



MARTINEZ, ROSARIO & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MAVERICK COUNTY, TEXAS

**FINANCIAL AND COMPLIANCE REPORTS ON
FEDERAL GRANTS**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2012**



MAVERICK COUNTY, TEXAS

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SEPTEMBER 30, 2012

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INDEPENDENT AUDITORS' REPORT

Honorable County Judge and
Members of Commissioners' Court
Maverick County, Texas

We have audited the accompanying schedule of expenditures of federal awards for Maverick County, Texas (the "County") for the year ended September 30, 2012. This financial statement is the responsibility of the County's management. Our responsibility is to express an opinion on the schedule of expenditures of federal awards based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards for the County for the year ended September 30, 2012 in accordance with the basis of presentation described in Note 1.

As discussed in Note 3 to the Schedule of Expenditures of Federal Awards, current and former County governing board members and employees of the County have been indicted and arrested on various criminal charges, including charges involving County business. One individual had all charges dropped. Six of these individuals have pled guilty; however, the resolution of the remaining indictments is currently not determinable.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Martinez, Rosario & Company, LLP

Martinez, Rosario & Company, LLP
Certified Public Accountants
San Antonio, Texas

March 17, 2014

MAVERICK COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period	Award Amount	Total Expenditures by Program
<u>FEDERAL ASSISTANCE:</u>					
U.S. DEPARTMENT OF HOUSING AND URBAN					
Passed-Through Texas Department of Agriculture:					
Community Development Blocks Grant/State's					
- CDBG Self Help Project #710003	14.228	711003	05-05-2011 to 05-05-2015	1,000,000 \$	108,577
- CDBG Self Help Project #711205	14.228	711205	03-05-2012 to 03-04-2014	500,000	19,000
					127,577
U.S. DEPARTMENT OF JUSTICE					
Passed-Through Criminal Justice Division of The State of Texas:					
Edward Byrne Memorial Justice Assistance Grant - BorderStar JAG	16.738	1983105	10/01/2011 to 09/30/2012	282,946	194,291
					194,291
Passed-Through Texas Border Sheriff's Coalition:					
Congressionally Recommended Awards	16.753	2010-DD-BX-0484	08-01-2010 to 07-31-2011	247,650	78,640
					78,640
U.S. DEPARTMENT OF ENERGY					
Passed-Through Texas Comptroller Public Accounts:					
ARRA Energy Efficiency and Conservation Block Grant (EECBG)	81.128	CS0595	06-13-2010 to 06-30-2012	115,153	5,776
					5,776
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed-Through Middle Rio Grande Development Council Area Agency:					
Special programs for the Aging Title III, Part B Grants for Supportive Services and Senior Citizens - Elderly Nutrition Title III (CI, CII, 3B trabs, Partucuoabt Assessment)	93.044	AAA-2011-024-03	10-01-11 to 09-30-12	206,512	206,512
					206,512
Passed-Through Texas Department of Aging and Disability Services:					
Social Services Block Grant Title XX/XIX	93.667	001001465	10-01-11 to 09-30-12	207,900	213,258
					213,258
U.S. DEPARTMENT OF HOMELAND SECURITY					
Passed-Through Federal Emergency Management Agency:					
Operation Stone Garden 2008					
Operation Stone Garden 2009	97.067		10-01-2009 to 09-12-2012	2,035,834	214,557
Operation Stone Garden 2010	97.067	2010-SS-T0-0008	08-01-2010 to 10-31-2012	683,798	496,235
Operation Stone Garden 2011	97.067	EMW-2011-SS-0019	09-01-2011 to 08-31-2013	646,211	85,068
					795,860
SCAAP (State Criminal Alien Assistance Program)	16.606	2012-H4399-TX-AP	10/01/2012 to 09/30/2012	18,127	18,127
					18,127
TOTAL FEDERAL ASSISTANCE				\$	1,640,041



MAVERICK COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the County under programs of the federal governments for the year ended September 30, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the County, it is not intended to, and does not present, the financial position, changes in net assets, or cash flows of the County.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Revenue Recognition - Federal awards programs are reported in the County's financial statements as follows:

	<u>Amount</u>
Intergovernmental Revenue and Grants	\$ 1,812,132
Less: Other	<u>172,091</u>
Total Expenditures of Federal Awards	\$ <u><u>1,640,041</u></u>

Relationship to Federal Financial Reports - Amounts reported in the accompanying schedule may not agree with the amounts reported in the related Federal financial reports filed with grantor agencies because of different program year-ends, different methods of accounting (cash versus accrual basis), and estimates made by management.

MAVERICK COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
For the Year Ended September 30, 2012

NOTE 3: CONTINGENCIES

Federal Grants

The County received significant financial assistance from federal agencies in the form of grants and contracts. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant and/or contract agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of the County's Management, liabilities resulting from disallowed claims, if any, will not have a material adverse effect on the County's financial position at September 30, 2012.

Other Matters

The following are indictments against former and current County employees and vendors doing business with the County. These matters are part of an ongoing law enforcement investigation and the outcome or impact to the County is not currently determinable.

- The former County Purchasing Agent and the current Precinct 1 Foreman were arrested October 11, 2012. The Foreman is related to the County Commissioner for Precinct 4. They are charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds. These charges involve their work with the County. The Foreman pleaded guilty on January 24, 2013. Charges were dropped against the former County Purchasing Agent on April 11, 2013.
- A vendor was arrested October 11, 2012. The vendor is charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds.
- The County Commissioner for Precinct 2 was arrested October 18, 2012, on cash smuggling and money laundering charges. None of the charges involve his work with the County. On January 22, 2013, the County Commissioner was indicted in connection with alleged bribery, kickback and bid-rigging scheme involving his work with the County.

