

Board of Directors and Management  
Maverick County Hospital District  
Eagle Pass, Texas

As part of our audit of the financial statements of Maverick County Hospital District (District) as of and for the year ended August 31, 2017, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### **Qualitative Aspects of Significant Accounting Policies and Practices**

#### *Significant Accounting Policies*

The District's significant accounting policies are described in *Note 1* of the audited financial statements.

#### *Alternative Accounting Treatments*

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Valuation of patient accounts receivable
- Value of property taxes receivable and tax revenue
- Net pension asset

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Indigent care
- Defined benefit pension plan

**Audit Adjustments**

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

*Proposed Audit Adjustments Recorded*

- Net pension asset, deferred inflows of resources and deferred outflows of resources
- Patient accounts receivable

*Proposed Audit Adjustments Not Recorded*

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

**Auditor's Judgments About the Quality of the Entity's Accounting Principles**

No matters are reportable.

### **Other Material Communications**

Listed below are other material communications between management and us related to the audit:

- Management representation letter (*attached*)
- We observed matters that we consider to be deficiencies that we communicated to management orally.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the District as of and for the year ended August 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control 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 of the District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when 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, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matter that we consider to be a significant deficiency.

Patient Accounts Receivable

One of the most complex estimates the District must make is the net realizable value of patient accounts receivable. Management must use multiple inputs including payer mix, account aging and current payment rates to estimate how much patients will pay for services provided by the District. An entry was proposed and recorded to reduce the net value of patient accounts receivable. Management should challenge the patient accounts receivable estimate by performing validation procedures such as look-back analyses. A look-back analysis provides management with evidence of the precision of its prior estimate, and can often indicate changes that should be considered when current estimates are computed. We recommend that management perform a look-back analysis on patient accounts receivable at least every six months.

This communication is intended solely for the information and use of management, the Board of Directors and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

January 31, 2018



January 31, 2018

**BKD, LLP**

Certified Public Accountants  
14241 Dallas Parkway, Suite 1100  
Dallas, Texas 75254-961

We are providing this letter in connection with your audits of our financial statements of Maverick County Hospital District as of and for the years ended August 31, 2017 and 2016. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting 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:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated May 15, 2017 for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes

5. We have provided you with:
  - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - (b) Additional information that you have requested from us for the purpose of the audit.
  - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - (d) All minutes of directors' meetings held through the date of this letter.
  - (e) All significant contracts and grants.
  - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:
  - (a) Misappropriation of assets.
  - (b) Misrepresented or misstated assets or liabilities.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. We have no knowledge of any known or suspected:
  - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
  - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

- (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, customers, regulators, suppliers or others.
11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the District may deal if the District can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the District.
12. Except as reflected in the financial statements, there are no:
- (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
  - (b) Material transactions omitted or improperly recorded in the financial records.
  - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
  - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
  - (e) Agreements to purchase assets previously sold.
  - (f) Restrictions on cash balances or compensating balance agreements.
  - (g) Guarantees, whether written or oral, under which the District is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

14. We have no reason to believe the District owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
15. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
16. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the District's participation in the Medicare or other governmental health care programs.
17. Adequate provisions and allowances have been accrued for any material losses from:
  - (a) Uncollectible receivables.
  - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
18. Except as disclosed in the financial statements, the District has:
  - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
  - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
19. With respect to the District's possible exposure to past or future medical malpractice assertions:
  - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
  - (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.
  - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.



- (d) Management does not expect any claims to exceed malpractice insurance limits.
  - (e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.
20. With regard to deposit and investment activities:
- (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
  - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
  - (c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.
21. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and related notes:
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
  - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
  - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
  - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
22. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
23. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
24. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension information, has been prepared and is measured and presented in

conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

25. We believe the assumptions used by our actuaries for valuing our obligations under our defined benefit pension plan are reasonable and result in an accurate portrayal of our unfunded benefit obligations. We are not aware of any items that would materially change the actuarial assumptions of computed obligations.
26. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
27. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
28. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
29. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
30. With regard to cost reports filed with Medicare, Medicaid or other third parties:
  - (a) All required reports have been properly filed.

- (b) Management is responsible for the accuracy and propriety of those reports.
  - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
  - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
  - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
  - (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.
31. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.
32. To the best of our knowledge, the amounts recorded as receivables under the Section 1115(a) waiver program (Uncompensated Care and Delivery System Reform Incentive Payment Program) and Medicaid DSH, are reasonable estimates of the amounts we will ultimately receive for these programs. We have made appropriate allowances for any amounts subject to retrospective audit and adjustments by the state of Texas or the Center for Medicare and Medicaid Services.
33. Our federal awards did not exceed \$750,000 in 2017 and we do not believe we are subject to the audit requirement to OMB Circular A-133 in 2017.
34. The District intends to hold all investments until maturity. Accordingly, investments maturing prior to August 31, 2018 are appropriately classified as "current" and investments maturing subsequent to August 31, 2018 are appropriately classified as "long-term" in the financial statements.

  
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Terri Contreras, CEO

  
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Nestor Bonilla, CFO

# Maverick County Hospital District

## ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

### QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	10,061,029	(75,746)	9,985,283	-0.75%
Non-Current Assets	15,048,206	0	15,048,206	0.00%
Current Liabilities	(571,442)	11,770	(559,672)	-2.06%
Non-Current Liabilities	(139,310)	0	(139,310)	0.00%
Current Ratio	17.61		17.84	1.33%
Total Assets	25,109,235	(75,746)	25,033,489	-0.30%
Total Liabilities	(710,752)	11,770	(698,982)	-1.66%
Net Position	(24,398,483)	63,976	(24,334,507)	-0.26%
Revenues & Income	(6,602,389)	105,600	(6,496,789)	-1.60%
Operating Expenses	6,855,377	(26,208)	6,829,169	-0.38%
Change in Net Position	252,988	79,392	332,380	31.38%

