

EDE & COMPANY, LLC

Certified Public Accountants

Eric Ede
Donna Ede Jones

P. O. Box 219
Knippa, Texas 78870
Telephone (830) 934-2148
Fax (830) 934-2799
Email edecpa@hotmail.com

August 15, 2017

The Board of Directors
Upper Guadalupe River Authority
125 Lehman Dr. Suite 100
Kerrville, Texas 78028

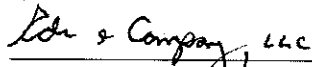
As part of our Management Audit performed during August 2017, we identified the following items that may help the Authority to improve its processes and procedures.

1. **Laboratory Safety Manual** - The Upper Guadalupe River Authority Environmental Laboratory plays an important role in the Authority's water monitoring programs. The Laboratory's analytical services include the bacteriological, chemical, and biological testing of water, wastewater, soils, and sludge. The Laboratory has written quality control procedure in place and standard operating procedures (SOPs) for each test the Laboratory performs. Each SOP has safety protocol for that particular test. The Upper Guadalupe River Authority addresses employee safety in *Section 80: Safety and Health* of the districts Personnel Policy Manual, however these policies are limited and do not provided staff with the kinds of information needed to achieve laboratory safety compliance and management of risks associated with laboratory work. To ensure the health, safety and well-being of all personnel working in or accessing laboratories we suggest that the Authority consider the establishing a comprehensive laboratory safety manual. When these policies and procedures are followed, the risk of occupational exposures to chemicals and physical hazards as well as the risk of accidental environmental release of hazardous materials is minimized.
2. **Financial Transparency** – Government financial transparency is sweeping the globe. Every state runs a data portal, and legislatures around the country are mandating new transparency programs. A focus on building citizen trust in these initiatives is critical because governments spend taxpayers' money. Financial Transparency helps citizens gain greater understanding and confidence in their government and how it spends their tax dollars. Financial transparency can result in significant financial returns on investment. The savings come from sources big and small – more efficient government administration, more competitive bidding for public projects and less staff time spent on information requests. We encourage the Authority to developed a Financial Transparency webpage designed to provide citizens quick and centralized access to financial documents. On this page, you will find budgets, official statements, audited financials, payment registers, and various other financial documents.

The Comptroller's Office for the State of Texas has an initiative to encourage all county and local governments to be transparent in their financial operations called Texas Transparency. For more information about Financial Transparency, we suggest you review the Comptroller's Office for the State of Texas website (<https://comptroller.texas.gov/transparency/local/>).

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

Very truly yours,



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UPPER GUADALUPE RIVER AUTHORITY
INDEPENDENT MANAGEMENT AUDIT
AUGUST, 2017



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We have performed a Management Audit as outlined by the Texas Commission on Environmental Quality (TCEQ) in Title 30 Part 1 Chapter 292 Subchapter B Rule §292.13 of the Texas Administration Code. Our procedures were performed during August 2017 on the policies, procedures, manuals, and other records utilized during that period by the Upper Guadalupe River Authority (the "Authority"). Therefore, our findings are applicable only to that period and cannot be extended to other periods as such policies, procedures, manuals, and other records are subject to change and/or incorrect application. Our procedures were limited principally to the inquiry, observation, and reading of selected policies and manuals. We did not performed an examination of the Authority's system of internal control, which would encompass detailed testing of specific controls throughout the specified period. Therefore, we do not express an opinion or any other form of assurance on the Authority's system of internal control.

Current auditing literature promulgated by the American Institute of Certified Public Accountants ("AICPA") requires engagements, such as TCEQ's management audits, be performed under attestation standards or consulting standards. An attestation engagement is one in which the auditor issues a written communication which expresses a conclusion about the reliability of a written assertion that is the responsibility of another party. That is, management of the entity must issue a written assertion, which is tested by the auditor who expresses an opinion that management's assertion is correct or not correct. In a consulting engagement, the nature and scope of the work are determined solely by agreement between the consultant and the client. The consultant develops the findings, conclusions, and recommendations presented. The nature and scope of the procedures requested by the Authority to be performed, which are mandated by TCEQ, conform more to a consulting engagement rather than to an attestation engagement. Our procedures were performed in accordance with the consulting standards promulgated by the AICPA.