MAVERICK COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
For the Year Ended September 30, 2012

NOTE 3: CONTINGENCIES – Continued

Other Matters – Continued

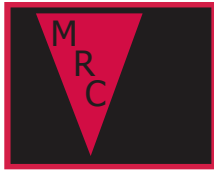
- The former Assistant County Auditor was arrested on November 2, 2012, in connection with an alleged bribery scheme involving her work with the County. She pled guilty on January 24, 2013, and will be sentenced on March 31, 2014.
- A current employee was arrested on November 8, 2012, on a charge of receiving bribes in his role as a liaison between the County and private contractors hired to perform work for the County. He pled guilty on January 24, 2013.
- A contractor pled guilty on November 29, 2012, to a theft charge related to a scheme to steal more than \$17,000 in Maverick County funds.
- The County Commissioner for Precinct 1 was arrested on December 6, 2012, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 1, 2013, and pled guilty on May 2, 2013. He will be sentenced on April 8, 2014.
- A probation officer who also works as a general contractor was arrested December 12, 2012, on a charge of fraud and bribery. He pled guilty on May 2, 2013.
- A general contractor was arrested on December 20, 2012, on three counts of paying bribes to get contract work. He pled guilty on March 12, 2013.
- The Justice of the Peace of Precinct 2 was arrested on January 11, 2013, in connection with engaging in original criminal activity and theft by a public servant.
- The County Commissioner for Precinct 4 was arrested on January 17, 2013, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 15, 2013 and pled guilty on September 5, 2013.
- A contractor was arrested on April 11, 2013, on two counts of bribery.

MAVERICK COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
For the Year Ended September 30, 2012

NOTE 3: CONTINGENCIES – Continued

Other Matters – Continued

- The former Landfill manager, who tendered his resignation on January 8, 2013, was arrested on April 11, 2013, on one count of possessing forged securities and one count of theft. The indictment alleges the former Landfill Manager forged County checks to himself worth \$62,000.
- A contractor was arrested on April 18, 2013, on one count of bribery.
- A contractor was indicted on June 13, 2013, and pled guilty on December 5, 2013, for paying Maverick County Precinct 2 Commissioner approximately \$57,000 in return awarding the contract.
- Seco Mines Community Center Director, was arrested on October 22, 2013, after state authorities executed a warrant for his arrest on one charge of credit card abuse. He is being accused of using Maverick County fuel cards to re-fuel his personal vehicle(s).
- Three Eagle Pass businessmen indicted in connection with Maverick County Bribery, Kickback, and Bid –Rigging Scheme on November 21, 2013. Two businessmen charged with one count of paying bribe and one businessman charged with one count of aiding and abetting theft concerning programs receiving federal funds.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable County Judge and
Members of Commissioners' Court
Maverick County, 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 Maverick County, Texas (the "County") as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements and have issued our reports thereon dated March 17, 2014.

We did not express any opinions on the financial statement of the governmental activities, the business-type activities, each major governmental fund, the aggregate remaining governmental funds information, the major proprietary fund for the Water Utility Operations, aggregate remaining proprietary funds information and the Agency funds, because the scope of our work was not sufficient to enable us to express opinions on these financial statements since the County's accounting records were inadequate, and we were not able to apply other auditing procedures to satisfy ourselves as to its capital assets, all of its internal due to/due from amounts, its debt transactions, self-insurance liabilities and estimated liability costs of closure and post closure for the Landfill operations, expenses, expenditures, certain related party contingencies, and other matters, since the Maverick County Solid Waste Authority's (MCSWA), a component unit, financial statements are not included and audited and since we were unable to obtain written representations from management of the County. Also, our report noted a departure from accounting principles generally accepted in the United States of America in regards to the reporting and disclosure of sufficient information for the County's capital assets and related depreciation expense, its debt transactions, self-insurance liabilities and estimated costs of closure and post closure for the Landfill operations and related expenses and expenditures. The financial statements of the MCSWA have not been audited, and we were not engaged to audit the MCSWA's financial statements as part of our audit of the County's basic financial statements. MCSWA's financial activities are not included in the County's basic financial statements as a blended component unit in the business-type activities and as a major fund in the proprietary funds. In addition, our report contained explanatory paragraphs referring to certain related party contingencies, other matters and prior period restatements. Except as discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Findings 2012-01, 2012-02, 2012-03, 2012-04 and 2012-05.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2012-01, 2012-02, 2012-03, 2012-04, 2012-05 and 2012-06.

We noted certain other matters that we reported to the management of the County in a separate letter dated March 17, 2014.

The County did not provide us with responses to the findings identified in our audit as described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of the County Commissioners' Court, the County Management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Martinez, Rosario & Company, LLP

Martinez, Rosario & Company, LLP
Certified Public Accountants
San Antonio, Texas

March 17, 2014





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Honorable County Judge and
Members of Commissioners' Court
Maverick County, Texas

Compliance

We have audited the compliance of Maverick County, Texas (the "County") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2012. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in Finding 2012-07 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with the requirements regarding Equipment and Real Property Management that are applicable to its Congressionally Recommended Awards and Operation Stone Garden grant programs. As described in Finding 2012-08 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding Allowable Costs that are applicable to its Operation Stone Garden grant program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the compliance requirements referred to above that could have direct and material effect on to each of its major federal programs for the year ended September 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-09.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with the type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as Finding 2012-07, 2012-08, and 2012-09 to be material weaknesses.

The County did not provide us with responses to the findings identified in our audit as described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of the County Commissioners' Court, management, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Martinez, Rosario & Company, LLP
Martinez, Rosario & Company, LLP
Certified Public Accountants
San Antonio, Texas

March 17, 2014



**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2012**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statement:

Type of auditors' reports:

Disclaimer of Opinion – Governmental and business activities, each major governmental fund, the aggregate remaining governmental funds information, the major proprietary funds for the Maverick County Solid Waste Authority, Water Utility Operations, the aggregate remaining non-major proprietary funds information, and the Agency Funds.

Unqualified Opinion – Proprietary major funds Maverick County Public Facility Corporation (MCPFC) and MCPFC Detention Center.

