

Galveston County Severe Repetitive Loss Program Audit

October 24, 2013

Galveston
County
Internal Audit
Division

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Executive Summary

Reliability and Integrity of Information (pages 3-4)

Reliability and integrity of information can be improved by implementing the following recommendations:

- The Grant Consultant, Science Applications International Corporation (SAIC), should monitor the flood insurance policies of the properties eligible for elevation to ensure expiration does not occur.
- The Grant Consultant should provide documentation to support the labor and non-labor charges or credit should be given to the County.
- The County should create a checklist that includes the review procedures and steps to assess the completeness and accuracy of invoice documentation.
- The appropriate County personnel should create a checklist for requests from the State for reimbursement to ensure all required documentation is complete and accurate.

Safeguarding of Assets (page 5)

Safeguarding of assets can be improved by implementing the following recommendations:

- Funds paid by the homeowners should be deposited daily to ensure safeguarding of the funds.

Compliance with Statutes, Policies, and Procedures (page 6)

- All elevation costs incurred for properties that have been elevated during the time of this audit were in compliance with the allowable costs listed in the Hazard Mitigation Assistance (HMA) Unified Guidance.

Compliance with statutes, policies, and procedures can be improved by implementing the following recommendations:

- All Quarterly Financial and Progress Reports should be submitted to the Texas Water Development Board (TWDB) by the 15th day following the quarter's end, the deadline compliant with the contract between the County and TWDB.
- The County should further clarify the timeliness of the homeowner's responsibility regarding property taxes as well as monitoring the property taxes.

Introduction

The Internal Audit Division conducted an internal audit of the Galveston County Severe Repetitive Loss Program. The internal audit covered the period January 25, 2012 through August 31, 2013. The audit was performed from August 27, 2013 through October 24, 2013.

The primary objectives of the internal audit are to provide reasonable assurance concerning:

- The reliability and integrity of the information.
- The safeguarding of assets.
- Compliance with laws, regulations, contracts, policies, plans, and procedures.

The scope of the internal audit encompassed the elevation process, financial records and administrative procedures related to the Galveston County Severe Repetitive Loss Program. The internal audit included, but was not limited to, the applicant files, accounts, reports, contracts, and records of the Severe Repetitive Loss Program. The internal audit may also include reports or other records of the County Auditor, other county officials, and third party entities.

The internal audit included examining applicant files and transactions on a test basis, and required exercising judgment in the selection of such tests. As the internal audit was not a detailed examination of all applicant files or transactions, there is a risk that errors or fraud were not detected during the internal audit. The Department of Housing therefore retains the responsibility for the accuracy and completeness of the financial information.

Because of certain statutory duties required of the County Auditor, we are not independent with regard to the Department of Housing as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Jordan Guss, Internal Auditor, performed the audit.

Reliability and Integrity of Information

Reliable information is accurate, timely, complete, and useful. In order to achieve this, controls over record keeping and reporting must be adequate and effective.

Internal Audit tested applicant files for the completeness and accuracy of necessary individual property documentation to determine program eligibility in accordance with the Hazard Mitigation Assistance (HMA) Unified Guidance.

Program Eligibility

The files of properties participating in the Galveston County Severe Repetitive Loss Program were reviewed by the auditor to ensure the files contained complete and accurate documentation to support program eligibility for the property. Crucial eligibility factors were verified including, but not limited to, ensuring the properties were located in the approved footprint, have current flood insurance coverage, and owner voluntary interest.

Finding: Flood insurance policies were found to be expired or no proof of insurance coverage was provided in the applicant file.

Recommendation SRL-13-01: The Grant Consultant should monitor the flood insurance policies to ensure expiration does not occur.

Flood insurance coverage is currently being reviewed and updated by the Grant Consultant for the properties identified during the review.

Program Ineligibility

Properties deemed ineligible in the Galveston County Severe Repetitive Loss Program were reviewed by the auditor to ensure the files contained complete and accurate documentation to support program ineligibility for the property. There were five status labels of ineligibility tested by Internal Audit: BCA <0.5 Ineligible, Declined, Ineligible, Mitigated, and Non-Responsive. Internal Audit verified the proper support documentation for these statuses existed in the applicant files.

No exceptions were noted during the review.

Reliability and Integrity of Information (cont.)

