MANAGEMENT LETTER

SOUTH PLAINS ASSOCIATION OF GOVERNMENTS

September 30, 1979

Kelley, Cole & Co.
Certified Public Accountants

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CERTIFIED PUBLIC ACCOUNTANTS

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February 27, 1980

CONFIDENTIAL

Board of Directors and
Mr. Jerry Casstevens, Executive Director
South Plains Association of Governments
1709 26th Street
Lubbock, Texas

In connection with our engagement to examine the financial statements of the South Plains Association of Governments for the year ended September 30, 1979, certain matters relating to the systems of internal control and accounting procedures came to our attention and are presented for your consideration in the paragraphs that follow.

Kelley, Cole & Co.

GENERAL

The South Plains Association of Governments (SPAG) was the recipient of 32 grants during the fiscal year ended September 30, 1979. Some of the grants were operational, some were for planning purposes, and others were primarily for pass through to member governments. A summary of grant income and expenditures is presented below:

Total grant income	$3,956,756.72
Total grant expenditures	3,956,756.72
Net income from grants	$ -0-

Other funds which had limited or no restrictions on how they would be spent were also received by SPAG. Among the sources of these funds were membership dues, interest income, and unrestricted grant money from the Governor's office. Member governments also made in kind and cash contributions to be applied as local match on specific grants. A summary of the receipts and disbursements of these funds is presented below:

Non-grant income		$189,169.45
Expenditure of non-grant income:		
Cost-sharing (match) on grants	$143,680.97	
Local expenditures	34,700.04	178,381.01
Net Income		$ 10,788.44

Local expenditures include purchase of equipment, furniture, and other property which are not chargeable to a specific grant. The South Plains Association of Governments is allowed to compute depreciation on these assets and allocate it to all grants for reimbursement.

Fund balance or equity at September 30, 1979 is as follows:

Fund balance beginning of year	$212,034.16
Net income, fiscal year 1979	10,788.44
Fund balance, end of year	$222,822.60

In effect, SPAG had $222,822.60 of unrestricted funds available at September 30, 1979. These funds were in part pledged to match new grants by the General Assembly's approval of the budget and work plan for fiscal year 1980.

SPECIFIC RECOMMENDATIONS

We have made specific recommendations in certain areas as presented below. These items have been discussed with management.

REVIEW OF RECOMMENDATIONS FROM PRIOR YEARS' MANAGEMENT LETTERS

A brief discussion of recommendations made in prior years which have been implemented partially or in full are presented below:

a) Pension Trust - A separate bank account and subsidiary ledger have been established to reflect pension fund activity. However, problems still remain in maintaining accurate balances for each employee's vested interest. Requesting yearly statements of annuity purchased on each employee from the plan carrier will help to alleviate these problems.

b) Accountability for Equipment Purchased by Contractors - Limited control is maintained over property purchased and used by contracting agencies. Certain of the grant contracts state that the South Plains Association of Governments is accountable for these items.

   We understand that property control procedures are being developed that require the maintenance of property schedules by all sub-contracting agencies and periodic inspection of the properties by SPAG personnel.

BUDGETARY CONTROLS

A weakness exists in controlling expenditures by cost categories. No reference to approved budget line items is made as costs are expensed, resulting in overspending line items.

We recommend that the approved budgets be incorporated into the general ledger accounting system and be used as a control over expenditures. We understand that this is being done beginning for fiscal year 1980.

CONTROL OVER CONTRACTING AGENCIES

Closer controls over contracting agencies need to be implemented in the areas of proper documentation of expenses and reporting requirements. This will aid in alleviating problems upon eventual audits and resultant questioned costs.

We recommend that each department initiate and supervise examinations of its contracting agencies on a test basis with dollar volume influencing the selection of those agencies to be examined.

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An adequate system of internal control is the responsibility of management; our review was made for the purpose set forth in the first paragraph of this letter and would not necessarily disclose all weaknesses in the system.

We appreciate the courtesy and assistance extended to us by the personnel of the South Plains Association of Governments during our review. Should you have any questions concerning the matters presented herein, we shall be pleased to discuss them with you at your convenience.