Unqualified Opinion – Schedule of Expenditures of Federal Awards

Internal control over financial reporting:

- Material weakness(es) identified? _____ ✓ _____ Yes _____ No
- Significant deficiency(ies) identified? _____ Yes _____ ✓ _____ None Reported
- Noncompliance material to financial statements noted? _____ ✓ _____ Yes _____ No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ ✓ _____ Yes _____ No
- Significant deficiency(ies) identified? _____ Yes _____ ✓ _____ None Reported

Type of auditors' report issued on compliance for major programs: *Qualified* – Congressionally Recommended Awards
Qualified – Operation Stonegarden

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – Continued
For the Year Ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS - Continued

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
16.753	Congressionally Recommended Awards
97.067	Operation Stonegarden

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-01

Monthly Financial Reporting

Type of Finding: Material Weakness and Material Non-Compliance

Condition and Context:

During our audit of the County, we noted that the County Auditor was not presenting monthly financial reports to the Commissioners' Court in accordance with Texas Local Government Code sections 114.024 and 114.025.

Criteria:

At each regular meeting of the Commissioners' Court, the County Auditor is required to present a tabulated report of:

1. The County's receipts and disbursements of funds; and,
2. The accounts of the County.

Also, on a monthly basis, the County Auditor is required to present to the Commissioners' Court and to the District Judges of the County reports, which include:

1. The aggregate amounts received and disbursed from each County fund;
2. The condition of each account on the books;
3. The amount of County, District and school funds on deposit in the County depository;
4. The amount of County bonded indebtedness and other indebtedness; and,
5. Any other fact of interest, information, or suggestion that the auditor considers proper or that the Commissioners' Court or District Judges require.

Effect:

The County Auditor will not be in compliance with legal requirements.

Cause:

Failure to comply with legal requirements. Weak oversight and ineffective performance of duties by the County Auditor. Lack of overall adherence to the County's policies and procedures. Inadequate supervision and review of staff, as well as, the lack of staff training. Vacancy for most of the fiscal year ended September 30, 2012 in the County Auditor's position. In addition, the conditions noted in Findings 2010-02, 2010-03 and 2010-04 create an operating environment whereby internal controls are materially weak or nonexistent.

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-01 – Continued

Recommendation:

On a monthly basis, the County Auditor should prepare and present to the Commissioners' Court and District Judges of the County, reports that contain the information set forth in the "Criteria" section above.

The gravity of this finding combined with Findings 2010-02 through 2010-04 results in the County lacking adequate fiscal management and financial reporting. The magnitude of poor internal controls and inadequate records resulted in the County's financial statements to be misstated as of September 30, 2009, 2010, and 2011 and caused us to disclaim an opinion on your financial statements as of and for the years ended September 30, 2010, 2011 and 2012.

The County must significantly improve fiscal operations and make revisions to its fiscal management including working with the District Judges to change its County Auditor. The County must ensure that a new County Auditor has the necessary education, training and skills to meet its fiscal management and fiscal reporting needs. Also, the County must monitor that a new County Auditor adheres to the requisite state laws applicable to County Auditors.

Finding 2012-02

County-wide Accounting, Internal Controls and Financial Reporting Deficiencies

Type of Finding: Material Weakness and Material Non-Compliance

Condition and Context:

1. **Deficient Accounting Records** – During our audit, we noted errors in cash, certain intergovernmental receivable, interfund receivable and payables, accounts receivable, accounts payable, inventory and journal entries that caused the financial statements to be misstated.

During our testing of Intergovernmental Receivables, MRC noted 3 accounts which contain receivables dating back to 2008 in the amount of \$441,743. These amounts were written off and adjusted as a prior period restatement as of September 30, 2011.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS – Continued

Finding 2012-02 – Continued

During our testing of Accounts Receivable, MRC noted 1 transaction in the amount of \$152,004 that was posted to the wrong account. These amounts were reclassified to the correct account. MRC also noted 1 account which contains receivables dating back to 2010 in the amount of \$32,665. These amounts were written off and adjusted as a prior period restatement as of September 30, 2011.

During our testing of Journal Entries, MRC noted 14 out of 25 journal entries did not have proper supervisory review and approval. In addition, the County generated another 5,426 journal entries totaling to \$325,954,207 during the fiscal year 2012 that evidence or supervisory reviews and approvals was not determinable.

Interfund receivables and payables between funds should be short-term in nature. During our audit, we noted that the interfund receivable and payable balances, for the most part, were not short-term, but were the resulting balance of several transactions that had occurred over time and had not been settled between the borrowing and the lending funds. We also noted that reconciliations of interfund payables to interfund receivables were not prepared in order to ensure that the two amounts properly nets to zero in the County's financial statements. During our testing of the Interfund Accounts, MRC noted 452 Interfund Accounts in which 225 Due from Accounts and 227 Due to Accounts. Analysis shows large interfund balances which have not been adjusted in several years and will not be funded or liquidated.

2. **No Financial Reporting Process** - During our audit, we noted that no period-end closing procedures existed to ensure that transactions were recorded in the appropriate accounting period resulting in prior period restatements of \$1,449,923 for governmental activities and \$2,640 for business type activities and \$1,449,923 for total governmental funds and \$2,640 for total proprietary funds. We also noted that no review and approval process existed as part of the financial statement process to ensure the accuracy of journal entries, account reconciliations and financial statements and related disclosures.
3. **No Budget Monitoring** - During the course of our audit, we noted that actual expenditures exceeded budgeted expenditures by \$1,402,623. We also noted that accurate and timely budget reporting is not occurring, that budget to actual results do not appear to be monitored by anyone, and that amended budgets are not prepared and approved when it is determined actual expenditure amounts will exceed budgeted amounts.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 – Continued

4. **Poor Cash Controls** - During our audit of the County, we noted that there was no evidence indicating whether bank reconciliations were prepared on a timely basis and there was no evidence of supervisory review or approval of the bank reconciliations. We also noted that formal bank reconciliations were not prepared for any Agency cash accounts held by elected officials.

During our testing of bank reconciliations, MRC noted that there were a total of 343 outstanding checks dated over 90 days old, with a cumulative amount of \$309,932 as of September 30, 2012. The oldest check dated 01/21/1994. MRC also noted there were a total of 31 outstanding deposits over 90 days old, dated 9/30/2010 with a cumulative amount of \$14,900 as of September 30, 2012.

MRC also noted there were 24 bank accounts were closed. An adjustment of \$39,625 was needed to appropriately close the accounts. In addition, there were differences between bank reconciliation book balance and general ledger amounted to \$34,604.

