Deloitte.

Tarrant County

Results of the Audit Including Control-Related Matters

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March 21, 2016

The Honorable Judge and Members of the Commissioners Court of
Tarrant County, Texas
100 East Weatherford
Fort Worth, Texas 76196

Dear Judge Whitley and County Commissioners:

We have performed an audit of the basic financial statements of Tarrant County, Texas (the "County") as of and for the year ended September 30, 2015 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated March 21, 2016. Our report includes an emphasis of matter related to the implementation of a new accounting standard and a reference to other auditors who audited the financial statements of the Tarrant County Hospital District and the Mental Health and Mental Retardation of Tarrant County, which represent all of the aggregate discretely presented component units.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the County is responsible.

This report is intended solely for the information and use of management, the Members of 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

cc: The Management of Tarrant County

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated August 31, 2015, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the County's financial statements for the year ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Commissioners Court are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Commissioners Court of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that were 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 not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Significant Accounting Policies

The County's significant accounting policies are set forth in Note 1 to the County's 2015 financial statements. In 2015, the County adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, collectively ("the Standards"). These Standards required the County to recognize a net pension liability in the government wide financial statements. The cumulative effect of implementing the Standards was reported as a restatement to beginning net position that resulted in a decrease in beginning net position of approximately $230 million.

We have evaluated the significant qualitative aspects of the County's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Our assessment of the significant qualitative aspects of the County's particularly sensitive accounting estimates has been attached to this report as Appendix A.

Uncorrected Misstatements

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. A summary of uncorrected misstatements that we presented to management during the current audit engagement that were determined by management to be immaterial to the financial statements taken as a whole is included below:

- Government-wide, governmental activities: current year expenses and beginning net position were overstated by $1.4 million relating to the correction of capitalized bond issuance costs incorrectly capitalized in prior year
- Government-wide, governmental activities: other income was overstated and beginning net position was understated by $973,000 relating to recording capital assets in the current year that should have been previously capitalized.

Other Information in the Comprehensive Annual Financial Report

When audited financial statements are included in documents containing other information such as the County's Comprehensive Annual Financial Report ("CAFR"), we read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We have read the other information in the County's CAFR and have inquired as to the methods of measurement and presentation of such information. We did not note any material inconsistencies or obtain knowledge of a material misstatement of fact in the other information.

Disagreements with Management

We have not had any disagreements with management related to matters that are material to the County's 2015 financial statements.

Our Views about Significant Matters That Were the Subject of Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2015.

Significant Findings or Issues Discussed, or Subject of Correspondence, with Management Prior to Our Initial Engagement or Retention

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

Other Significant Findings or Issues Arising From the Audit Discussed, or Subject of Correspondence, with Management

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Commissioners Court.

Significant Difficulties Encountered in Performing the Audit

In our judgment, we received the full cooperation of the County's management and staff and had unrestricted access to the County's senior management in the performance of our audit.

Management's Representations

We have made specific inquiries of the County's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the County is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix B, those representations we obtained from management.

Emphasis-of-Matter Paragraph

We have included the following emphasis-of-matter paragraph in our audit report:

As discussed in Note 18 to the basic financial statements, the County restated its net position as of September 30, 2014, to reflect the impact of implementation of Governmental Accounting Standards Board ("GASB") Statements No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date –An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this change.

Control-Related Matters

We have identified, and included in Appendix C, certain matters involving the County's internal control over financial reporting that we consider to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have also included other matters that we identified during our audit.

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

* * * * * *

Accounting Estimates

Overview	Qualitative Assessment
Net Pension Liability – Critical Accounting Estimate	
The measurement of the County's net pension liability and related costs for employees is subject to numerous actuarial assumptions including, but not limited to, the discount rate, expected return on plan assets, and mortality tables. As it relates to the liability, the Texas County and District Retirement System engages a third-party actuarial firm to assist in measuring the costs and obligations and performs procedures to evaluate the results. The County reviews the reasonableness of the assumptions used and records the appropriate adjustment to the liability based on these actuarial results. The County's total net pension liability increased approximately $20 million from September 30, 2014 to September 30, 2015.	We involved Deloitte actuarial specialists to assess the reasonableness of the methodologies used and selected assumptions. Further, we performed detailed procedures to test the completeness and accuracy of the demographic data provided to the third-party actuarial firm. Based on the procedures performed, the methodology and underlying assumptions of the net pension liability appear reasonable in the context of the financial statements taken as a whole.