TCEQ management examinations focus on identifying, reviewing, assessing, and evaluating management processes, controls, and accountability. The intent is to predict and prevent management problems before they occur. The scope of work was determined by a joint effort between the Texas Water Conservation Association Committee on Management Examinations and TCEQ and applies to all water authority management audits. Guidelines were written to define the scope of the work to be performed and adopted by TCEQ. TCEQ directs

the consultant or independent auditor to perform procedures based on TCEQ's written guidelines. Our Procedures were based on the Texas Water Conservation Association Committee on Management Audits proposed scope recommendations for Group One Authority's (FTEs less than 25, less than \$2,000,000 in annual revenues) Our procedures involve judgment as to the type, quantity, and form of procedures used to assess management controls and evidence, which support management's policies and procedures.

We did not find any material management process control deficiencies as a result of our procedures. We did identify opportunities to improve and strengthen certain documentation, as well as potential opportunities to improve or strengthen certain other policies and procedures.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Authority and TCEQ. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

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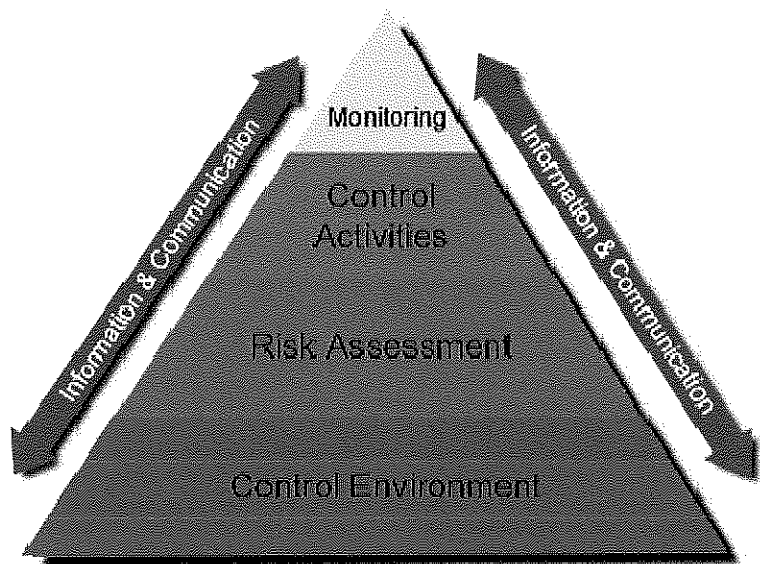
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I. TESTING OF INTERNAL CONTROLS

The management of the Upper Guadalupe River Authority is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Authority's financial reporting and the preparation of external financial statements in accordance with generally accepted accounting principles. Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Authority used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring.

Control Environment: The control environment, sometimes referred to as "tone at the top", is the foundation for all other components of internal control. The control environment is influenced by management's philosophy, operating style, integrity, ethical values, and commitment to competence. If this foundation is strong, if the control environment is positive, the overall system of internal control will be more effective.



Risk Assessment: Risk assessment is the identification, analysis, and management of risks relevant to the achievement of the department's goals and objectives. Risks include internal and external events or circumstances that may occur and adversely affect operations. Once risks are identified, management should consider their impact (or significance), the likelihood of their occurrence, and how to manage them.

Control Activities: Internal control activities are tools - policies, procedures, techniques, and mechanisms - that help ensure management's directives are carried out. Control activities help identify, prevent or reduce the risks that can impede accomplishment of the department's objectives. Control activities occur throughout the department, at all levels and in all functions; they include activities such as approvals, authorizations, verifications, reconciliations, documentation, separation of duties, and safeguarding of assets.