During the audit, it was noted that the payroll department is printing blank payroll checks that have been pre-signed. In addition, the County has no controls or processes for opening or closing bank accounts. MRC noticed clerical personnel were opening and closing accounts with no supervision.

5. **No Monitoring and Reporting of County's Risk Financing Liabilities** - The County has three self-insurance programs including workers compensation, general and auto liability and health. During our audit, we noted that no process existed to track or record the liability associated with the County's self-insurance programs. We also noted that the County was unable to provide sufficient information to disclose the County's risk financing in accordance with accounting principles generally accepted in the United States of America. MRC made adjustments to properly record self-insurance liabilities which consisted of a current year adjustment of \$793,701 to adjust expenditures to current year claims.
6. **Improper Capital Asset Financial Reporting** - We noted that the assets referred to above were not properly placed into service and depreciated accordingly. No detail was provided for fixed assets nor any records available at the time audit occurred. Capital assets acquired with prior year and current year grant funds are not being properly maintained in an inventory list or physically inventoried on a periodic basis, by the County.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 – Continued

Criteria:

- 1. Deficient Accounting Records** - Adequate accounting records should be kept to ensure the accurate reporting of financial statement information. This includes the support for all receivables, payables and capital assets. In addition, interfund receivables and payables are short term in nature, the receivable and payable balances should be settled at the end of each month. Also, interfund receivables and payables should be reconciled as of the end of each month so that all payable amounts agree to corresponding receivable amounts. Maverick County should have a policy in place to write off old receivables. All journal entries should be reviewed and approved prior to general ledger posting.
- 2. No Financial Reporting Process** - The County must have procedures in place to ensure that transactions are recorded in the appropriate accounting period. The County must also have procedures in place to ensure appropriate review and approval of all journal entries, account reconciliations, financial statements and related notes that are prepared in connection with the month and year-end closing process.
- 3. No Budget Monitoring** - County budget policies and procedures.
- 4. Poor Cash Controls** - The County is required to prepare bank reconciliations for all cash accounts on a monthly basis. This includes Agency cash accounts held in the name of the County or by any County official. This responsibility is held by the County Treasurer. Maverick County should have a policy in place to escheat stale dated checks for outstanding checks. The County is required to properly put internal controls on cash accounts in place. The County must have policies whereby only County authorized and empowered officials and employees open and close bank accounts.
- 5. No Monitoring and Reporting of County's Risk Financing Liabilities** - In accordance with GASB Codification Section C50.145, the County is required to track its self-insurance liability in order to estimate its liability for unpaid claims. The County should also provide sufficient information to disclose required information in accordance with accounting principles generally accepted in the United States of America.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 – Continued

- 6. Improper Capital Asset Financial Reporting** - Capital assets should be presented in the appropriate section of the Government-Wide Statement of Net Assets to which they relate, and should be presented in the appropriate funds to which they relate. Additionally, capital assets, once placed into service, should be classified as such in the County's financial statements and depreciation expense incurred during the year should be presented in the Government-Wide Statement of Activities as well as the Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets. The County is required to maintain a capital asset inventory list which includes capital assets purchased with grant funds.

Effect:

- 1. Deficient Accounting Records** - The County's financial statements could not be audited and may be misstated. Also, if interfund receivable and payable balances are not settled on a monthly basis, the interfund balances will continue to grow, calling into question the borrowing funds' ability to repay the amount that it received. Also, failure to reconcile payable and receivable amounts could result in interfund receivable or payable amounts being misstated. Lack of journal entry supervisory reviews and approval materially weakens internal controls.
- 2. No Financial Reporting Process** - Failure to record transactions in the appropriate accounting period and failure to review accounting transactions could result in misstated financial statements as well as financial statements that cannot be audited.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 - Continued

3. **No Budget Monitoring** - Failure to monitor the appropriated budget on a regular basis will cause poor or no budget management and control and leads to the severe budget deficits as have been recurring annually.
4. **Poor Cash Controls** - Failure to prepare and review bank reconciliations on a timely basis could result in the misstatement or misappropriation of cash. Also, cash account balances are not fairly stated if the outstanding checks consist of checks and deposits with stale dates. Producing blank pre-signed payroll checks could lead to abuse or fraud. Unauthorized open and closing of bank accounts could result in fraud or abuse in regards to the County's cash accounts.
5. **No Monitoring and Reporting of County's Risk Financing Liabilities** - Liabilities and expenses associated with unpaid self-insurance claims may not be recorded properly in the County's financial statements. Also, without proper monitoring tools and processes for managing its risk financing, the County risks incurring significant liabilities or contingencies without its knowledge or control. In addition, the County's risk financing may not be properly disclosed which will cause a GAAP departure.
6. **Improper Capital Asset Financial Reporting** - Failure to present capital assets in the proper activity or fund of the County's financial statements will result in the financial statements being misstated. Failure to record depreciation will result in an understatement of expense and an overstatement of assets. County operating results will also be misstated. Failure to maintain a list of capital assets purchased with prior year grant funds expended may result in material noncompliance with grant requirements.

Cause:

1. **Deficient Accounting Records** – Deteriorating operating results are restricting the ability of funds to pay interfund borrowings. Errors in certain accounts receivable, accounts payable and failure to prepare reconciliations are results of inadequate supervision and review of finance staff by the County Auditor as well as lack of finance staff training.
2. **No Financial Reporting Process** - Inadequate supervision and review of finance staff by the County Auditor as well as the lack of finance staff training.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 – Continued

3. **No Budget Monitoring** – Failure of the County Auditor to comply with monthly financial reporting requirements of the County. Also, a lack of compliance by the County Auditor and with the County’s approval annual budget.
4. **Poor Cash Controls** – The County Treasurer is not performing this function as is required. The County Auditor’s office is performing this function; however, there is a lack of finance staff training and related supervisory review in the County Auditor’s office. No policies in place. No internal controls.
5. **No Monitoring and Reporting of County’s Risk Financing Liabilities** - Failure of the County Auditor to design and implement a process for tracking and recording the self-insurance liabilities in accordance with business practices and the County has a GAAP departure.
6. **Improper Capital Asset Financial Reporting** - Inadequate review of financial statements by the County Auditor. Prior County Auditor lost the detailed capital assets records for inventory control and depreciation expense.

