



An Audit Report on

# The Kinney County Groundwater Conservation District

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The Kinney County Groundwater Conservation District (District) had significant weaknesses in its financial and water management processes. Its failure to consistently enforce financial and management safeguards increased the risk of noncompliance, misconduct, and operational inefficiencies. For example, the District did not effectively manage its payment and banking processes or adequately protect the District's legal and financial interests in its contracting processes.

In addition, the District did not consistently comply with applicable statutes and requirements, including Texas Water Code, Chapter 36. For example, the District did not develop a code of ethics or obtain financial audits annually as required.

The District also failed to enforce its water management rules, placing the health and long-term availability of the area's water resources at risk.

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*This audit was requested by Representative Eddie Morales Jr. and conducted in accordance with Texas Water Code, Section 36.061.*

## **PRIORITY**

### **FINANCIAL OPERATIONS AND WATER MANAGEMENT**

Insufficient oversight of the District's operations resulted in noncompliance with certain statutory requirements and increased the risk of financial mismanagement and misuse of funds. In addition, the District did not adequately monitor water usage or pursue fee payments. | p. [3](#)

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## Summary of Management's Response

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Auditors made recommendations to address the issues identified during this audit, provided at the end of the Detailed Results section. The District agreed with the recommendations.

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## Rating Definition

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**PRIORITY:** Issues identified present risks or effects that if not addressed could *critically affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

For more on the methodology for issue ratings, see [Report Ratings](#) in the appendix.

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## Background Information

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The District's mission is to develop, promote, and implement water conservation and management strategies for Kinney County, which is in southwestern Texas. The District administers 115 wells operated under 55 permits over approximately 1,391 square miles. The District's total expenditures were \$1,627,320 during the audit scope of October 2021 through February 2025; revenues during this period were \$2,354,808.



**PRIORITY**

## Financial Operations and Water Management



Insufficient oversight of the District's operations increased the risk of financial mismanagement and misuse of funds.

The District's noncompliance with both statutory requirements and its own policies and bylaws resulted in a lack of financial and operational integrity.

**The District lacked a process to monitor and track its financial operations effectively.** Specifically, the District purchased duplicate bonds for Board members, resulting in unnecessary expenditures. The District purchased new bonds for Board members in February 2025 without realizing that it had been paying annual premiums for Board member and employee bonds since at least 2010. Further, the District could not provide documentation to demonstrate that the bonds originally purchased met statutory requirements (see Figure 1 on the next page).

In addition, the District paid \$486,059 to one vendor without the required Board approval, and it allowed a former Board member to co-sign checks totaling \$14,553 after his term had ended. Furthermore, the District disbursed 5 checks totaling \$6,057 without the required 2 signatures, and the bank signature cards, which allow authorized users to withdraw and transfer funds, were not updated with current Board-approved signatories.

The District also did not consistently collect fees. Specifically, it allowed four permit holders to renew their permits and continue pumping water without paying all required permit renewal and water usage fees.

**The District’s contracts did not protect its interests.** Since 2016, the District relied on letters of agreement to procure hydrology and groundwater monitoring services from its two primary vendors. Those vendors were paid a combined total of \$820,898 (or 50.4 percent) of the District’s total expenditures from October 2021 through February 2025. The use of letters of agreement exposes the District to legal and financial risks, as these agreements lack the protections of more comprehensive contracts. For example, these letters did not define performance expectations, total cost, liability protection, or avenues for legal recourse.

Further, the District and its Board members did not comply with selected requirements as outlined in Figure 1. Failure to meet these requirements creates the risk of improper governance.

Figure 1

### *Other Statutory and District Requirements*

| Criteria/Requirement   | Description of Noncompliance  |
|--|---|
| Texas Water Code, Section 36.055(a): <b>Sworn Statement</b> – A Board member shall make the sworn statement prescribed by the constitution for public office.  | The District did not obtain these statements before Board members assumed their duties.   |
| Texas Water Code, Sections 36.055(c) and 36.057(d): <b>Bonds</b> – Each Board member is required to obtain a bond payable to the District prior to assuming Board duties; these bonds must be approved by the Board and paid for by the District. District employees who handle funds must also be bonded. | The District could not demonstrate that Board members or District employees had the required bond coverage.   |
| Texas Water Code, Section 36.055(d): <b>Oath of Office</b> – A copy of the oath must be filed with the Secretary of State within 10 days after being signed.   | The District did not file these oaths.  |
| Texas Water Code, Section 36.061: <b>Code of Ethics and Professional Services Policies</b> – The Board shall adopt certain written policies.   | The District did not develop a complete code of ethics or create a written policy on selection, monitoring, or review and evaluation of professional services.                |
| Texas Water Code, Section 36.153: <b>Annual Financial Audits</b> – The Board shall arrange for a financial audit of the District annually.   | The Board did not ensure that the required financial audits were completed annually. The audits for fiscal years 2021, 2022, and 2023 were not completed until February 2025. |