Grant Consultant Invoices

The Grant Consultant, Science Applications International Corporation (SAIC), sends invoices to Galveston County to be paid for managing the grant. Internal Audit tested these invoices on a sample basis to ensure agreement between the rates charged and the contractual rates, as well as proper support documentation existed for the expenses incurred.

Finding: Labor and non-labor charges totaling \$81,910.64 was either incomplete or did not exist.

Recommendation SRL-13-02: The Grant Consultant should provide documentation to support the labor and non-labor charges or credit should be given to the County. Furthermore, the County should consider creating a checklist that includes review procedures and steps to assess the completeness and accuracy of the invoices and related support documentation to ensure the County is only remitting payment to SAIC for supported labor and expenses.

Safeguarding of Assets

Cash Management

Internal Audit assessed the flow of homeowner funds from the Grant Consultant, Science Applications International Corporation (SAIC), to the County.

Finding: Funds paid by the homeowner to the County were held for an average of two to three weeks before being deposited. These funds were not deposited in a timely manner to ensure safeguarding of the funds.

Recommendation SRL-13-03: The funds from the homeowners should be deposited daily.

Compliance with Statutes, Policies, and Procedures

Allowable/Unallowable Costs

The Hazard Mitigation Assistance (HMA) Unified Guidance provides a listing of allowable and unallowable costs under the Severe Repetitive Loss Program. Internal Audit verified the allowable costs spent on the properties tested were in compliance with the HMA Guidance allowable costs.

Internal Audit found no exceptions during the review.

Quarterly Reports

According to the contract between the Texas Water Development Board (TWDB) and Galveston County, the County is required to submit a Quarterly Financial and Progress Report to TWDB no later than October 15th, January 15th, April 15th, and July 15th of each year until the project is completed.

Finding: Both the Quarterly Financial Report and the Quarterly Progress Report have been submitted past the stated deadlines.

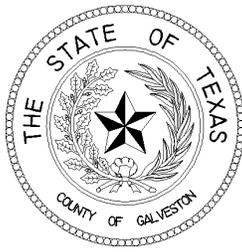
Recommendation SRL-13-04: The Grant Consultant, SAIC, should submit reports before the deadlines to ensure compliance with the contract. County personnel should review the reports to ensure completeness and accuracy before submittal to the State.

Tri-Party Agreement

The Tri-Party Agreement is a contract between the County, the homeowner participating in the Severe Repetitive Loss Program, and the contractor selected to perform the elevation. The contract details the various responsibilities of each of the parties.

Finding: The Tri-Party Agreement does not state whether the property owner needs to be current on property taxes prior to participation in the program and if property taxes need to be monitored during the program. (Tri-Party Agreement, Article V., Section B.)

Recommendation SRL-13-05: The County should further clarify the timeliness of the homeowner's responsibility regarding property taxes as well as monitoring the property taxes.



COUNTY OF GALVESTON

James Gentile
DIRECTOR OF HOUSING

January 13, 2014

To whom it may concern,

In response to the Galveston County SRL Audit: Since the transfer of the program to James Gentile in August of 2013, the audit findings have been or will be remedied to bring the SRL program into compliance.

As for property taxes, it is my understanding that the SRL program is not responsible for monitoring or the maintaining of property taxes or checking for current payment on property taxes for eligibility. The program will make the necessary provisions to check the applicant's property taxes for full payment or payment plan or deferral before an applicant is permitted to be eligible for the program.

As for the Tri-Party Agreement:

Tri-Party Agreement

Finding; The Tri-Party Agreement does not state whether the property owner needs to be current on property taxes

prior to participation in the program and if property taxes need to be monitored during the program.

Recommendation SRL-13-05: the County should further clarify the timeliness of the homeowner's responsibility regarding property taxes as well as monitoring the property taxes.

Leidos Response: Leidos will work with the County to adjust the language in the Tri-Party Agreement to encompass the review of the tax status of projects and Leidos will include this review in its Standard Operating Procedures and implement accordingly.

Thank you,

James Gentile
Housing Department

January 6, 2014



James Gentile
Galveston County Housing & Economic Development
722 Moody St. Ave. 6th Fl.
Galveston, TX. 77550

Subject: **Responses to the Galveston County Severe Repetitive Loss Program Audit of
October 24, 2013**

Program Eligibility

Finding: Flood insurance policies were found to be expired or no proof of insurance coverage was provided in the applicant file.

