

PB&H
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

Honorable County Judge and
Commissioners'
Hamilton County, Texas

In planning and performing our audit of the financial statements of Hamilton County, Texas, as of and for the year ended September 30, 2009, 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 our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 24, 2010, on the financial statements of Hamilton County, Texas.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Pattillo, Brown + Hill, L.L.P.

June 24, 2010

HAMILTON COUNTY, TEXAS

COMMENTS AND SUGGESTIONS

SEPTEMBER 30, 2009

PURCHASE POLICY

While performing our internal control documentation, we noted that the County has no formal procedures for purchasing goods and services. Currently, each department head makes purchases and the Commissioners' Court approves payment of all expenditures at a later date. To prevent the County from being liable for purchases that have not been approved or have exceeded budget, we recommend the County implement a written purchasing policy that actively approves and monitors purchases prior to incurring the expenses.

ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, issued in June 2004, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

From an accrual accounting perspective, the cost of OPEB generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the cost of benefits in periods when the related services are received by the employer;
- Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and
- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Implementation is required for the County in the first fiscal period beginning after December 15, 2008. We recommend the County begin to formulate a strategy to meet the requirements of the new standard.

PRIOR YEAR COMMENTS

SEGREGATION OF DUTIES

Prior Year Comment:

An essential element of any preventative control system is a segregation of duties in such a manner so that no single individual could perpetrate an error and conceal it without being discovered on a timely basis. Three general categories of functions that should be separated to achieve effective internal control are: 1) Functions involving custody of assets (i.e. check writing, handling cash, wire transfer capabilities); 2) Recording control functions, (i.e. preparation of bank reconciliations to accounting records); and 3) Performance of line operating functions (i.e. generation and authorization of transactions, bookkeeping).

One individual is responsible for two or more of the functions listed above in the District Clerk's office. Risks exist that this individual could create an error, intentionally, or unintentionally, and cover that error without detection on a timely basis or possibly not at all.

We recommend a second individual perform the bank reconciliations in the District Clerk's office.

Current Status:

This matter has been resolved.

* * * * *

We would like to thank the **Hamilton County** for this opportunity to be of service. If we may be of further assistance or if you have any questions, please do not hesitate to call.