Communication and Information: For a department to run and control its operations, it must have relevant, valid, reliable, and timely communications relating to internal and external events. Managers must be able to obtain reliable information to make informed business decisions, determine their risks, and communicate policies and other important information to those who need it.

Monitoring: The department's internal control system needs to be monitored to assess whether controls are effective and operating as intended. On-going monitoring occurs through routine managerial activities such as supervision, reconciliations, checklists, comparisons, performance evaluations, and status reports; monitoring may also occur through separate internal evaluations (e.g., internal audits/reviews) or from use of external sources (e.g., comparison to peer groups or industry standards, surveys, etc.). Deficiencies found during monitoring need to be reported to those responsible for the function, with serious deficiencies being reported to top management.

Testing of the internal controls of the Upper Guadalupe River Authority were performed by the accounting firm of Ede & Company, LLC.

There were no reportable conditions related to internal controls.

II. COMPLIANCE

The Texas Water Code, the rules and regulation of the Texas Commission on Environmental Quality, and best business practices require that the Upper Guadalupe River Authority adopt codes and policies for its governance and operations. All policies are in writing and are adopted by the Board of Directors. These policies are in addition to the By-laws adopted by the Board. Many of the policies pertain to specific statutes of the State of Texas and supplement the applicable statutes and codes. If there is a conflict between them, the statutes and codes prevail. If the statutes or codes are modified, amended, or repealed, then these changes are automatically incorporated into the policies. It is the responsibility of the General Manager to review all policies to make sure they conform to all current laws and regulations.

Compliance with Texas Administrative Code Rule 292.11-292.13 is shown by written Upper Guadalupe River Authority policies. The employee handbook, which all employees are required to read, and acknowledge in writing, states the Code of Conduct. The Upper Guadalupe River Authority has a board approved travel policy which provides for reimbursing district officials for necessary and reasonable travel expenditures. The Upper Guadalupe River Authority also has a written investment policy which meets the requirements of Rule 292, and the Public Funds Investment Act. Investment reports are to be issued not less than quarterly and they describe in detail the investment position of the Authority, as well as the book value, market value, and maturity date of each asset. **See Findings & Recommendations on Page 11**

III. MISSION

Since its creation by the Texas Legislature in 1939, the Upper Guadalupe River Authority (UGRA) has been committed to enhancing the quality of life for all who visit and for all who call Kerr County home. With the completion of UGRA Lake, UGRA Dam and water treatment facilities in 1981, UGRA made surface water available to the City of Kerrville so that city residents would not have to rely solely upon declining groundwater supplies. In 1989, UGRA initiated the preliminary engineering on an Aquifer Storage and Recovery (ASR) project. The state's first ASR project was completed in 1992. In February 1998, the project began injecting treated surface waters into the Hosston-Sligo sands of the lower Trinity aquifer

system. Today, UGRA's regional environmental laboratory serves as a regional resource for water quality. Local citizens and clients throughout Southwest Texas utilize UGRA's laboratory for water and wastewater analyses.

UGRA underwent a major transformation in 1998 by divesting itself of its water supply infrastructure, water treatment facilities and a large portion of its surface water permits. Concurrent with this change, UGRA retained a portion of its surface water rights for future use in Kerr County. Though UGRA's role has changed over time, one aspect remains constant; UGRA is dedicated to serving the citizens of Kerr County. It has been rightly stated that the Guadalupe River is the "Crown Jewel" of Kerr County. In 2005, the Board of Directors forged a new vision to take launch UGRA into the future. This Five-Year Strategic Plan is the roadmap for achieving that vision. UGRA remains steadfast in its mission to conserve and reclaim all surface water in Kerr County while facilitating the use of surface water for future economic development. UGRA's mission statement follow.

UGRA Mission

The mission of the Upper Guadalupe River Authority is to protect, develop and manage the water quantity, quality, and sustainability in the Guadalupe River Watershed in Kerr County.

The Upper Guadalupe River Authority is aware of its mission and is meeting the goals as set out in the mission statement and enabling legislation.

