

# RANDY WALKER & Co.

Certified Public Accountants

7800 IH 10 West, Suite 505 • San Antonio, Texas 78230  
Phone (210) 366-9430 • Fax (210) 366-9451

June 27, 2009

To the Board of Directors  
Southeast Texas Trauma Regional Advisory Council

We have audited the financial statements of Southeast Texas Trauma Regional Advisory Council (SETTRAC) for the year ended August 31, 2008, and have issued our report thereon dated June 27, 2009. This letter contains comments incidental to the audit on matters relating to your organization's financial reporting process and is designed to assist you with your responsibility as directors of your organization.

## **Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated November 4, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered SETTRAC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal 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.

As part of obtaining reasonable assurance about whether SETTRAC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about SETTRAC's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on SETTRAC's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on SETTRAC's compliance with those requirements.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SETTRAC are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by SETTRAC during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 27, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to SETTRAC’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SETTRAC’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Prior Year Audit Findings**

1. Receipts – During the course of our audit we noted that one person opens the mail, records receipts, and deposits money to the bank. This allows one person to control and record cash, which could lead to errors or misappropriation that could go undetected.

Current Year – We noted this issue has been corrected from prior year.

2. Cleared Checks – Cleared checks are not reviewed on a regular basis to verify the reasonableness of expenditures.

Current Year – We noted this issue has been partially corrected from prior year. See further discussion below.

3. Outstanding Checks – We noted that there were several old outstanding checks being carried on monthly cash reconciliations.

Current Year – We noted this issue has not been corrected from prior year. See further discussion below.

4. Grant Expense Reconciliations – Grant expenditure reports are not reconciled to Quickbooks to ensure accurate and complete recording of transactions in the accounting system.

Current Year – We noted this issue has not been corrected from prior year. See further discussion below.

5. Tobacco Administrative Expenses – Administrative expenses incurred with Tobacco grant funds exceeded the 20% allowable amount per contract requirements by \$351. Although this amount is immaterial, administrative expenses should have been monitored to ensure compliance with the 20% threshold stipulated in the grant contract.

Current Year – We noted this issue has been corrected from prior year.

### **Prior Year Audit Findings (continued)**

6. *Expense Documentation* – During expense testing, we noted several grant expenditures for which a vendor invoice or supporting documentation was not properly filed to support the expenditure. Although copies of the invoices were obtained from the vendor by the client as a result of the audit, they should have been readily available to validate the expense. In one instance, there was only a client-prepared purchase order to support an expenditure.

*Current Year* – We noted this issue has been corrected from prior year.

7. *Voided and Reissued Checks* – In the testing of net assets, we noted disbursement checks had been voided and reissued in the current year that were originally disbursed in FY'06. Because the client did not use accrual-based accounting, the voiding of the disbursement removed the amount from expense and increased cash as of 8/31/06. As a result, an audit adjustment was necessary to roll forward net assets from prior year.

*Current Year* – We noted this issue has not been corrected from prior year. See further discussion below.

8. *Excess HRSA Interest* – In testing interest income, we noted \$2,373 in excess HRSA interest received that was not remitted back to the State in accordance with HRSA contract requirements.

*Current Year* – We noted this issue has not been corrected from prior year. See further discussion below.

### **Current Year – Control Deficiencies**

1. *Cleared Checks* – A review of SETTRAC's financial procedures revealed that one individual has control over blank checks, enters the amount of the checks into Quickbooks, prepares the checks, and may even mail the checks. Although cleared checks are reviewed by the Treasurer on a monthly basis to verify the reasonableness of expenditures, a more extensive review is needed to address the lack of segregation in the cash disbursements process.

*Recommendation* – It is recommended the Treasurer include the following in their review:

- Look at most or all large checks
- Look at a sample of smaller checks
- Pick some checks each month to look at the backup support

2. *Outstanding Checks* – We noted that there were several old outstanding checks being carried on monthly cash reconciliations.

*Recommendation* – We recommend that checks over 90 days old be investigated to determine if the checks should be reissued. If the payee cannot be located, then the funds should be sent to the state of Texas as unclaimed funds in accordance with state escheat laws.

**Current Year – Control Deficiencies (continued)**

3. Voided and Reissued Checks – We noted one disbursement check to a hospital that had been voided and reissued in FY'09 that was originally disbursed in FY'08. The voiding of the disbursement removed the amount from expense and increased cash as of 8/31/08. An accrual was not made to recognize the amount as an FY'08 expense. As a result, an audit adjustment was necessary to accrue the amount as of 8/31/08.

Recommendation – We recommend that any checks voided and reissued after the fiscal year end be recorded as an expense in accounts payable in the fiscal year in which it is originally disbursed so that it remains in the proper period.