Recommendation:

1. **Deficient Accounting Records** - The County should revise all of its fiscal management, financial reporting and fiscal operation to correct all material weaknesses noted in the “Condition and Context” section. Also, the County should analyze all interfund receivables and payables to identify balances that will be repaid and then implement a plan to settle those amounts. For any balances that will not be repaid, the County should reclassify the interfund balances as permanent transfers of equity. Also, on a monthly basis, the County should reconcile all interfund receivable and payable accounts. The reconciliation should be prepared within 30 days of the end of each month, signed, and dated by the preparer. The reconciliation should also be reviewed by the supervisor of the preparer who should also sign and date the reconciliation to indicate review and approval. In addition, the County should also provide more training for finance staff in the area of interfund payables and receivables as well as interfund transfers. MRC recommends that the County establishes a policy that ensure Receivables to be collected or written off during a monthly closing process and a policy of correctly expensing items in the proper period during the monthly closing process. All journal entries must have a documented supervisory review and approval process.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 – Continued

- 2. No Financial Reporting Process** - The County should design and put into place procedures to ensure that all transactions are recorded in the appropriate accounting period. The County should also ensure that journal entries, account reconciliations, financial statements and related notes are properly reviewed and approved in connection with the month and year-end closing process.
- 3. No Budget Monitoring** – The County must develop and implement a process whereby on a monthly basis, budget to actual results are presented to the Commissioners’ Court and District Judges for review. Significant variances should be investigated and any expected budget overages should be approved.
- 4. Poor Cash Controls** - The County must ensure that bank reconciliations are prepared for all cash accounts within 45 days of the end of the month and that the reconciliations are signed and dated by the preparer. The reconciliations must be reviewed by the supervisor of the preparer and they must be signed and dated by the reviewer to provide evidence of supervisory review. In addition, the County should provide more training for finance staff regarding bank reconciliation procedures. Also, the County should establish a policy to review outstanding checks and deposits periodically; especially to determine whether the check needs to be escheated to the state. All voided checks should have proper supporting documentation showing the reason why the check was voided and who authorized to void the check. The County should establish a policy to close the bank account and ensure the ending balance is transferred to another account and properly recorded in the book. The County should implement the necessary policies and procedures in regards to pre-signed blank checks and the establishment and closure of bank accounts to prevent fraud or abuse.
- 5. Monitoring and Reporting of County’s Risk Financing Liabilities** - The County should implement a process to monitor and track the liabilities and expenses for unpaid claims associated with its self-insurance programs and ensure that they are managed and correctly recorded on a timely basis throughout the year. The County should also obtain all the required information needed to disclose the County’s risk financing properly in its financial statements.

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-02 – Continued

- 6. Improper Capital Asset Financial Reporting** – The County should review its policies and procedures to ensure that capital assets are properly classified in the appropriate categories for the financial statement reporting. The County should ensure that capital assets are presented appropriately in the Government-Wide and Fund financial statements. The County should also ensure that capital assets, once placed into service, are appropriately classified as such in the Government-Wide and Fund financial statements and that depreciation expense is appropriately calculated and reflected in the financial statements. Also, the County must develop detailed capital asset records for the purpose of inventory control for financial reporting and grant compliance purposes. In addition, the County should generate detailed capital assets depreciation records.

Finding 2012-03

Expenditures, Expenses and Accounts Payable

Type of Finding: Material Weakness and Material Non-compliance

Condition:

During our testing of expenditures, we noted 5 did not agree to the supporting documentation, 25 had no proper approval, and 8 (part of) expenditure was not for an obligation incurred during the fiscal year. We also noted no proper approval for the use of gas card.

Criteria:

The County is required to properly put the procedure in place to control its expenditure budget.

The County should have a policy of requiring all expenditures be supported by a proper invoice and a timely prepared and properly approved purchase order authorizing the purchase and expenditure.

Effect:

Lack of effective internal controls over the expenditure process could lead to unauthorized and unbudgeted expenditures.

Cause:

Lack of adequate policies, procedures and internal control practices. Also, the County Auditor did not perform adequate supervision and review.

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-03 – Continued

Recommendation: The County should establish a policy that will be utilized to generate, review and approve all purchase orders prior to procuring any goods or services. All expenditures must have a properly approved purchase order and invoice support. Stronger controls over gas card usage must be developed and implemented.

Finding 2012-04

Lack of Debt Monitoring and Compliance

Type of Finding: Material Weakness and Material Non-Compliance

Condition and Context:

We were unable to test the County's compliance with the debt covenants for Series 2011B and Series 2012 Tax Notes due to a lack of adequate accounting records for the County debt transactions.

Criteria:

In accordance with the Series 2011B and Series 2012 Tax Notes Bond Covenants, the County was restricted as to the use of the those bond proceeds.

Effect:

The County will not be in compliance with debt covenants and could be considered in default of the debt.

Cause:

Lack of knowledge of staff regarding bond requirements. No bond compliance monitoring. Poor financial reporting and accounting processes and the lack of internal controls as noted in Finding 2010-02.

Recommendation:

We recommend the County develop and implement policies and procedures for the adequate maintenance of accounting records, appropriate financial reporting and overall debt compliance monitoring to ensure compliance with all requisite bond covenants

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-05

Gas Cards

Type of Finding: Material Weakness and Material Non-Compliance

During our audit of County expenditures and expenses, we noted the lack of utilization of gas card invoices for payment support. All payments for gas card usage is based on gas card statements without the corresponding detailed invoices and appropriate supervisory and review approvals by department heads prior to payment. Currently if the gas usage is budgeted it is paid for without any supervisory reviews and approvals as to reasonableness and propriety.

The misuse of the gas cards is currently being investigated by legal authorities. See Finding 2012-06.

Effect:

The County's failure to properly monitor gas cards has led to misuse and abuse of gas cards.

Cause:

Lack of enforcement of County's policy and lack of internal controls.