Overview	Qualitative Assessment
Other Post-Employment Benefits – Critical Accounting Estimate	
The measurement of the County's other post-employment benefits ("OPEB") obligations and related costs for employees is subject to numerous actuarial assumptions including, but not limited to, the discount rate, expected return on plan assets, and mortality tables. As it relates to the liability, biennially Tarrant County engages a third-party actuarial firm to assist in measuring the costs and obligations and performs procedures to evaluate the results. The County records the appropriate adjustment to the liability based on these actuarial results. The County's total net OPEB obligation increased approximately $10 million from September 30, 2014 to September 30, 2015.	We involved Deloitte internal actuarial specialists to assess the reasonableness of the methodologies used and selected assumptions. Further, we performed detailed procedures to verify the completeness and accuracy of the demographic data provided to the third-party actuarial firm. Based on the procedures performed, the methodology and the underlying assumptions of the OPEB obligations appear reasonable in the context of the financial statements taken as a whole.

Overview	Qualitative Assessment
Allowance for Uncollectible Taxes — Accounting Estimate	
The County records an allowance for uncollectible taxes based on an average collection rate. The collection rate is then applied to the cumulative receivable and any appropriate adjustment is made to the allowance account. The County's allowance for uncollectible taxes increased approximately $1.7 million from September 30, 2014 to September 30, 2015.	We obtained an understanding of management's process and methodology for calculating the allowance for uncollectible taxes. We also obtained management's analysis. We performed detailed review procedures and performed an independent calculation of the allowance account. Based on the procedures performed, the allowance for uncollectible taxes appears reasonable in the context of the financial statements taken as whole.

APPENDIX B

MANAGEMENT REP

March 21, 2016

Deloitte & Touche LLP
2200 Ross Avenue
Suite 1600
Dallas, Texas 75201-6778

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Tarrant County, Texas (the County), as of and for the year ended September 30, 2015, and the related notes to the financial statements which collectively comprise the County's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in net position, fund balances, and cash flows, as applicable, of the County in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the basic financial statements of financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with accounting principles generally accepted in the United States of America

b. The design, implementation, and maintenance of internal control:
    - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
    - To prevent and detect fraud

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

    a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, as applicable.

b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

c. Deposits and investment securities are properly classified in the category of custodial credit risk.

d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

e. Required supplementary information is measured and presented within prescribed guidelines.

f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

g. Federal and state and state awards expenditures have been charged in accordance with applicable cost principles.

h. The financial statements properly classify all funds and activities, including special and extraordinary items.

i. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards Section 2200.159 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

j. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

k. Revenues are appropriately classified in the statement of activities within program revenues, and general revenues.

l. The County's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.

m. The County has followed its established accounting policy regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.

n. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

o. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

2. The County has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The County has provided you:

   a. Minutes of the meetings of the Commissioners Court or summaries of actions of recent meetings for which minutes have not yet been prepared.

b. Financial records and related data for all financial transactions of the County and for all funds administered by the County. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the County and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal and state agencies.

4. There has been no:

a. Action taken by County management that contravenes the provisions of federal and state laws and Texas laws and regulations, or of contracts and grants applicable to the County

b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, except as disclosed in the notes to the financial statements and in the Schedule of Findings of Questioned Costs.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole for each opinion unit. A summary of such uncorrected misstatements is included below.

6. The County has disclosed to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the County involving:

a. Management

b. Employees who have significant roles in internal control over financial reporting.

c. Others, when the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the County's financial statements communicated by employees, former employees, analysts, regulators, or others.

9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments.*

10. Significant assumptions used by us in making accounting estimates are reasonable.

11. We are responsible for the preparation of the Schedule of Expenditures of Federal and State Awards in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Uniform Grant Management Standards*. We have identified in that schedule all awards provided by federal and state agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest

subsidies, insurance, or direct appropriations. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.

12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133 and OMB Uniform Guidance, and provisions of grants and contracts relating to the County's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The County is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

13. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal and state programs.

14. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

15. No events have occurred subsequent to September 30, 2015 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.

16. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2015.

17. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the County with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2015.

18. Federal and state awards expenditures have been charged in accordance with applicable cost principles.

19. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.

20. We have disclosed all contracts or other agreements with service organizations.

21. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.