| Criteria/Requirement  | Description of Noncompliance   |
|---|--|
| Texas Water Code, Section 36.154: <b>Annual Budget</b> – The budget prepared and approved by the Board shall include a full financial statement, including the District’s outstanding obligations, money received last year, funds available for the upcoming year, and expected year-end balances. | The annual budgets for fiscal years 2022 through 2025 did not meet the requirements listed in this table.  |
| District Bylaws, Section 8.1: <b>Contracts</b> – All contracts must be reviewed by the District’s General Counsel.  | Four (57.1 percent) of 7 contracts tested lacked documentation indicating a review by the General Counsel. |



## The District insufficiently monitored water usage and did not enforce its rules.

The District did not effectively manage its well permits or enforce the timely submission of required water pumping reports. This lack of oversight and enforcement places the health and long-term availability of the area’s water resources at risk.

Specifically, the District did not enforce its rules regarding the submission of water usage reports:

- One regular permit holder failed to submit the required reports to the District for two fiscal years.
- Six of the seven wells approved for operation under test permits have been in operation since 2019—far beyond the 365-day maximum allowed for a test permit (see text box). In addition, the seventh test well has been operating since 2023.
- For five of the seven test wells, the permit holders did not submit all the required monthly pumping reports, and the District did not actively enforce any corrective measures in response.

### Test Permits for New Wells

District rules state that creation of a new well requires a test permit, which is valid for 365 days. During that year, test permit holders must report each month the actual amount pumped. When that period has elapsed, the applicant must apply for a regular permit. **Test permit holders do not pay water usage fees or permit renewal fees.**

Sources: District Rules 3.01, 3.03, 3.04, and 7.01.

Further, the District did not consistently conduct monitoring and inspections of the test wells to determine whether the associated pumping activity was sufficiently controlled to prevent detrimental impacts to surrounding wells, spring flows, or the aquifer, as authorized in the District’s rules.

The lack of monitoring and enforcement undermines the sustainability goals outlined in the District's groundwater management plan.



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## The District completed a groundwater management plan and accurately reported expenditures and tax revenue.

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The District developed a groundwater management plan that the Water Development Board reviewed and approved.

In addition, the District accurately processed and reported all 60 expenditure transactions tested. The District collected and accurately reported tax revenue of \$1,807,091 from October 2021 through February 2025, which represented 76.7 percent of the District's total revenues.

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## Recommendations

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The District should:

- Strengthen its processes to (1) enforce greater safeguards around payment processing, (2) regularly review and update District signature cards with financial institutions, and (3) collect all fee and penalty payments.
- Procure services (1) through contracts that include elements such as clearly defined performance expectations, total cost, liability protection, and avenues for legal recourse, and (2) in accordance with applicable requirements.
- Develop and implement processes to help ensure that (1) newly elected Board members and (2) District management comply with all statutory requirements in the Texas Water Code, Chapter 36, as well as with District bylaws and rules.
- Strengthen its compliance monitoring process for all permit holders and enforce consequences for noncompliance, such as assessing penalties and withholding permit approvals and renewals until all required reports and payments are submitted.

- Implement regular inspections of test wells and their impacts on available water resources.

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## Management's Response

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1. The Kinney County Groundwater Conservation District agrees with the findings of the State Auditor's Report.
2. The General Manager will be responsible for implementing corrective action.
3. **FINANCIAL OPERATIONS AND WATER MANAGEMENT:** The District lacked a process to monitor and track its financials effectively. Specifically, duplicate bonds were purchased for board members. This has been resolved, as only one bonding company is now used for all 7 directors, along with 3 employees; those being the General Manager, Administrative Assistant and Field Tech.