4. Excess HRSA Interest – In testing interest income, we noted \$9,499 in excess Bioterrorism interest received during FY'08 that was not remitted back to the State in accordance with contract requirements.

Recommendation – We recommend the excess interest be remitted back to the State to ensure compliance with Bioterrorism grant requirements.

5. Program Expenses – The majority of OASPR program expenses were recorded to one general account called “Contractual” instead of being recorded to the proper functional expense account (i.e., supplies, equipment, training, etc.).

Recommendation – We recommend OASPR program expenses be recorded to the proper functional expense account (i.e., supplies, equipment, training, etc.) rather than one general account to ensure expenses are accurately presented in the accounting system for financial reporting purposes. Since SETTRAC is currently utilizing Quickbooks as its accounting system, sub-accounts could be created within the “Contractual” category in order to achieve a clearer functional expense breakout.

6. Whistle Blowing” Policy – The Organization does not have a whistle blowing policy in place. Currently, this provision is recommended for non-profits by the Internal Revenue Service. The provision is similar to Section 301 in the Sarbanes-Oxley Act in which audit committees are mandated to establish procedures for receipt of complaints by employees (301.4.A) and for the confidential submission of the complaint by employees (301.4.B).

The following is the exact language:

(4) COMPLAINTS- Each audit committee shall establish procedures for--

(A) the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and

(B) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

Recommendation – We recommend that a “whistle blowing” policy be established along with the proper tools needed to implement such a program.

**Current Year -- Significant Deficiencies**

1. Grant Expense Reconciliations – During expense testing, we identified several grant expenditures (i.e., OASPR, RAC EMS, and Tobacco) that were incorrectly coded and recorded in Quickbooks. Furthermore, grant expenditure reports did not agree to the accounting system, indicating the reports are not reconciled to Quickbooks to ensure accurate and complete recording of transactions.

Recommendation – We recommend expenditure reports be reconciled to the accounting system for each reporting period to ensure the accounting system reflects complete and accurate expenditures. This process would help identify any miscoded or improperly recorded expenditures.

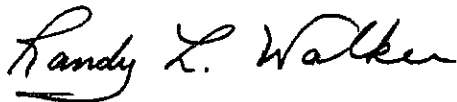
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We would like to express our appreciation for the courtesy and cooperation extended to us by David Rives and staff.

This information is intended solely for the use of the Board of Directors and management of Southeast Texas Trauma Regional Advisory Council, and should not be used for any other purpose.

Please do not hesitate to contact us if you want to discuss any of the matters contained herein.

Very truly,

A handwritten signature in black ink that reads "Randy L. Walker". The signature is written in a cursive style with a large, stylized initial "R".

Client: S.E.T.T.R.A.C.  
 Engagement: S.E.T.T.R.A.C. FY 08  
 Period Ending: 8/31/2008  
 Workpaper: Adjusting Journal Entries Report

Account	Description	WP Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b> <span style="float: right;">ZZ-2a</span>				
To adjust beginning '08 balances to the proper amount due to client not recording prior year audit adjusting entries.				
1200	Accounts Receivable		15,212.00	
1300	Office Equipment		33,802.00	
1303	Vehicles		496,388.00	
1305	Communications Equipment		157,817.00	
1310	Computer Equipment		80,760.00	
1316	Field Equipment		389,781.00	
1350	Accumulated Depreciation			119,433.00
2000	Accounts Payable			221,581.00
2010	Accrued Payroll Expense			6,431.00
3005	Temporarily Restricted			306,624.00
3010	Retained Earnings			499,691.00
<b>Total</b>			<u>1,153,760.00</u>	<u>1,153,760.00</u>
<b>Adjusting Journal Entries JE # 2</b> <span style="float: right;">EE-2</span>				
To recognize FY'09 grant income awarded and received in FY'08 that was incorrectly recorded to deferred revenue.				
2512	Deferred Revenues: FY 09 County Grant		260,779.00	
2513	Deferred Revenues: FY 09 RAC EMS Grant		182,961.00	
4135	FY'09 County Grant			260,779.00
4136	FY'09 RAC EMS Grant			182,961.00
<b>Total</b>			<u>443,740.00</u>	<u>443,740.00</u>
<b>Adjusting Journal Entries JE # 3</b> <span style="float: right;">G-2</span>				
To reclass consulting fees improperly recorded as prepaid expense.				
2000	Accounts Payable		6,750.00	
7602	FY 08 Tobacco Fund: Strategic Plan		6,750.00	
7607	FY'09 RAC EMS: Strategic Plan		6,750.00	
1250	Prepaid Expenses			20,250.00
<b>Total</b>			<u>20,250.00</u>	<u>20,250.00</u>
<b>Adjusting Journal Entries JE # 4</b> <span style="float: right;">A-6</span>				
To record excess bank interest due to state.				
7701	Interest Due to State		9,499.00	
2020	Due to State			9,499.00
<b>Total</b>			<u>9,499.00</u>	<u>9,499.00</u>
<b>Adjusting Journal Entries JE # 5</b> <span style="float: right;">10-2e</span>				
To reverse prior year A/R accrual of Stroke Soiree reimbursement.				
4300	Other Income		8,569.00	
1200	Accounts Receivable			8,569.00
<b>Total</b>			<u>8,569.00</u>	<u>8,569.00</u>
<b>Adjusting Journal Entries JE # 6</b> <span style="float: right;">10-2c</span>				
To reverse prior year accrual of FY'07 online registration fees.				
4502	FY 07 Conference Registration		6,643.00	
1200	Accounts Receivable			6,643.00
<b>Total</b>			<u>6,643.00</u>	<u>6,643.00</u>
<b>Adjusting Journal Entries JE # 7</b> <span style="float: right;">10-2f</span>				
To record payable to state for unspent grant funds received from hospitals.				
7700	Unspent Funds Due to State		75,132.00	
2020	Due to State			75,132.00
<b>Total</b>			<u>75,132.00</u>	<u>75,132.00</u>