22. We have:

   a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal and state program as identified in Part 3 of the relevant Compliance Supplement dated June 2015.

   b. Complied, in all material respects, with the requirements identified above in connection with federal and state awards except as disclosed in the Schedule of Findings and Questioned Costs.

   c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

   d. Made available all federal and state awards (including amendments, if any) and any other correspondence relevant to federal and state programs and related activities that have taken place with federal and state agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements. Federal and state financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal and State Awards. The copies of federal and state program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal and state agency or pass-through Entity, as applicable.

   e. Identified and disclosed all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal and state awards, including the results of other audits or program reviews, or any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.

   f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal and state awarding agencies and pass-through Entities.

   g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

   h. Monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and terms and conditions of the subaward and have met the other pass-through entity requirements of OMB Circular A-133 and OMB Uniform Guidance.

   i. Issued management decisions for audit findings that relate to federal awards made to subrecipients. Such management decisions were issued within six months of acceptance of the audit report by the FAC. Additionally, we have followed up to determine whether the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient from the County.

j. Considered the results of the subrecipient's audits and made any necessary adjustments to the County's own books and records.

23. We are responsible for follow-up on all prior-year findings. We have prepared a summary schedule of prior-year findings by federal and state awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Circular A-133.

24. We are responsible for taking corrective action on audit findings and have developed a corrective action plan that meets the requirements of OMB Circular A-133. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

25. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

26. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the County each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting County*.

Except where otherwise stated below, matters less than $500,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

27. Except for the adjustments noted below, there were no uncorrected misstatements or disclosure items passed identified during our audit:

    - Government-wide, governmental activities: current year expenses and beginning net position were overstated by $1.4 million relating to the correction of capitalized bond issuance costs incorrectly capitalized in prior year

    - Government-wide, governmental activities: other income was overstated and beginning net position was understated by $973,000 relating to recording capital assets in the current year that should have been previously capitalized.

28. The County has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

29. Regarding related parties:

    a. We have disclosed to you the identity of the County's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

30. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the financial statements.

31. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements except for those included in the Schedule of Findings of Questioned Costs

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP, except as disclosed in Note 12 to the financial statements.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments.*

32. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

33. The County has complied with aspects of contractual agreements that may affect the financial statements.

34. No department or agency of the County has reported a material instance of noncompliance to us except as listed in the Schedule of Findings and Questioned Costs.

35. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information

    The required supplementary information is measured and presented in accordance with generally accepted accounting principles

36. The methods of measurement and presentation of the required supplementary information have changed from those used in the prior period and the reason for such changes is the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB and Statement No. 27*, and GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No 68.*

37. Regarding supplementary information:

    a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with generally accepted accounting principles

    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with generally accepted accounting principles

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period

38. The County has appropriately identified and recorded all intangible assets under GASB Codification Section 1400.138 – 1400.152, *Intangible Assets.*

39. The County has evaluated the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") and determined that:

    - The prescription drug benefits available under the County's defined benefit postretirement plan(s) to some or all participants for some or all future years are "actuarially equivalent" to Medicare Part D and thus do qualify for the subsidy under the Act.

    - The expected subsidy will not offset or reduce the County's share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based.

40. The County has appropriately followed the accounting provisions of GASB Codification Section P50.602, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal and state Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D and provided the disclosures as required as of September 30, 2015.

41. The County has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application; Statement No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68; Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; Statement No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments; Statement No. 77 - Tax Abatement Disclosures; Statement No. 78 – Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans; Statement No. 79 – Certain External Investment Pools and Pool Participants; and Statement No. 80 – Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14, as discussed in Note 17. The County is therefore unable to disclose the impact that adopting these statements will have on its financial position, results of operations, and cash flows when such statements are is adopted.

42. The County has evaluated the effect of GASB Statements No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 and No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. The County has properly restated its beginning net position of the governmental activities and business-type activities as of September 30, 2014, to reflect the impact of implementing Statements Nos. 68 and 71.

43. Tax-exempt bonds issued have retained their tax-exempt status

44. We have complied with all applicable provisions of the Foreign Corrupt Practices Act.

45. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America

    c. No events have occurred after September 30, 2015, but before March 21, 2016, the date the financial statements were issued that require adjustment to the fair value measurements and disclosures included in the financial statements

46. The County has determined whether a capital asset has been impaired in accordance with GASB Codification Section 1400.180-1400.200, Impairment of Capital Assets. In making this determination, the County considered the following factors:

    a. The magnitude of the decline in service utility is significant

    b. The decline in service utility is unexpected.

47. The County has properly identified and accounted for all pollution remediation activities in accordance with GASB Codification Section P40, Pollution Remediation Activities. In performing this assessment, we considered whether one of the five obligating events had occurred and whether a recognition benchmark had been met. There are currently no other activities that meet the criteria in the standard for recognition of an expenditure.

