

Nueces River Authority

Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2016

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RSM US LLP

**Independent Auditor's 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***

To the Board of Directors
Nueces River Authority
Uvalde, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Nueces River Authority (the Authority) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2016-001, 2016-002, 2016-003 and 2016-004, which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and the Public Funds Investment Act (PFIA), 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 no instances of noncompliance or other matters that are required to be reported under the *Government Auditing Standards* or PFIA.

Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Antonio, Texas
December 9, 2016



RSM US LLP

**Independent Auditor's Report on Compliance for a Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards as Required by the Uniform Guidance**

To the Board of Directors
Nueces River Authority
Uvalde, Texas

Report on Compliance for a Major Federal Program

We have audited Nueces River Authority's (the Authority) compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended August 31, 2016. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. 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 Subpart F of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance 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 Authority'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 on compliance for its major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as finding 2016-005. Our opinion on the major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Authority's internal control over compliance.

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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended August 31, 2016, and have issued our report thereon dated December 9, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the Uniform Guidance, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

RSM US LLP

San Antonio, Texas
December 9, 2016

Nueces River Authority

**Schedule of Expenditures of Federal Awards
Year Ended August 31, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Environmental Protection Agency:			
Pass through:			
Texas Water Development Board Capitalization Grants for Clean Water State Revolving Funds	66.458	G110033	\$ 1,764,152
Texas State Soil and Water Conservation Board Water Protection Plan	66.460	12-05	<u>82,515</u>
Total Environmental Protection Agency			<u><u>1,846,667</u></u>
Department of the Interior:			
Pass through:			
Texas Parks and Wildlife Department:			
Landowner Incentive Program—Frio/Sabinal	15.631	431319	1,975
Landowner Incentive Program—Dry Frio	15.631	420897	<u>18,214</u>
Total CFDA Number 15.631			20,189
Boating Access	15.605	470934	<u>20,749</u>
Total passed through Texas Parks and Wildlife Development			<u><u>40,938</u></u>
Total Department of the Interior			<u><u>40,938</u></u>
Total expenditures of federal awards			<u><u>\$ 1,887,605</u></u>

See notes to schedule of expenditures of federal awards.

Nueces River Authority

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Nueces River Authority (the Authority) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Subpart F of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures: Expenditures reported on the Schedule are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Such expenditures are recognized following, as applicable, either the cost principles in the Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Authority has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Nueces River Authority

**Summary Schedule of Prior Audit Findings
Year Ended August 31, 2016**

No findings reported in the prior year.

Nueces River Authority

**Schedule of Findings and Questioned Costs
Year Ended August 31, 2016**

I. Summary of Auditor's Results

A. Financial Statements

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported
3. Noncompliance material to financial statements noted? Yes No

B. Federal Awards

1. Internal control over major programs:
- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
2. Type of auditor's report issued on compliance for major programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance? Yes No

3. Identification of major programs:

CFDA Number	Name of Federal Program
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66.458	Texas Water Development Board Capitalization Grants for Clean Water State Revolving Funds
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Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?: Yes No

(Continued)

Nueces River Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended August 31, 2016

II. Financial Statement Findings

A. Significant Deficiencies in Internal Control

Finding 2016-001—Inadequate Capital Asset Subsidiary Ledger

Criteria: Under governmental accounting principles generally accepted in the United States of America (GAAP), the Authority is required to report its capital assets within the government-wide statement of net position and other required footnotes.

Condition: The Authority could not provide a complete capital asset subsidiary ledger. Consequently, the Authority did not have formal internal processes to determine the related annual depreciation expense and information required to compile the capital asset rollforward.

Context: During our testing of capital assets, we noted the following internal processes were not complete at year-end:

- A complete annual inventory to determine all capital assets listed on the subsidiary ledger are still in service;
- Calculation of annual depreciation, and;
- Compilation of annual capital asset rollforward.

Cause and Effect: In the absence of these internal controls, a misstatement on the government-wide statement of net position and in the required capital asset footnotes is possible.

