

**HOLTMAN, WAGNER & COMPANY, L.L.P.**  
**Certified Public Accountants**

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January 13, 2010

To the Honorable Judge and Members of  
Commissioners' Court of Hays County, Texas

We have audited the financial statements of Hays County, Texas for the year ended September 30, 2009, and have issued our report thereon dated January 13, 2010. Professional standards require that we provide you with the following information related to our audit.

In planning and performing our audit of the financial statements of Hays County, Texas for the year ended September 30, 2009, we considered the County's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control structure.

Management has responsibility for selection and use of appropriate accounting policies. In accordance with the terms of the engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies are described in Note A to the financial statements

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration as opportunities to strengthen internal controls, and improve compliance with law regulations. This letter does not affect our report dated January 13, 2010 on the financial statements of Hays County, Texas.

Bookkeeping matters:

**Cash cut-off:**

The County uses a central account to pay obligations (APCA). After the bills are paid, each fund and department is charged for its share of the cash disbursed. At year-end, accounts payable are identified and recorded as a liability however, in addition to appropriately recording this liability, the cash charges to each department was also recorded at September 30, 2009 when in fact the cash was not transferred until October, 2009. This caused the APCA cash to be overstated and the related liabilities to APCA in the funds to be understated.

**Recommendation:**

When year-end adjustments are made to provide proper accounts payable cut-off, the related cash transaction should be the actual day of the transaction to prevent distortion of cash balances on the County's books.

**Management Response (Treasurer's Office):**

This year was confusing for all of us trying to run two software systems. In October, the Fiscal Year 09 checks for the APCA account were still being run on The Software Group System. Therefore, when the deposit transfers were performed, the receipts for these transactions were also entered into The Software Group System under the incorrect assumption that they should also be applied back to Fiscal Year 09. Procedures have been put into place to prevent this from happening in the future.

**Project cost reconciliation:**

County construction projects may be in process over several years, such as the Five Mile Dam project. Funding may come from more than one source such as from grants, from bond issue proceeds, or from the General Fund. When the project was completed, the amounts due from various funding sources was not clear.

**Recommendation:**

When a project is completed the amounts recorded as due from funding sources should be reconciled to those funding sources. This may be best accomplished by maintaining project ledgers during the life of the project.

**Management Response (Auditor's Office):**

The Five Mile Dam project was manually tracked over a four year period. Due to staffing changes, the project had not been reconciled by fiscal year end. We have recently implemented new financial software that includes a project accounting module. The project accounting module will help facilitate the project tracking and account reconciliation process. In addition, an Accountant position in our office has recently been dedicated to project accounting.

**Status of Prior Year Findings:**

The County's Policy for compensatory time for employees is being consistently applied.

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

Sincerely,

*Holtman Wagner & Company LLP*

Holtman, Wagner & Company L.L.P.