48. We agree with the findings of management’s expert in evaluating the workers compensation and general self-insurance liability and pension and other post-employment benefit obligations and have adequately considered the qualifications of management’s expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to management’s expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management’s expert.

49. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

50. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

51. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

52. We believe that all expenditures that have been deferred to future periods are recoverable.

53. We have disclosed to you all additions or changes to the existing pension and other postretirement benefit plans

54. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, deferred inflows, deferred outflows, net position and changes in net position in the financial statements in accordance with GASB Codification Section P20, *Pension Activities — Reporting for Benefits Provided through Trusts that Meet Specified Criteria.*

55. We believe that the actuarial assumptions and methods used to measure postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, net position and changes in net position in the financial statements in accordance with GASB Codification Section P50, *Postemployment Benefits Other than Pension Benefits — Employer Reporting*.

56. We do not plan to make frequent amendments to our pension plan or our other postretirement benefit plan.

57. We have no intention of terminating any of our pension plan or our other post-employment benefit plan or withdrawing from any multiemployer plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of our pension plan or other post –employment plan or multiemployer plans to which we contribute.

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B. Glen Whitley, County Judge

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S. Renee Tidwell, County Auditor

CONTROL-RELATED MATTERS

SECTION I —SIGNIFICANT DEFICIENCY

We consider the following deficiency in the County's internal control over financial reporting to be a significant deficiency as of September 30, 2015:

User Access Management and Security

Criteria – Privileged access, granted directly or indirectly, should be restricted to only those authorized and necessary users for whom such access is commensurate with their respective job responsibilities.

Condition – During design and implementation testing of the user access controls around the SAP platform, we noted that the Administrative Group ("Basis team") members had been provided with the authentication information (i.e., password) for the DDIC account in the SAP production environment. DDIC conveys the SAP_ALL composite profile, which the Basis team should not regularly have. Furthermore, the DDIC account was unlocked for the duration of FY2015. Note that the SAP_ALL composite profile contains all SAP authorizations, meaning that a user assigned to this profile can perform any and all tasks in the SAP system.

Cause – The DDIC account is required for certain tasks and updates to the SAP platform, and thus, should be granted the SAP_ALL composite profile in order to execute those tasks. The Basis team had been made aware of the password to the account as it is this team who typically makes the updates. However, the County did not appear to consider the risks associated with the account being accessible by Basis at all times and the conflict in segregation of duties that this presents given the nature and extent of access provided.

Perspective – As indicated by 'Condition' above, the default SAP_ALL composite profile provides full privileges to the SAP system and such extent of access is not required (nor commensurate) for Basis team members at all times. Additionally, given the access granted, the DDIC account should be secured from interactive login except in instances when direct access is necessary.

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_ALL access should not be granted to end users or system administration personnel (e.g., Basis team members) - through direct assignment or by way of password knowledge to a generic type A (Dialog) or type S (service) account. When certain tasks or updates are required to be executed by one of these accounts (DDIC in this instance), temporary access should be granted and then removed as soon as the tasks requiring such access is complete. The accounts should be locked from interactive login at all other times. Further, the SAP Security team should be the gatekeepers to the accounts; that is, it is this team who should maintain the passwords, giving it to the team member requiring access for a particular task (after documented proof of approval) and then changing the password once the task is complete. Finally, during any period during which an account possessing SAP_ALL is unlocked, the account activity should be logged and reviewed.

SECTION II — OTHER MATTERS

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

GASB Statement No. 72 - *Fair Value Measurement and Application* – was issued in February 2015 and addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard becomes effective for the County in fiscal year 2016.

GASB Statement No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* – was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. This standard becomes effective for the County in fiscal year 2016 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective in fiscal year 2017.

GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – was issued in June 2015 and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This standard becomes effective for the County in fiscal year 2017.

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – was issued in June 2015 and replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This standard becomes effective for the County in fiscal year 2018.

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – was issued in June 2015 and supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This standard becomes effective for the County in fiscal year 2016.

GASB Statement No. 77 - *Tax Abatement Disclosures* – was issued in August 2015 and defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement also requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This standard becomes effective for the County in fiscal year 2017.

GASB Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* – was issued in December 2015 and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This standard becomes effective for the County in fiscal year 2016.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* – was issued in December 2015 and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. Additionally, this Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Certain requirements of this standard become effective for the County in fiscal year 2016 and certain other requirements of this standard become effective for the County in fiscal year 2017.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14* – was issued in January 2016 and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This standard becomes effective in fiscal year 2017.

SECTION III — DEFINITIONS

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 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.

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

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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.