Recommendation: We recommend the Authority design and implement the following:

- Compilation and annual maintenance of a complete capital asset subsidiary ledger for all capital assets. This detailed subsidiary ledger should include all relevant information necessary to report and disclose capital assets (e.g., asset description, historical cost, accumulated depreciation, net book value, useful life and acquisition date).
- Processes and procedures to ensure an annual inventory of capital assets is performed. Additionally, any items identified as missing or no longer in service should be reviewed by management to determine if they should be removed from the capital asset subsidiary ledger.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2017.

Finding 2016-002—Year-End Close Process

Criteria: Management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: We identified exceptions or missing elements to the Authority's year-end close process.

Nueces River Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended August 31, 2016

Context: During testing of year-end account balances, we noted the following audit areas where the Authority did not appear to have adequate procedures surrounding the year-end close process and periodic review of account balances:

- Accounts receivable—We noted instances where cash receipts that were received during the year were not properly applied to accounts receivable. The resulting errors identified by the audit resulted in adjustments to correct accounts receivable and revenue.
- Deferred revenue—In testing the environmental education deferred revenue accounts, we noted a periodic annual review of the account and its contents was not performed. This resulted in an uncorrected audit adjustment to remove certain items from deferred revenue that were posted as deferred revenue in error.
- Interfund receivables and payables—In testing of these accounts, we noted interfund receivables and payables did not properly offset. Although corrected with an audit adjustment, there were no adequate procedures at the Authority to ensure all interfund transactions are properly recorded between these accounts.
- Net position—We noted the following in relation to net position:
 - The Authority did not have adequate procedures to ensure all net position balances will properly rollforward from the prior year.
 - The Authority did not have adequate procedures to ensure all prior-year audit adjustments were properly recorded. This resulted in current-year audit adjustments to correct beginning net position.

Cause and Effect: Without adequate procedures surrounding the Authority's year-end close and procedures for periodic review of account balances, misstatement of the annual financial statements due to fraud or error could exist or not be detected timely by management.

Recommendation: Management of the Authority should implement formal policies and procedures to ensure a detailed review of significant account balances is performed, at least quarterly. These procedures should include agreeing balances to subledgers or schedules/statements and ensuring adequate support exists to support the information reflected in the financial statements. Developing a process for this review will address the deficiencies in the accounts noted above.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2017.

Finding 2016-003—Evaluate Existing Accounting System

Criteria: Management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nueces River Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended August 31, 2016

Condition: The Authority uses a small accounting software to maintain the general ledger and process payroll. The software does not provide users the ability to limit system access rights or perform a hard close of a fiscal year. This condition is more significant in the current year, as the Authority is experiencing increased activity in construction projects. This system will not be able to handle the financial accounting and reporting of the wastewater treatment plan currently under construction and scheduled to be complete in a few years.

Context: During discussions with management, it became apparent that all modules of the accounting software are accessible by anyone with a password. In addition, transactions can be altered or backdated and posted to a prior period, as a period close does not lock the period to future adjustments.

Cause and Effect: The accounting software could be accessed by an unauthorized individual or adjustments could be made to prior periods that would negate the validity of historical information. Misstatement of the annual financial statements due to fraud or error could exist or not be detected timely by management.

Recommendation: Management of the Authority should evaluate the current system and consider changing to a system that is more in line with the future operations of the Authority. This evaluation should also focus on ensuring the Authority's accounting software maximizes the productivity of the accounting department.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2017.

Finding 2016-004—Inadequate Segregation of Duties

Criteria: Management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: A small number of people have the primary responsibility for performing most of the accounting and financial duties. As a result, some aspects of internal accounting control that rely upon adequate segregation of duties are missing at the Authority.

Context: We noted the Director of Finance is responsible for collecting cash receipts, disbursing payments and posting transactions to the general ledger. These incompatible duties are mitigated by the fact that the Director of Finance has no check-signing authority. These procedures, although competent, lack segregation of duties for the Authority.