Recommendation:

We recommend the County review its policies to strengthen internal controls over gas cards and credit cards. The policy should be revised to include the process of obtaining approval from the department manager or supervisor prior to payment of the gas card invoices. Also, the County should develop a method to track all gas cards issued to employees to ensure cards are only in the hands of active and authorized County employees. We also recommend the County revise its policies to include the process of obtaining from the employee and deactivating gas cards upon termination of employment.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-06

Compliance and Other Matters

Condition:

1. The former County Purchasing Agent and the current Precinct 1 Foreman were arrested October 11, 2012. The Foreman is related to the County Commissioner for Precinct 4. They were charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds. These charges involved their work with County. The Foreman pled guilty on January 24, 2013. Charges against the County Purchasing Agent were dropped on April 11, 2013.
2. A vendor was arrested October 11, 2012. The vendor is charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds.
3. The County Commissioner for Precinct 2 was arrested on October 18, 2012, on cash smuggling and money laundering charges. None of the charges appear to involve his work with the County. On January 23, 2013, the County Commissioner was indicted in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County.
4. The former Assistant County Auditor was arrested on November 2, 2012, in connection with an alleged bribery scheme involving her work with the County. She pled guilty on January 24, 2013 and will be sentenced on March 31, 2014.
5. A current employee was arrested on November 8, 2012, on a charge of receiving bribes in his role as a liaison between the County and private contractors hired to perform work for the County. He pled guilty on January 24, 2013.
6. A contractor pled guilty on November 29, 2012 to a theft charge related to a scheme to steal more than \$17,000 in Maverick County funds.
7. The County Commissioner for Precinct 1 was arrested on December 6, 2012, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 1, 2013 and pled guilty on May 2, 2013. He will be sentenced on April 8, 2014.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-06 – Continued

8. A probation officer who also works as a general contractor was arrested December 12, 2012, on a charge of fraud and bribery. He pled guilty on May 2, 2013.
9. A general contractor was arrested on December 20, 2012 on three counts of paying bribes to get contract work. He pled guilty on March 12, 2013.
10. The Justice of the Peace of Precinct 2 was arrested on January 11, 2013, in connection with engaging in original criminal activity and theft by a public servant.
11. The County Commissioner for Precinct 4 was arrested on January 17, 2013, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 15, 2013 and pled guilty on September 5, 2013.
12. A contractor was arrested on April 11, 2013, on two counts of bribery.
13. The former Landfill manager, who tendered his resignation on January 8, 2013, was arrested on April 11, 2013, on one count of possessing forged securities and one count of theft. The indictment alleges the former Landfill Manager forged County checks to himself worth \$62,000.
14. A contractor was arrested on April 18, 2013 on one count of bribery.
15. A contractor was indicted on June 13, 2013 and pled guilty on December 5, 2013 for paying Maverick County Precinct 2 Commissioner approximately \$57,000 in return awarding the contract.
16. Seco Mines Community Center Director, was arrested on October 22, 2013 after state authorities executed a warrant for his arrest on one charge of credit card abuse. He is being accused of using Maverick County fuel cards to re-fuel his personal vehicle(s).

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2012-06 – Continued

17. Three Eagle Pass businessmen indicted in connection with Maverick County Bribery, Kickback, and Bid –Rigging Scheme on November 21, 2013. Two businessmen charged with one count of paying bribe and one businessman charged with one count of aiding and abetting theft concerning programs receiving federal funds.

The above investigations by law enforcement officials are currently ongoing and their effect or impact on the County is not determinable.

Criteria:

All County officials and employees must comply with requisite laws.

Effect:

Weakening of all internal controls and leading to numerous instances of material noncompliance.

Cause:

The collusion by County elected officials, management and employees for their personal benefit and to conduct illegal practices.

Recommendation:

The County should develop and implement stronger policies and procedures to prevent and detect any future misconduct.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-07

Equipment and Real Property Management

CFDA Number: 16.753 - Congressionally Recommended Awards

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: U.S. Department of Justice

Pass-through entity - Criminal Justice Division of The State of Texas

CFDA Number: 97.067 - Operation Stone Garden

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: U.S. Department of Homeland Security

Pass-through entity – N/A

Type of Finding: Material Weakness and Material Noncompliance

Criteria or Specific Requirement:

Per OMB Circular A-110, Section 34, recipients of grant funds should maintain accurate equipment records for equipment purchased with grant funds. Also, a physical inventory of equipment shall be taken and the results reconciled with equipment records at least once every two years.

Condition:

During our testing of Single Audit, we inquired with the staff and were informed that the County does not perform periodic equipment and real property management physical inventories nor maintain detailed inventory records of their equipment purchased with grant funds.

Questioned Costs: N/A

Context:

During our testing of Congressionally Recommended Awards and Stone Garden Grants, we also noted that the County did not perform equipment and real property management during the fiscal year ended September 30, 2012.

Effect:

By not complying with the requirements, the County is at risk of losing its future grant funding.

Cause:

Lack of awareness of the requirements to perform inventories and maintain detailed records.

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – Continued

Finding 2012-07 – Continued

Recommendation:

We recommend that the County implements necessary policies and procedures to ensure proper approval before making any purchase. In addition, we also recommend that the County provides additional training to its staff regarding federal grant management regulations to ensure the County is complying with the Congressionally Recommended Awards and Operation Stone Garden requirements regarding equipment and real property management.

Finding 2012-08

Allowable Costs

CFDA Number: 97.067- Operation Stone Garden

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: U.S. Department of Homeland Security

Pass-through entity – N/A

CFDA Title: Operation Stone Garden

Type of Finding: Material Weakness and Material Noncompliance

Expenditures

Criteria or Specific Requirement:

The Grant award contains an authorized budget. In order to adhere to a budget, a system for purchase orders must be maintained.

Condition:

During our testing of expenditures, 3 out of 20 expenditures did not have a properly approved purchase orders.

Questioned Costs:

\$278,143

Context:

During our testing of Operation Stone Garden, we tested twenty expenditures. We noted that three expenditures did not have a properly approved purchase orders.

**MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – Continued

Finding 2012-08 – Continued

Effect:

By failing to properly authorize purchase orders, the County could incur unauthorized and unbudgeted purchases. The County's lack of adequate supporting documentation may cause the County to be in noncompliance of specific grant conditions required by the federal and state agencies, which could potentially lead to loss or return of funding.

Cause:

Failure to adhere to established policies and adequate supervisory reviews.