IV. GOALS

The Upper Guadalupe River Authority has written short term goals which are for the current fiscal year. They are specific goals which can be completed during that time, and they are used for the fiscal year budgeting process. The Authority also has written long term goals which address each area of the mission of the Upper Guadalupe River Authority. These one year and five year plans are used for strategic purposes to assure that the staff and Board of Directors vision for the planning period is consistent.

The goals are well documented and in compliance with the mission of the Authority.

IV. ORGANIZATION STRUCTURE

The Authority uses a traditional line and staff organization. The Upper Guadalupe River Authority is governed by a nine member Board of Directors appointed by the Governor of Texas to six year terms. The Directors are residents of the District and one third of the Board is appointed every two years. The Board, on an annual basis, approves the budget for the Authority. The Board sets policy, provides oversight, and employs a General Manager. The General Manager reports directly to the Board and is the chief operating person employed by the Authority. The General Manager directs the staff to operate and manage the Authority as guided by the Board. He is responsible for the day-to-day operations and fiscal duties of the Authority. The staff reports to the General Manager.

The organizational chart effectively and correctly presents the organizational structure of the Authority, and supports the Authority's mission. The staff is logically organized with appropriate levels of authority and responsibility.

VI. ENVIRONMENT

The enabling act was reviewed for this management audit. The Upper Guadalupe River Authority shall have and is hereby authorized to exercise the following powers, rights, privileges and functions:

(a) to control, store and preserve, within the boundaries of the District, the waters of the Guadalupe River and its tributaries for any useful purpose or purposes, and to use, distribute and sell the same, within the boundaries of the District, for any such purpose or purposes;

(b) to prevent or aid in the prevention of damage to person or property from the waters of the Guadalupe River and its tributaries;

(c) to forest and reforest and to aid in, the foresting and reforesting of the watershed area of the Guadalupe River and its tributaries and to prevent and to aid in the prevention of soil erosion and floods within said watershed area;

(d) to acquire by purchase, lease, gift, or in any other manner (otherwise than by condemnation) and to maintain, use and operate any and all property of any kind, real, personal, or mixed, or any interest therein, within or without the boundaries of the District, necessary or convenient to the exercise of the powers, rights, privileges, and functions conferred upon it by the Act;

(e) to acquire by condemnation any and all property of any kind, real, personal or mixed, or any interest therein, within the boundaries of the District necessary or convenient to the exercise of the powers, rights, privileges and functions conferred upon it by the Act, in the manner provided by General Law with respect to condemnation or, at the option of the District in the manner provided by the Statutes relative to domestic and/or municipal purposes, nor of repealing any law granting such rights to persons and municipalities.

The Authority has translated its statutory mandates and enabling legislation onto reasonable and attainable goals. There are no inherent barriers in this act or outside factors that could adversely affect the Upper Guadalupe River Authority's ability to achieve its mission.

VII. MANAGEMENT INFORMATION SYSTEMS

The Upper Guadalupe River Authority disseminates information about the Authority in numerous ways. The Authority has an active education program designed to give Kerr County residents a better understanding of the Upper Guadalupe River and its watershed. UGRA staff gives numerous presentations to schools, clubs, and organizations. Each month, UGRA staff submits an article to the local newspapers, and participates in weekly radio show. The Authority's webpage is used to facilitate and enhance information dissemination. Raising public awareness of the Authority's mission, the importance of the Upper Guadalupe River, and the need for conservation are at the forefront of every action of the Authority. Staff members routinely travel throughout the local area meeting with City, County and State officials. The Authority develops and publishes a number of monthly, quarterly, and annual reports for the Board of Directors, state agencies, and the public.

Some examples are:

FINANCIAL: Monthly financial, annual audit, quarterly investment, annual budget, monthly aging of accounts receivable and accounts payable reports.