Cause and Effect: Without sufficient segregation of duties, the risk of errors and fraud related to the cash receipts, disbursing payments and posting transactions to the general ledger, including misappropriation of assets, could occur and not be detected in a timely manner by management.

Nueces River Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended August 31, 2016

Recommendation: Currently, management of the Authority performs several review procedures to strengthen its control systems. These procedures include the distribution of monthly financial information to the Board of Directors (the Board), the preparation of a monthly financial statement for budget analysis, the timely review and approval of payments, the receipt and opening of bank statements and timely reconciliation of the statements. The supervision and periodic review procedures currently in place help mitigate the lack of proper segregation of duties and should be continued and documented. However, in addition to these review procedures, we recommend management consider additional alternative procedures to the current internal control system and evaluate possibilities to continue to strengthen the system, particularly as the Authority continues to grow. Possibilities to consider include cross-checking between supervisory personnel of higher risk functions, as well as continued Board oversight by receiving and reviewing detailed budget-to-actual financial information on a monthly basis.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2017.

B. Compliance Findings

None reported.

III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiencies in Internal Control Over Major Programs

None reported.

B. Compliance Findings

Finding 2016-005—Davis Bacon Interviews

CFDA Number: 66.458

Federal Program: Texas Water Development Board Capitalization Grants for Clean Water State Revolving Funds

Pass-Through Entity Identifying Number: G110033

Environmental Protection Agency

Criteria: The Texas Water Development Board (TWDB), *Guide on Davis-Bacon Wage Rate Requirements for State Revolving Fund Projects*, states the subrecipient (i.e., the Authority) must periodically interview a sufficient number of employees entitled to the Davis-Bacon prevailing wages to verify that contractors or subcontractors are paying the appropriate wage rates. The subrecipient must use Standard Form 1445 (SF 1445) to memorialize the interviews.

Condition: Entities receiving financial assistance under the Clean Water State Revolving Fund (CWSRF) program from the TWDB must follow the compliance procedures listed in the manual for that specific compliance requirement.

Questioned Costs: None, based on the results of other compliance procedures performed in this area.

Context: During discussions with management and our testing of certified payroll submissions, we noted these interviews are not currently being performed, or if they are, documentation to support the details and occurrence of the interview are not maintained.

Nueces River Authority

**Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2016**

Cause and Effect: The contractor and subcontractors may be reporting misleading information and there is risk that the contractors or subcontractor are not complying with Davis-Bacon.

Recommendation: We recommend the Authority establish and follow an interview schedule based on its assessment of the risks of noncompliance with Davis-Bacon posed by contractors or subcontractors and the duration of the contract or subcontract. The Authority should prepare and maintain SF 1445 found in the aforementioned TWDB guide or equivalent documentation to support the occurrence of the interviews.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2017.

Nueces River Authority

Corrective Action Plan Year Ended August 31, 2016

Number	Comment	Corrective Action Plan	Contact Person	of Completion
Findings for Financial Statements				
Significant Deficiencies				
2016-001	The Authority does not have internal processes in place for monitoring of capital assets in service or compilation of annual rollforward, including depreciation expense calculation.	See corrective action plan at 2016-001.	Director of Finance	August 31, 2017
2016-002	Exceptions or missing elements exist in the Authority's year-end closing process.	See corrective action plan at 2016-002.	Director of Finance	August 31, 2017
2016-003	The Authority uses a small accounting software to maintain the general ledger and process payroll. It does not provide the ability to limit system access rights or perform a hard close of a fiscal year-end.	See corrective action plan at 2016-003.	Director of Finance	August 31, 2017
2016-004	A small number of people have the primary responsibility for performing most of the accounting and financial duties, Some aspects of segregation of duties are missing at the Authority.	See corrective action plan at 2016-004.	Director of Finance	August 31, 2017
Findings and Questioned Costs for Federal Awards:				
Instance of Noncompliance				
2016-005	Davis-Bacon interviews are not currently being performed, or if they are, documentation to support the details and occurrence of the interviews are not maintained.	See corrective action plan at 2016-005.	Director of Finance	August 31, 2017

