vehicle and Property Tax accounts.

Finding No. ML2012-02. As mentioned in the prior audit, during our expenditure testing, we noted a sample of our invoices were 1. not stamped "paid", 2. items had no purchase order, 3. samples of the items tested had an invoice date after the check issue date, 4. purchase orders were dated after the invoice date, (we noted these instances include invoices paid with a Pcard); and 5. no purchase order(s) were issued with invoices related to acquisitions made with the Pcard.

Recommendation No. ML2012-02. For accountability and internal control purposes, purchase orders must first be obtained in order to insure sufficient funds are available and expenditures are within budget. Invoices should be stamped "Paid", even when paid with a Pcard. Blanket purchase orders should be issued for utility bills and reoccurring expenditures but monitored during the year.

MANAGEMENT'S RESPONSE: Stamping the invoices as "Paid" was also on the findings prior years and the county auditor's response is basically the same this year. Stamping invoices "paid" in the instances where invoices been paid by a credit card and that a zero dollar amount is due is not a priority at this time. The resources to stamp invoices "Paid" when those invoices already reflect 'zero amount due as paid with a credit card' are not available to perform such a task on a timely basis. We will continue monitoring this process and throughout the year.

In effort to become more automated and go paperless in the auditor's office, accounts payable began mid July 2012 with imaging invoices, processing and paying off the scanned images not hard copies. As of mid July accounts payable no longer handles hard copy invoices to mark paid. The accounts payable process begins and ends with the financial system. The financial system does not have the resources to provide stamping invoice images "paid" for those findings where invoices are paid by checks. Auditor's office will continue to monitoring and seek alternative with vendor on this process.

Also during the transition from old process of paper handling to scanning invoices procedures, coding responsibility were not clear but later established as in the "no coding on invoice" findings. The new accounts payable scanning staff will be responsible to review and ensure coding is complete prior to scanning invoices.

Purchase orders dated after the invoice date findings, the accounts payable supervisor will distribute a memorandum to the departments having these instances and explain the purpose of purchase orders; and recommend procedures on what to do when the actual amount of the invoice is not known.

Finding No. ML2012-03. During our testing of the Sheriff's office, we noted a lack of internal controls for the reconciling and/or verifying the accuracy of daily/monthly sales. We noted information was periodically provided by the outside vendor, Keefe, or as requested but not a regular and timely basis to determine the accuracy of the sales and commissions earned.

Recommendation No. ML2012-03. For internal controls and accountability purposes, the Commissary should be reconciled on a daily basis, the staff should obtain a software that can provide timely information for purchases made and the applicable sales commission due the County and reconciled periodically. The County should not rely on the vendor for this information but have sufficient controls in place to ensure accurate revenues are being recorded. A procedures manual should be developed and a backup plan for staff should be analyzed that provides sufficient internal controls and accountability.

MANAGEMENT'S RESPONSE: We agree with the recommendation. Sheriff department and county auditor will work with vendor to establish procedures to reconcile daily reports to the billings in effort to insure the validity of charges to inmate accounts and that commissary is properly calculated.

Finding No. ML2012-04. During our audit testing of cash, we noticed that the District Clerk's Child Support Department maintained a negative book balance throughout the majority of the year.

Recommendation No. ML2012-04. For internal control and accountability purposes, reconciliations should be done on a timely basis to ensure accurate and positive balances are being maintained.

MANAGEMENT'S RESPONSE: The negative book balance is a result of non-custodian parents issuing checks which are returned insufficient funds to the District Clerk and the funds have already been disbursed to the custodial parent. The District Clerk has made effort to collect on these funds but have not been able to recover them and they have been accumulating over the years. The District Clerk's Office has requested a check to replenish the Child Support account to clear out the negative balance. The District Clerk will annually review any uncollectible amounts and submit a claim to the self-insurance fund to ensure the Child Support Account maintains a positive balance.

Finding No. ML 2012-05. As mentioned in the prior audit and in a special engagement performed by us and the Nueces County Internal Auditor's of the District Clerk's office, we noted that the District Clerk's Office was not current in the reconciliation of the Registry Accounts (un-invested) and the Minors Trust Account (invested). Additionally, other financial reconciliation issues still exist such as the unallocated interest that remain unresolved.

Recommendation No. ML2012-05. While we note that the District Clerk's Office does maintain a large volume of accounts, for accountability and internal control as well as compliance purposes, all trust accounts must be updated and reconciled on a timely basis.

MANAGEMENT'S RESPONSE: Status on Registry (un-invested) and Minor Trust Account (invested) is as follows:

District Clerk has been submitting reports on a timely basis throughout the fiscal year. As of 3/31/2013, reports for both accounts have been received for February 2013.

Finding No. ML2012-06. As mentioned in the prior audit, we noted that the District Clerk's Office was not current in the reconciliation of the Operating Account. At March 2012, the last month this account was reconciled was February 2011.

Recommendation No. ML2012-06. For internal control and accountability purposes, reconciliations should be done on a timely basis to ensure accurate balances.

MANAGEMENT'S RESPONSE: District Clerk is submitting their reconciled Operating account past due reports two or three months at a time to get caught up. As of May 1, 2013, they have submitted December 2012 and are averaging at least two reports per month. They should be up to date by approximately July 2013.

Finding No. ML2012-07. During our audit and analysis of the flow of documentation initiated from the District Clerk's office to the County Court of Law #5, we noted that an overall lack of documented procedures (check-off list) as well as a lack of a procedures manual was in place.

Recommendation No. ML2012-07. A complete check-off list of the required documentation for each minor trust should be maintained and periodic reviews of these files should be performed by management. These procedures and check-off list should follow the Texas Probate Plus Manual for compliance purposes. We did note procedures were being established in the post audit period.

MANGEMENT'S REPONSE: General procedures are in place and others have been tested to improve the paper flow. While the procedure manual has not yet been finalized, our "checks and balances" system has been enhanced thru these procedures and with the Odyssey software system.

Finding No. ML2012-08. During the audit, we noted the County has adopted a Fraud Policy for compliance purposes. It was noted that County-wide that procedures and compliance procedures were not fully established.

Recommendation No. ML2012-08. For compliance purposes, the County's various departments should continue with its individual compliance procedures to adhere to the Fraud Policy. It is also recommended the County Auditor's office perform compliance testing of that Policy.

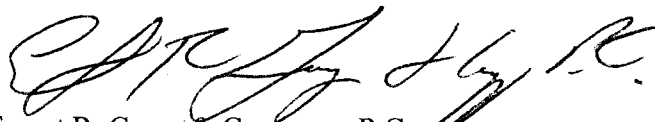
MANGEMENT'S REPONSE: The Fraud Policy is being included in the Human Resources Employee Policy Packages. The County is in the process of developing the procedures and compliance requirements to comply with the Nueces County Fraud Policy. This should be completed in the next fiscal year.

As our normal practice following an audit, we are presenting our findings and recommendations to assist management in fulfilling its responsibility to maintain an adequate system of internal accounting controls, your principal safeguard against irregularities.

Although our comments have been reviewed with the County's management, we are pleased to provide further information or discuss any questions you might have regarding the contents of this letter.

We would like to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by the public officials and the employees of the County of Nueces, Texas, during this audit.

Very truly yours,



Ernest R. Garza & Company, P.C.
Certified Public Accountants