Recommendation SRL-13-01: The Grant Consultant should monitor the flood insurance policies to ensure expiration does not occur.

Leidos Response: Leidos requests a copy of flood insurance policies at various stages of the implementation of the grant program. This is specifically requested when Leidos staff obtains a Volunteer Interest Notification form or when conducting a Consultation Agreement review. As a requirement of the Hazard Mitigation Grant Program a copy of the current policy is only required prior to a presenting a homeowner with a Mitigation Offer. Leidos has not conducted a Mitigation Offer without a verifying that a project has a current flood insurance policy and Leidos' Standard Operating Procedures requiring a copy of the policy be placed into the applicants file prior to scheduling a Mitigation Offer. All of the properties listed in the County's Audit report had not received a Mitigation Offer during the scope of the audit. Leidos made efforts to obtain copies of current policies to present to the auditors but the homeowners were either unresponsive to the requests or declined to move forward in the grant program. As an example the owner of the property at 1216 Skipper Lane, flood insurance actually decline to move forward prior to the expiration of his flood insurance therefore no effort was made to receive updated policy information. As all remaining projects move forward to a Mitigation Offer, Leidos staff will continue to request the current copy of the flood insurance policies and ensure there is a current policy prior to the presentation of a Mitigation offer. Leidos' does monitor grant participants who may have a laps of flood insurance coverage after a mitigation offer and during the construction phase of the project. The SRL Shared Project Workbook maintains a macro that identified the expiration date of in the construction process and alerts program staff if the policy is set to expire. Program staff works with those homeowners to obtain a copy of the new flood insurance policy.

Finding: Labor and non-labor charges totaling \$81,910.64 was either incomplete or did not exist.

Recommendation SRL-13-02: The grant consultant should provide documentation to support the labor and non-labor charges or credit should be given to the county.

Leidos Response: Leidos is continuing to review the backup documentation and Leidos will provide a detailed analysis under a separate cover. Leidos is reviewing additional backup documentation and will work with to ensure the County is provided with adequate documentation for future payment requests.

Cash Management

Finding: Funds paid by the homeowner to the County were held for an average of two to three weeks before being deposited. These funds were not deposited in a timely manner to ensure safeguarding of the funds.

Recommendation SRL-13-03: The funds should be deposited daily.

Leidos Response: Leidos SRL program's business practices during the audit timeframe entailed immediate transfer of checks received from homeowners to County staff with only minor delays due to staffing presence in the office. The County's measure of the delay of the transfer of checks appears to utilize the dates of when the individual checks were issued and the date of County's "Deposit Warrant." This timeframe includes the transit time from when the homeowner issued the check to it was delivered to Leidos' staff, as well as the County's possession time of the checks prior to the deposit. Leidos agrees with the importance of this finding and Leidos will continue the practice of immediately transferring received checks to the assigned County personnel. As a corrective action and an enhancement of the security of this process, Leidos will utilize a receipt of the transfer of the check from Leidos staff to the County Staff to document the crucial step from protecting homeowner checks from theft, mishandling, or other adverse effects.

Quarterly Reports

Finding: Both the Quarterly Financial Report and the Quarterly Progress Report have been submitted past the stated deadline.

Recommendation SRL-13-04: The grant consultant, SAIC, should submit reports before the deadlines to ensure compliance with the contract.

Leidos Response: Leidos will submit reports before the deadlines to ensure compliance with the contract. Leidos has made programmatic changes to address the timeline needed to ensure on time reporting. The programmatic changes include reassignment of personnel duties, establishment of a quality assurance and control of the data reported, and inclusion of greater lead times for the generation of the report.

Tri-Party Agreement

Finding: The Tri-Party Agreement does not state whether the property owner needs to be current on property taxes prior to participation in the program and if property taxes need to be monitored during the program.

Recommendation SRL-13-05: the County should further clarify the timeliness of the homeowner's responsibility regarding property taxes as well as monitoring the property taxes.

Leidos Response: Leidos will work with the County to adjust the language in the Tri-Party Agreement to encompass the review of the tax status of projects and Leidos will include this review in its Standard Operating Procedures and implement accordingly.