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Board of Directors
Permian Basin Regional Planning Commission
Midland, Texas

We have audited the financial statements of Permian Basin Regional Planning Commission as of and for the year ended September 30, 2020, and have issued our report thereon dated June 22, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 20, 2020, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Permian Basin Regional Planning Commission solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated June 22, 2021.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

As a part of the engagement, we assisted in preparing the financial statements, the schedule of expenditures of federal and state awards, and related notes to the financial statements of Permian Basin Regional Planning Commission in conformity with U.S. generally accepted accounting principles, Uniform Guidance and the State of Texas Uniform Grant Management Standards based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards.*

In order to ensure we maintain our independence for performing these nonaudit services, certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements, schedule of expenditures of federal and state awards, and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements, schedule of expenditures of federal and state awards, and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were supervised by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm and our firm have complied with all relevant ethical requirements regarding independence.

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Permian Basin Regional Planning Commission is included in Note I to the financial statements. As described in Note I to the financial statements, during the year, the Commission changed its method of accounting for pensions by adopting Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

> Management's estimate of the uncollectible accounts receivable is based on a historical collection rate of accounts receivables. We evaluated the key factors and assumptions used to develop the estimate of uncollectible accounts receivable and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.
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> Management's estimate of the accumulated depreciation on capital assets is based on the related estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as whole.
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> Management's estimate of the net pension liability, pension expense, total OPEB liability, and OPEB expense are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuary makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liability, pension expense, total OPEB liability, and OPEB expense and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Permian Basin Regional Planning Commission's financial statements relate to the TCDRS pension liability and total OPEB liability. The disclosures in the financial statements are neutral, consistent and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Permian Basin Regional Planning Commission's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated June 22, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Permian Basin Regional Planning Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Permian Basin Regional Planning Commission's auditors.

We applied certain limited procedures to the management's discussion and analysis, the pension information and the schedule of funding progress, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund financial statements, the supplemental schedules and the schedules of expenditures of federal and state awards, which accompany the financial statements but are not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled this information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

<u>Capital Assets</u>

During the audit, we noted the capitalization threshold for capital assets is set at $500 in the Financial Policies and Procedures Manual. However, Note 1 E in the Annual Financial Report discloses the capitalization threshold is set at $5,000. We recommend updating the Financial Policies and Procedures Manual to set the capitalization threshold at $5,000 and remove assets previously capitalized whose historical costs are less than $5,000.

We also recommend improving the capitalization process during the year. Currently, PBRPC staff are coding capital purchases to non-capital expenditure accounts in the general ledger at the time of purchase, and not immediately capitalizing the assets in the capital asset system. At yearend, staff then review the entire general ledger for capital purchases and capitalize them all at once. It is possible that capital purchases could be overlooked using this method. We recommend coding capital purchases to the appropriate account in the general ledger and immediately capitalizing them at the time of purchase. Further, the capitalized assets should be reviewed by another PBRPC staff on a regular basis.

During the audit, we also noted departments of PBRPC do not submit asset disposal forms to finance staff when a capital asset is disposed. Failure to follow this best practice could lead to disposed assets not being deleted from the capital asset system. We recommend implementing a capital asset disposal form, generated and filled out by the various departments, and submitted to finance staff for review at the time of disposal.

Finally, a capital asset inventory listing should be maintained by each department. Currently, administrative staff maintain a listing, and submit it to each department for review at yearend. At yearend (or on a regular basis), the departments should review and update their own listing, and submit it to finance staff who can compare it to their own records. Following this best practice will improve the accuracy of the capital asset records of PBRPC.

Purchasing

We recommend implementing a formal approval process before a Purchase Order is issued. Currently, Purchase Orders are issued when a purchase request is received, regardless of whether a department director or finance staff have reviewed or authorized the purchase. Further, current practice is to close out open Purchase Orders when the invoice is received, regardless of whether goods or services have been rendered at that time. We recommend implementing a system to track and document when goods or services have been rendered and close out the Purchase Order and record expenditures at that time.

During the audit, we noted that price changes for open Purchase Orders are handled manually by staff without formal review. We recommend implementing a process to require review of price changes—especially if the price increases over the initial purchase amount.

This report is intended solely for the information and use of the Board of Directors, and management of Permian Basin Regional Planning Commission and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 22, 2021