Client: S.E.T.R.A.C.  
 Engagement: S.E.T.R.A.C. FY 08  
 Period Ending: 8/31/2008  
 Workpaper: Adjusting Journal Entries Report

Account	Description	WP Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 8</b>				
To reverse prior year A/P audit adjustments. CC-2b				
2000	Accounts Payable		219,208.00	
2010	Accrued Payroll Expense		6,431.00	
7254	HRSA 5 Program Expense:Equipment & Supplies			105,254.00
7258	HRSA 5 Program Expense:Training			98,750.00
7408	FY 07 RAC Trauma-1st Fund:Satellite Phone Fees			840.00
7411	FY 07 RAC Trauma-2nd Fund:Computer System for new office			1,215.00
7417	FY 07 RAC Trauma -2nd Fund: Ben Taub Helmet Safety			2,003.00
7419	FY 07 RAC Trauma-2nd Fund: Ben Taub Shattered Dreams			3,324.00
7419	FY 07 RAC Trauma-2nd Fund: Furniture for New Office			7,822.00
7562	Fringe Benefits:Payroll Taxes			6,431.00
<b>Total</b>			<u>225,639.00</u>	<u>225,639.00</u>
<b>Adjusting Journal Entries JE # 9</b>				
To capitalize computer and office equipment that was improperly expensed. M-5				
1300	Office Equipment		11,580.00	
1310	Computer Equipment		7,000.00	
7588	FY 08 RAC EMS-1st Fund:State Conference			11,580.00
7688	OASPR 7 Program Expenses:RCV Expenses			7,000.00
<b>Total</b>			<u>18,580.00</u>	<u>18,580.00</u>
<b>Adjusting Journal Entries JE # 10</b>				
To record CY depreciation. M-4				
8020	Depreciation Expense		238,395.00	
1350	Accumulated Depreciation			238,395.00
<b>Total</b>			<u>238,395.00</u>	<u>238,395.00</u>
<b>Adjusting Journal Entries JE # 11</b>				
To record expenses and fixed assets incorrectly excluded as of year end. CC-2b				
1303	Vehicles		16,356.00	
7576	FY 08 General Fund:PI&E SETTRAC Conference		8,242.00	
2000	Accounts Payable			24,598.00
<b>Total</b>			<u>24,598.00</u>	<u>24,598.00</u>
<b>Adjusting Journal Entries JE # 12</b>				
To remove hospital allocation payable and receivable from the books. CC-3				
2005	Accounts Payable:Hospital Allocation Plan Payable		955,411.00	
1016	Hospital Allocation Plan-			955,411.00
<b>Total</b>			<u>955,411.00</u>	<u>955,411.00</u>
<b>Adjusting Journal Entries JE # 13</b>				
To accrue FY08 Tobacco expenses incurred but paid in FY09. CC-4				
7592	FY 08 Tobacco Fund:RCV Expenses		7,815.00	
7598	FY 08 Tobacco Fund:Education		440.00	
7604	FY 08 Tobacco Fund:Travel Expenses		2,789.00	
7605	FY 08 Tobacco Fund:VHF High Band Radios for Strike Teams		523.00	
7608	FY 08 Tobacco Fund: ASTL Courses		10,000.00	
7616	FY 08 Tobacco Fund: Miscellaneous		3,579.00	
7617	FY 08 Tobacco Fund: OCS Charges for Server Removal		296.00	
2000	Accounts Payable			25,442.00
<b>Total</b>			<u>25,442.00</u>	<u>25,442.00</u>
<b>Adjusting Journal Entries JE # 14</b>				
To accrue FY08 OASPR Yr. 6 expenses paid for in FY09 and payable to state for unspent grant funds. CC-6				
7657	OASPR 6 Administrative Funds:Office Supplies		411.00	
7661	OASPR 6 Administrative Funds:Travel		579.00	
7669	OASPR 6 Program Expenses: Hospital Reimbursements		43,898.00	
7700	Unspent Funds Due to State		23,620.00	
2000	Accounts Payable			44,378.00
2020	Due to State			23,620.00
<b>Total</b>			<u>68,498.00</u>	<u>68,498.00</u>