Recommendation:

The County should establish and implement a policy that requires all purchase orders be reviewed and approved by the appropriate supervisory personnel prior to the procurement of all goods and services. All expenditures must have a properly approved purchase order and invoice support

Finding 2012-09

Financial Reporting and Accounting

Type of Finding: Material Weaknesses

Condition:

All findings from 2012-01 – 2012-06, as described above, are conditions causing material weaknesses in internal control over compliance. See Section II Financial Statement Findings for a detailed discussion of the above findings.

Criteria:

The County should have strong financial reporting, accounting procedures and internal controls in order to ensure compliance with grant requirements.

Effect:

By failing to establish proper financial reporting, accounting procedures and internal controls, the County could fail to comply with grant requirements.

Cause:

Weak oversight and ineffective performance of duties by the County Auditor. Lack of overall adherence to the County's policies and procedures. Inadequate supervision and review of staff, as well as, the lack of staff training.

MAVERICK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
For the Year Ended September 30, 2012

Recommendation:

The County should review and revise their accounting policies and procedures and controls to ensure financial reporting and accounting related records maintenance and internal controls are sufficient to enable material compliance with grant requirements.

**MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2011-01

Monthly Financial Reporting

Type of Finding: Material Weakness and Material Non-Compliance

Condition and Context:

During our audit of the County, we noted that the County Auditor was not presenting monthly financial reports to the Commissioners' Court in accordance with Texas Local Government Code sections 114.024 and 114.025.

Status: This finding was repeated in the current audit.

Finding 2011-02

County-wide Accounting, Internal Controls and Financial Reporting Deficiencies

Type of Finding: Material Weakness and Material Non-Compliance

Condition and Context:

1. **Deficient Accounting Records** – During our audit, we noted errors in certain accounts receivable, accounts payable and intergovernmental payables that caused the financial statements to be misstated and they could not be audited. In addition, the County currently does not have adequate accounting records to support any cost basis for the land used in the Airport Operations or for TXDOT grant due to records taken by federal law enforcement officials. Also, MRC was informed by Sheriff's department that prior Sheriff had records destroyed for confiscated funds account so no audit was able to be performed.

In addition, several accounts which consisted of one governmental major fund, one proprietary non-major type fund, three non-major governmental special revenue funds, and eleven agency accounts had no records available in order for an audit to be performed.

During our testing of Accounts Receivables, MRC noted 8 accounts which contain receivables dating back to 2007 in the amount of \$709,149. These amounts were written off and adjusted as a prior period restatement as of 9/30/2010.

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2011-02 – Continued

During our audit, MRC noted there were invoices for FY 10 which were paid and posted as FY 11 expenditures in the amount of \$277,155. MRC noted invoices posted for FY 11 which were for FY 12 in the amount of \$173,258. We found errors totaling \$257,289 which consisted of \$86,066 for payables entered twice, \$104,644 to write off old invoices and \$66,578 for transactions that had not occurred.

Interfund receivables and payables between funds should be short-term in nature. During our audit, we noted that the interfund receivable and payable balances, for the most part, were not short-term, but were the resulting balance of several transactions that had occurred over time and had not been settled between the borrowing and the lending funds. We also noted that reconciliations of interfund payables to interfund receivables were not prepared in order to ensure that the two amounts properly nets to zero in the County's financial statements. During our testing of the Interfund Accounts, MRC noted 364 Interfund Accounts in which 179 Due from Accounts and 185 Due to Accounts. Analysis shows large interfund balances which have not been adjusted in several years and will not be funded or liquidated.

2. **No Financial Reporting Process** - During our audit, we noted that no period-end closing procedures existed to ensure that transactions were recorded in the appropriate accounting period resulting in prior period restatements of \$1,526,865 for governmental activities and \$816,955 for business type activities and \$1,747,617 for total governmental funds and \$816,955 for total proprietary funds. We also noted that no review and approval process existed as part of the financial statement process to ensure the accuracy of journal entries, account reconciliations and financial statements and related disclosures.

Fund Modifications

In addition to the adjustments noted above, the fund financial statement presentation has been modified in the current year as follows:

- The Child Welfare Board is being presented as a non-major governmental special revenue fund. The Child Welfare Board was not reported in prior year's financials.
- Fund #174- Border Prosecution Fund, which was presented as an agency fund in the prior year, has been reclassified as a non-major governmental special revenue Fund in the current year financial statements.

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2011-02 – Continued

- Fund #605 – Sheriff Commissary, which was presented as an agency fund in the prior year, has been reclassified as a non-major enterprise fund in the current year financial statements.
 - Fund #606 – Sheriff Confiscated Fund, which was presented as an Agency Fund in the prior year, has been reclassified as a non-major governmental special revenue fund in the current year financial statements.
3. **No Budget Monitoring** - During the course of our audit, we noted that actual expenditures exceeded budgeted expenditures by \$576,603 and that actual revenues were \$(32,348) less than budgeted revenues. We also noted that accurate and timely budget reporting is not occurring, that budget to actual results do not appear to be monitored by anyone, and that amended budgets are not prepared and approved when it is determined actual expenditure amounts will exceed budgeted amounts.
4. **Poor Cash Controls** - During our audit of the County, we noted that there was no evidence indicating whether bank reconciliations were prepared on a timely basis and there was no evidence of supervisory review or approval of the bank reconciliations. We also noted that formal bank reconciliations were not prepared for any Agency cash accounts held by elected officials.

During our testing of bank reconciliations, MRC noted that there were a total of 243 outstanding checks dated over 90 days old, with a cumulative amount of \$163,166 as of September 30, 2011. The oldest check dated 01/21/1994. MRC also noted there were a total of 2 outstanding deposits over 90 days old, dated 8/27/2010 with a cumulative amount of \$659 as of September 30, 2011.

MRC also noted there were 37 bank accounts were closed. An adjustment of \$9,605 was needed to appropriately close the accounts. In addition, there were differences between bank reconciliation book balance and general ledger amounted to \$39,574.

During the audit, it was noted that the payroll department is printing blank payroll checks that have been pre-signed. In addition, the County has no controls or processes for opening or closing bank accounts. MRC noticed clerical personnel were opening and closing accounts with no supervision.