In the future, we will insure that the board approves expenses in excess of \$500, and that former board members will not be allowed to sign any checks after their term has ended. I will also insure that all checks for payables have the required 2-signatures and bank signature cards will be up to date.

Groundwater use fees will also be collected in a timely manner.

The District will make every effort to use "contracts", as opposed to "letters of agreement" for work to be done for the District. Contracts will be reviewed/approved by Legal Counsel.

4. **OTHER STATUTORY AND DISTRICT REQUIREMENTS:** In the future, Sworn Statements, Oath of Office and required bond coverage will be in place before the board member officially takes office. The Oath of Office will be filed with the Secretary of State in the future.

A Code of Ethics is being developed at this time, along with other policies and procedures and will be approved by the Board of Directors in the near future.

We will insure that Annual Financial Audits are performed in a timely manner.

Budgets will be prepared according TWC Section 36.154, Annual Budget.

5. The District insufficiently monitored water usage and did not enforce rules. The items listed have or will be corrected within the coming year, and we will comply with District rules and Chapter 36 of TWC.
6. RECOMMENDATIONS FROM REPRESENTATIVES OF SAO, have been, or will be put in place as soon as possible.



## Objective, Scope, and Methodology

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### Objective

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The objective of this audit was to determine whether the Kinney County Groundwater Conservation District (District) has processes and controls to ensure that it complies with applicable statutes and requirements, including Texas Water Code, Chapter 36.

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### Scope

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The scope of this audit covered the District's compliance with Texas Water Code, Chapter 36, from October 2021 through February 2025. The scope also included the District's audited financial statements for fiscal years 2019 through 2024 (October 2018 through September 2024).

The scope did not include a review of internal control components, as those components were not significant to the audit objective.

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### Methodology

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We conducted this performance audit from January 2025 through May 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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#### The following members of the State Auditor's staff performed the audit:



- Amadou Ngaide, MBA, CIDA, CFE, CICA (Project Manager)

- Ileana Barboza, MBA, CFE, CGAP (Assistant Project Manager)
- Shea Cavner
- Alex Franklin, MPP, CFE
- Garrett Hadden, CFE
- Daniel Johnson, CFE
- Jacob McGill
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Michael O. Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to the District's management for consideration.

### Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed District staff and select members of the Board of Directors (Board).
- Reviewed the District's cash balances per bank statements.
- Reviewed the District's compliance with selected rules for the management of wells.
- Identified the relevant criteria:
  - Texas Water Code, Chapter 36.
  - Texas Government Code, Chapter 2256.
  - District policies, rules, and bylaws.
- Conducted tests of compliance with the statutory requirements of Texas Water Code, Chapter 36; and with District policies and procedures. Tested elements included:
  - Contracting procedures, groundwater management plan, annual financial audits, Board member and employee bonding, oaths of office, sworn statements, annual budgets, regular permits, and test permits.
- Performed tests of the District's revenues, expenditures, and fund transfers to ensure the accuracy, completeness, and integrity of the financial records. This included:
  - Performing data analysis of the District's revenues and expenditures accounting records using detailed general ledger data from its accounting system.
  - Tracing property tax revenues to supporting documentation.
  - Reviewing the District's signature cards with financial institutions for appropriateness.

- Reviewing all District checks processed during the scope of the audit to determine whether they included the appropriate signatures.
- Testing a sample of 60 expenditure transactions totaling \$992,785, which represented 61.0 percent of total expenditures recorded during the scope of the audit, to determine whether each sampled transaction was properly supported and accurately recorded.
- Tested a sample of 15 regular wells (13.0 percent of the total population of 115 regular wells) to determine whether each well had an active permit and whether the District collected all required water usage fees and pumping reports.

The samples tested were not representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

### **Data Reliability and Completeness**

Auditors determined that the District's general ledger data from October 2021 through February 2025 was sufficiently reliable for the purposes of the audit. For each fiscal year, auditors (1) observed data extracts, (2) observed the report parameters used to extract the data, (3) analyzed the population, and (4) compared the District's financial records to the audited financial statements for reasonableness.

### **Report Ratings**

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.



Copies of this report have been distributed to the following:

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The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

## **Office of the Governor**

The Honorable Greg Abbott, Governor

## **Kinney County Groundwater Conservation District**

Members of the Board of Directors

Genell Hobbs, General Manager



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