Client: S.E.T.T.R.A.C.  
 Engagement: S.E.T.T.R.A.C. FY 08  
 Period Ending: 8/31/2008  
 Workpaper: Adjusting Journal Entries Report

Account	Description	WP Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 15</b>				
To reclass contractual expense to the proper functional expense accounts.				
7561	Contractual:Travel	50-2g	881.00	
7666	OASPR 6 Program Expenses:Equipment & Supplies		2,173,116.00	
7667	OASPR 6 Program Expenses:Training		9,000.00	
7669	OASPR 6 Program Expenses: Hospital Reimbursements		1,918,284.00	
7560	Contractual			4,101,281.00
<b>Total</b>			<u>4,101,281.00</u>	<u>4,101,281.00</u>
<b>Adjusting Journal Entries JE # 16</b>				
CLIENT PROPOSED ENTRY: To correct RAC EMS grant expenses improperly recorded.				
7554	FY 08 RAC EMS-1st Fund:EMSystem Conference	50-2c	117.00	
7589	FY 08 RAC EMS-1st Fund:Verizon Aircards for RCV		188.00	
7609	FY 08 RAC EMS - 1st Fund: Strategic Plan		4,500.00	
7610	FY 08 Tobacco Fund: Possible Overage for State Conference		5,210.00	
7611	FY 08 RAC EMS - 1st Fund: TETAF Dues		17,507.00	
7587	FY 08 RAC EMS-1st Fund:Possible Overage for State Conference			5,210.00
7592	FY 08 Tobacco Fund:RCV Expenses			188.00
7602	FY 08 Tobacco Fund:Strategic Plan			4,500.00
7603	FY 08 Tobacco Fund:TETAF Dues			17,507.00
7604	FY 08 Tobacco Fund:Travel Expenses			117.00
<b>Total</b>			<u>27,522.00</u>	<u>27,522.00</u>
<b>Adjusting Journal Entries JE # 17</b>				
To accrue FY'08 RAC EMS grant expenses incurred but paid in FY'09.				
7584	FY 08 RAC EMS-1st Fund:Health Insurance	CC-5	139.00	
7586	FY 08 RAC EMS-1st Fund:Payroll Services		501.00	
7612	FY 08 RAC EMS - 1st Fund: Move of Computer Servers		2,679.00	
7613	FY 08 RAC EMS - 1st Fund: Electrical Equipment		448.00	
2000	Accounts Payable			3,767.00
<b>Total</b>			<u>3,767.00</u>	<u>3,767.00</u>
<b>Adjusting Journal Entries JE # 18</b>				
CLIENT PROPOSED ENTRY: To correct FY'08 Tobacco expenses improperly recorded.				
2000	Accounts Payable	50-2d	2,622.00	
7592	FY 08 Tobacco Fund:RCV Expenses		302.00	
7614	FY 08 Tobacco Fund: PI&E SETTRAC Conference		3,620.00	
7615	FY 08 Tobacco Fund: Upgrade 8mHz Radios		6,375.00	
7616	FY 08 Tobacco Fund: Miscellaneous		3,184.00	
7570	FY 08 General Fund:Contingent Other			12.00
7576	FY 08 General Fund:PI&E SETTRAC Conference			6,804.00
7595	FY 08 Tobacco Fund:Computer System Upgrade			6,375.00
7597	FY 08 Tobacco Fund:Duty Shirts for RCV-Q Personnel			2,622.00
7668	OASPR 7 Program Expenses:RCV Expenses			290.00
<b>Total</b>			<u>16,103.00</u>	<u>16,103.00</u>
<b>Adjusting Journal Entries JE # 19</b>				
To roll forward net assets.				
3010	Retained Earnings	ZZ-2a	1.00	
4300	Other Income			1.00
<b>Total</b>			<u>1.00</u>	<u>1.00</u>
<b>Adjusting Journal Entries JE # 20</b>				
To reclass temporarily restricted net assets.				
3010	Retained Earnings	ZZ-2a	130,366.00	
3005	Temporarily Restricted			130,366.00
<b>Total</b>			<u>130,366.00</u>	<u>130,366.00</u>