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2011-02 - Continued

5. **No Monitoring and Reporting of County's Risk Financing Liabilities** - The County has three self-insurance programs including workers compensation, general and auto liability and health. During our audit, we noted that no process existed to track or record the liability associated with the County's self-insurance programs. We also noted that the County was unable to provide sufficient information to disclose the County's risk financing in accordance with accounting principles generally accepted in the United States of America. MRC made adjustments to properly record self-insurance liabilities which consisted of a prior period adjustment of \$343,582 and a current year adjustment of \$408,979 to adjust expenditures to current year claims.

6. **Improper Capital Asset Financial Reporting** - We noted that the assets referred to above were not properly placed into service and depreciated accordingly. No detail was provided for fixed assets nor any records available at the time audit occurred. Capital assets acquired with prior year and current year grant funds are not being properly maintained in an inventory list or physically inventoried on a periodic basis, by the County.

Status: Fund modification finding was cleared in the current audit. All other findings were repeated in the current audit.

Finding 2011-03

Expenditures and Accounts Payable

Type of Finding: Material Weakness and Material Non-compliance

Condition:

During our testing of expenditures, we noted approximately \$10,362,133 of current year expenditures that the County did not have approved purchase orders. Also, we noted that approximately \$3,964,498 of those expenditures did not have a supporting invoice.

Status: This finding was repeated in the current audit.

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2011-04

Accrued Vacation and Compensated Time

Type of Finding: Significant Deficiency

Condition:

During our review of Accrued Vacation, we determined that the County incorrectly calculated the total amount of vacation and compensation time over the limit for 43 and 10 employees, respectively. The total amount of vacation over the limit was \$20,673 and the total amount of compensation time over the limit was \$1,016.

Status: This finding was cleared in the current audit.

Finding 2011-05

Revenue

Type of Finding: Significant Deficiency

Condition:

During our Revenue Analysis, MRC noted that the County did not record certain fines received by the County for the month of August and September which totaled to \$45,915.

Status: This finding was cleared in the current year.

Finding 2011-06

Compliance and Other Matters

Condition:

1. The former County Purchasing Agent and the current Precinct 1 Foreman were arrested October 11, 2012. The Foreman is related to the County Commissioner for Precinct 4. They were charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds. These charges involved their work with County. The Foreman pled guilty on January 24, 2013. Charges against the County Purchasing Agent were dropped on April 11, 2013.

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2011-06 – Continued

2. A vendor was arrested October 11, 2012. The vendor is charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds.
3. The County Commissioner for Precinct 2 was arrested on October 18, 2012, on cash smuggling and money laundering charges. None of the charges appear to involve his work with the County. On January 23, 2013, the County Commissioner was indicted in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County.
4. The former Assistant County Auditor was arrested on November 2, 2012, in connection with an alleged bribery scheme involving her work with the County. She pled guilty on January 24, 2013.
5. A current employee was arrested on November 8, 2012, on a charge of receiving bribes in his role as a liaison between the County and private contractors hired to perform work for the County. He pled guilty on January 24, 2013.
6. The County Commissioner for Precinct 1 was arrested on December 6, 2012, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 1, 2013 and pled guilty on May 2, 2013.
7. A probation officer who also works as a general contractor was arrested December 12, 2012, on a charge of fraud and bribery. He pled guilty on May 2, 2013.
8. A general contractor was arrested on December 20, 2012 on three counts of paying bribes to get contract work. He pled guilty on March 12, 2013.
9. The Justice of the Peace of Precinct 2 was arrested on January 11, 2013, in connection with engaging in original criminal activity and theft by a public servant.
10. The County Commissioner for Precinct 4 was arrested on January 17, 2013, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 15, 2013 and pled guilty on May 2, 2013.

**MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

Finding 2011-06 – Continued

11. The former Landfill Manager, who tendered his resignation on January 8, 2013, was arrested on April 11, 2013, on one count of possessing forged securities and one count of theft. The indictment alleges the former Landfill Manager forged County checks to himself worth \$62,000.

12. A contractor was arrested on April 18, 2013 on one count of bribery.

The above investigations by law enforcement officials are currently ongoing and their effect or impact on the County is not determinable.

Status: This finding was repeated in the current audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2011-07

Equipment and Real Property Management

CFDA Number: 16.753 - Congressionally Recommended Awards

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: U.S. Department of Justice

Pass-through entity - Criminal Justice Division of The State of Texas

CFDA Number: 97.067 - Operation Stone Garden

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: U.S. Department of Homeland Security

Pass-through entity – N/A

Type of Finding: Material Weakness and Material Noncompliance

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – Continued

Finding 2011-07 – Continued

Condition:

During our testing of Single Audit, we inquired with the staff and were informed that the County does not perform periodic equipment and real property management physical inventories nor maintain detailed inventory records of their equipment purchased with grant funds.

Status:

This finding was repeated in the current audit.

Finding 2011-08

Cash Management

CFDA Number: 97.067- Operation Stone Garden

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: U.S. Department of Homeland Security

Pass-through entity – N/A

Type of Finding: Significant Deficiency

Condition:

During our testing of cash drawdowns, we noted that one out of eight cash drawdowns did not have supporting documentation.

Status: This finding was cleared during the current year.

MAVERICK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
For the Year Ended September 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS-Continued

Finding 2011-09
Allowable Costs

CFDA Number: 97.067- Operation Stone Garden
Federal Award Number: Various
Federal Award Year: Various
Federal Agency: U.S. Department of Homeland Security
Pass-through entity – N/A
CFDA Title: Operation Stone Garden

Type of Finding: Material Weakness and Material Noncompliance

Expenditures

Condition:

During our testing of expenditures, two out of seven expenditures did not have a properly approved purchase orders.

Status:

This finding was repeated during the current year.

Finding 2011-10

Financial Reporting and Accounting

Type of Finding: Material Weaknesses

Condition:

All findings from 2011-01 to 2011-03 and 2011-06, as described above, are conditions causing material weaknesses in internal control over compliance. See Section II Financial Statement Findings for a detailed discussion of the above findings.

Status:

This finding was repeated in the current audit.