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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS

To the Honorable County Judge and the Honorable County Commissioners
Webb County, Texas

Compliance

We have audited the Webb County, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Uniform Grant Management Standards (UGMS)* issued by the Office of the Governor of the State that could have a direct and material effect on each of Webb County, Texas' major federal and state programs for the year ended September 30, 2010. Webb County, Texas' major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of Webb County, Texas' management. Our responsibility is to express an opinion on Webb County, Texas' compliance based on our audit.

Except as discussed in the following paragraph, 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; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the *UGMS*. Those standards, *OMB Circular A-133*, and *UGMS* 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

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major federal or state program occurred. An audit includes examining, on a test basis, evidence about Webb County, Texas' 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. Our audit does not provide a legal determination on Webb County, Texas' compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of Webb County, Texas, as discussed in Note G to the financial statements, with the following two (2) major programs:

- U.S. Department of Energy – Weatherization Assistance for Low-Income Persons – ARRA – CFDA 81.042 regarding any of the applicable compliance requirements.
- U.S. Department of Health and Human Services – Low-Income Home Energy Assistance – CFDA 93.568 regarding Eligibility.

We were not able to satisfy ourselves as to Webb County, Texas' compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding Webb County, Texas' compliance with the requirements of the major programs regarding the types of compliance requirements stated above, Webb County, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of Webb County, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered Webb County, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Webb County, Texas' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-3 to be a material weakness.

Webb County, Texas' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Webb County, Texas' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, County Commissioners, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gaug, Martiny & Co, L.L.P.

Laredo, Texas
March 31, 2011