Tarrant County, Texas

Report to Management for the
Year Ended September 30, 2014

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March 26, 2015

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

The Management of Tarrant County, Texas
100 East Weatherford
Fort Worth, Texas 76196

Dear Judge Whitley, Members of the Commissioners Court, and Management:

In planning and performing our audit of the financial statements of Tarrant County, Texas (the "County") as of and for the year ended September 30, 2014 (on which we have issued our report dated March 26, 2015 which included a reference to other auditors) in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we have identified, and included in the attached Appendix, certain matters involving the County's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in the attached Appendix, other matters other matters related to new accounting pronouncements not yet effective as of September 30, that we wish to bring to your attention.

The definitions of a deficiency, significant deficiency, and a material weakness are also set forth in the attached Appendix.

Although we have included management's written response to our comments in the Appendix, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Commissioners Court, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

APPENDIX

SECTION I — SIGNIFICANT DEFICIENCIES

We consider the following deficiencies in the County's internal control over financial reporting to be significant deficiencies as of September 30, 2014:

User Access Management and Security

Criteria – Privileged, especially highest level, system access should be restricted only to those who require such access based on assigned job responsibilities.

Condition – During our testing of design and implementation of the configuration and management of system user access controls, we noted that the powerful SAP default profile "SAP_ALL" was granted to SAP team members / contractors.

Cause – The County had granted the powerful default SAP profile (SAP_ALL) to the SAP team members in order provide back-up access for the performance of job functions as needed in the system.

Perspective – We noted 8 individuals having such access to the SAP_ALL profile at the time of our testing. Profiles had existed for more than one year.

Asserted Effect – Assignment of access privileges protect the County's systems from inappropriate access and failure to enforce may lead to unauthorized access and transactions being executed, compromising the intended security of the system, segregation of duties, and potentially causing lack of integrity and reliability of information produced by the systems.

Recommendation – SAP security or BASIS administrators should be granted access commensurate with their job responsibilities through specific roles or profiles designed to align with their job responsibilities. Temporary access should be removed after tasks requiring such access is complete.

Management should consistently enforce policies and procedures related to assignment of roles and responsibilities commensurate with each user's job responsibilities. Applicable controls should be reviewed to note that roles / profiles being granted are based on users' responsibilities.

Management's Response – In order to address these findings, Tarrant County will implement the following changes to SAP user roles and permissions:

- Tarrant County confirmed that only five individuals are currently assigned to the SAP_ALL profile. There are three additional users with this profile that are currently deactivated.

- Tarrant County will create two new roles (Z_TC_BASIS and Z_TC_Role Admin) which are specific to the job responsibilities of the Basis team. These roles will replace the use of the SAP_ALL profile.

- Tarrant County will create a procedure that supports the temporary assignment of the SAP_ALL profile in emergency circumstances. Requests for the use of this profile will need to include a detailed explanation and specified time period for access. In addition, the approval from the following individuals will be required:

• Information Security Officer

• Application Development and Support Director or ERP CoE Manager.

• Tarrant County will continue to annually review profiles as part of the SAP Licenses Audit but will include additional steps to validate the utilization of the most critical.

Calculation of the Pension and OPEB Net Asset/Obligation

Criteria – Generally accepted accounting principles require the County to calculate and record a net pension and other post-employment benefits ("OPEB") obligation or asset representing the differences between the Annual Required Contribution as determined by the pension or OPEB actuaries and the amount actually contributed to the plans each year by the employer adjusted annually for actuarial and interest adjustments.

Condition – Previous and current year calculations of the net pension asset failed to consider the pre-payments made by the County to the Pension Plan designed to help fund the cost of living adjustments. Such payments were expensed as paid rather than recorded as a pension asset since they were not part of the Annual Required Contribution. In addition, previous and current year calculations of the net OPEB obligation failed to consider the actuarially determined annual amortization of the previous year's obligation balance.

Cause – The calculations for pension and OPEB amounts are very complex and require a good understanding of the accounting standards and the work performed by the specialists.

Perspective – Prior year's net position was understated by $16.494 million. The current year adjustment to the statement of activities was an increase to net position of $11.397 million. Overall, the ending net pension asset as of September 2014 was increased by $9.112 million and ending net OPEB obligation as of September 2014 was decreased by $18.779 million.

Asserted Effect – The misunderstanding of the proper calculation method for the net OPEB obligation and recording of net pension asset resulted in adjustments to both current and prior year net position.

Recommendation – Improve communication and information flow between County staff and the actuaries. Consider the need for additional training of County staff on the proper accounting for pension and OPEB liabilities.

Management's Response – The following corrective action plan will be implemented to ensure correct recording of the OPEB liability and net pension asset or obligation.

- Financial accounting staff will formally request, in writing to the County Administrator, the PEBC Executive Director, for the actuaries to provide additional information and schedules.
- Financial accounting staff will gain a greater understanding of the relationship between the GASB statement and the actuarial reports by attending training.

SECTION II — OTHER MATTERS

Other matters related to new pronouncements that we wish to bring to your attention are as follows:

GASB Statement No. 68: *Accounting and Financial Reporting for Pensions*
GASB 68 was issued in June 2012 and establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement requires the recognition of the entire net pension liability and a more comprehensive measure of pension expense, along with additional required footnote disclosures. This standard becomes effective for the County in fiscal year 2015.

GASB Statement No. 69: *Government Combinations and Disposals of Government Operations*
GASB 69 was issued in January 2013 and establishes accounting and financial reporting standards for government combinations and disposals of government operations. This statement distinguishes between government mergers and acquisitions and provides guidance on the appropriate accounting treatment of each. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. GASB 69 becomes effective for the County in fiscal year 2015, and should be applied on a prospective basis.

GASB Statement No. 71: *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68* was issued in November 2013 and addresses an issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This standard becomes effective for the County in fiscal year 2015.

GASB Statement No. 72: *Fair Value Measurement and Application*, was issued in February 2015 to enhance transparency and comparability of fair value measurements and disclosures in state and local governments' financial statements. The Statement establishes principles related to (1) the measurement of fair value and (2) the accounting for, and financial reporting of, assets and liabilities measured at fair value. This standard becomes effective for the County in fiscal year 2016.

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SECTION III — DEFINITIONS

The definitions of a deficiency and a material weakness are as follows:

A *deficiency* 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 over financial reporting, such that there is 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.

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

SECTION IV — MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The County's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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