The Authority has a well organized Management Information System in place that is integrated into the annual goals and strategic planning document, and users appear to be satisfied with the information. See Findings & Recommendations on Page 12

VIII. POLICIES

The Upper Guadalupe River Authority's Board of Directors has written policies and by-laws which they follow while directing the business of the Authority. Included in these policies is the by-law that states that minutes of board meetings will be prepared and approved as permanent records to be available for public review and permanent safekeeping. Also stated is that the management and control of all Authority affairs are vested in the Board of Directors. In order for decisions to be made, a duly constituted quorum of board members must be present. Decisions made and passed by the Board are then directed to the General Manager to be implemented.

The Authority has a written personnel policy handbook which is given to employees. It covers and explains the Upper Guadalupe River Authority's policies on all employee related issues including work rules, a code of conduct, performance improvement, benefits, and leave policies. All employees are required to sign a memo which states that they have read and understand the Upper Guadalupe River Authority's Personnel Policy Manual.

Employees of the Authority were interviewed and asking several different ways if any employee had ever seen any behavior by management or other employee that was unethical. All stated that to their knowledge no current employee has stolen or been involved in unethical behavior.

The Upper Guadalupe River Authority has policies and procedures in place that are communicated in writing.

IX. SERVICE

- The Texas Clean Rivers Program (CRP) is managed by the Texas Commission on Environmental Quality (TCEQ), and funded entirely by fees assessed to wastewater discharge and water rights permit holders.

The goal of CRP is to maintain and improve the quality of water within each river basin in Texas through an ongoing partnership involving TCEQ, local entities, and citizens. The program aims to identify and evaluate water quality issues by looking at the entire watershed.

The Upper Guadalupe River Authority carries out the CRP water quality management efforts in Kerr County under contract to TCEQ. These efforts include water quality monitoring, assessment, and public outreach activities.

The Upper Guadalupe River Authority conducts CRP sampling to monitor water quality at ten Kerr County locations. These sampling sites stretch from Hunt to Center Point and are monitored four times per year for baseline water quality parameters. At each site an instrument is used to immediately measure the temperature, pH, conductivity, and dissolved oxygen content of the river. Water samples were also taken back to The Upper Guadalupe River Authority Environmental Laboratory for additional testing.

- Each summer, the Upper Guadalupe River Authority tests E. coli levels at popular swimming holes throughout Kerr County. The results of this swimability study are compared to the Texas Commission on Environmental Quality's (TCEQ) standards for contact recreation. For a single grab sample, TCEQ considers E. coli levels less than 399 colonies of bacteria per 100 milliliters to be low risk. If E. coli levels are greater than 399 colonies of bacteria per 100 milliliters then there is a higher risk of contracting a water borne illness while swimming. In 2004, UGRA began the Volunteer Summer Study Program to supplement data collected during the swimability study and to include interested members of the community in water quality testing. The information collected by the volunteers also helps identify areas in need of further investigation.

During the summer of 2016 the Upper Guadalupe River authority was assisted by 26 volunteers who collected 327 samples at 29 locations throughout Kerr County.

- The Upper Guadalupe River Authority staff responds to numerous water quality concerns each year ranging from strange sights and odors to hazardous waste spills.
- Stream Flow Data: The Upper Guadalupe River Authority provides funds to support USGS River flow gauging stations in Kerr County.
- Spring Flow Data: The Upper Guadalupe River Authority is working with USGS to measure Guadalupe River sites just downstream from known springs or spring groups.
- The Upper Guadalupe River Authority operates a full service laboratory serving Kerr County and surrounding areas. The Upper Guadalupe River Authority Environmental Laboratory plays an important role in the Authority's water monitoring programs. The Laboratory's analytical services include the bacteriological, chemical, and biological testing of water, wastewater, soils, and sludge. The Laboratory is NELAC certified by the Texas Commission on Environmental Quality, and is one of the largest microbiological laboratories in the region. The environmental staff is committed to providing precise data in a timely fashion with the highest level of customer service.
- In an effort to promote water conservation and watershed stewardship through rainwater harvesting, the Upper Guadalupe River Authority provides rebates to Kerr County homeowners for their rainwater catchment systems.

The Upper Guadalupe River Authority has services and programs in place that are consistent with, and in support of the authority's mission.