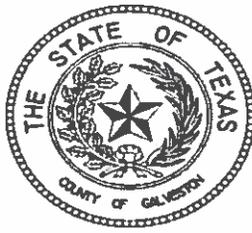


GALVESTON COUNTY



Office of County Auditor

Randall Rice CPA CISA CIO, County Auditor
Jeff Modzelewski CPA, First Assistant Accounting
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722 Moody Ave 4th Floor, Galveston, TX 77550

July 5, 2016

Honorable Mark A. Henry, County Judge, and
Members of the Commissioners Court

Honorable Mark A. Henry and Members of the Court:

Attached for your consideration is the internal audit report of the Engineering Department. The audit covered the period May 1, 2015 through April 30, 2016. Also attached is the response letter from County Engineer Michael C. Shannon.

Sincerely,

A handwritten signature in blue ink that reads "Rice CPA".

Randall Rice CPA
County Auditor

cc: Michael C. Shannon, PE, CFM

Attachment: County Engineering Department Audit Report
Response Letter, Michael C. Shannon, PE, CFM



County Engineering Department Audit

May 31, 2015

Galveston County
Internal Audit
Division

Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA
County Auditor

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Executive Summary

Reliability and Integrity of Information (page 3)

- The department should implement a policy that requires the Administrative Coordinator to provide their signature of approval on the ONESolution Batch Proof prior to submitting the collection to the Treasurer's Office.

Safeguarding of Assets (page 4)

- Physical security over assets (collections) is adequate.
- All manual receipts were issued in sequential order and no receipt numbers were skipped.

Compliance with Statutes, Policies and Procedures (page 5)

- The County Engineering Department is in compliance with LGC §113.022 Time for Making Deposits.
- All permit fees tested were in compliance with the Floodplain Management Regulations.
- All payments refunded were made in accordance with department policy.
- All voided receipts follow department policy.

General Information (pages 6-7)

- Revenue from engineering fees has been increasing over the past three fiscal years.
- Building inspector fees appear to be consistent through the prior fiscal years.
- Revenue from the sale of road maps began decreasing in FY2015, partly due to a reduction in price.

Introduction

The Internal Audit Division conducted an internal audit of the County Engineering Department, as required by Local Government Code (LGC) §115. The internal audit covered the period May 1, 2015 through April 30, 2016. The audit was performed from May 19, 2016 through May 31, 2016.

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 financial records and administrative procedures related to the County Engineering Department. The internal audit included, but was not limited to the books, accounts, reports and records of the County Engineering Department.

The internal audit included examining 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 transactions, there is a risk that errors or fraud were not detected during the internal audit. The official 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 County Engineering Department as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Lauren Ramsey, Compliance and Procedures Analyst, 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.

Separation of Duties

One of the most important controls is to have proper separation of duties. No one person should authorize a transaction, record the transaction and have custody of the assets.

The Permit Technicians collect the payments, record the transactions in the manual receipt book and receipt log and enter the cash receipt information in ONESolution. The collections, along with proper support documentation, are taken to the Treasurer's Office for deposit.

Finding: The department does not have a proper separation of duties.

Recommendation ENGD-16-01: The department should implement a policy that requires the Administrative Coordinator to provide their signature of approval on the ONESolution Batch Proof prior to submitting the collection to the Treasurer's Office.

Financial Data Accuracy

As part of their responsibilities, the County Engineering Department collects building permit fees and engineering fees for services rendered. A pre-numbered, county-issued manual receipt is provided for each check or money order payment. The receipts are totaled and all payments are entered on a cash receipt and turned in to the County Treasurer for deposit.

The financial data is accurate and no discrepancies were detected.

Safeguarding of Assets

Safeguarding of assets has three basic components: 1) physical security of assets 2) minimal exposure to loss and 3) proper management of the assets.

Physical Security - Collections

Physical security encompasses any method to physically secure the collections from loss. Monies collected should be kept in a locked drawer or safe until they are deposited.

As part of the audit, a surprise cash count was conducted on May 19, 2016. The County Engineering Department does not accept cash payments. Any payments made must be in the form of check, money order or credit card. Checks and money orders are restrictively endorsed immediately upon receipt. The County Engineering Department uses a lockable bank bag secured in a desk drawer to hold the day's collections until the day of deposit.

Physical Security – Manual Receipts

A pre-numbered, county-issued manual receipt is used for each check or money order payment. The receipt book is kept at the front counter. The receipts are filled out in triplicate with the original going to the customer and the copies remaining in the receipt book. When the cash receipt is filled out, the checks to be deposited are compared to the receipt book to make sure receipts are reconciled with collection totals.

All receipts were issued in sequential order and no receipt numbers were skipped.

Compliance with Statutes, Policies and Procedures

Adequate internal controls have been implemented in order to ensure compliance with applicable statutes, policies and procedures.

Deposit Statutes

LGC §113.022 Time For Making Deposits requires that money received shall be deposited “on or before the fifth business day after the day on which the money is received.”

The County Engineering Department is in compliance with LGC §113.022 for making timely deposits.

Court-Ordered Fees

Building permit fees collected by the County Engineering Department are contingent upon the Floodplain Management Regulations as required by the National Flood Insurance Act (Title 42). The County Engineering Department can collect these fees as ordered by Commissioners Court and may not collect any amount that exceeds what is required.

All permit fees tested were in compliance with the Floodplain Management Regulations. No exceptions were detected.

Refunded Payments

Payments are refunded when an applicant is unable to provide all documents needed to continue processing the permit or if the applicant will no longer be moving forward with the construction and the construction never began. The permit fee will be refunded less any application fees.

No exceptions were found in reviewing refunded payments.

Voided Receipts

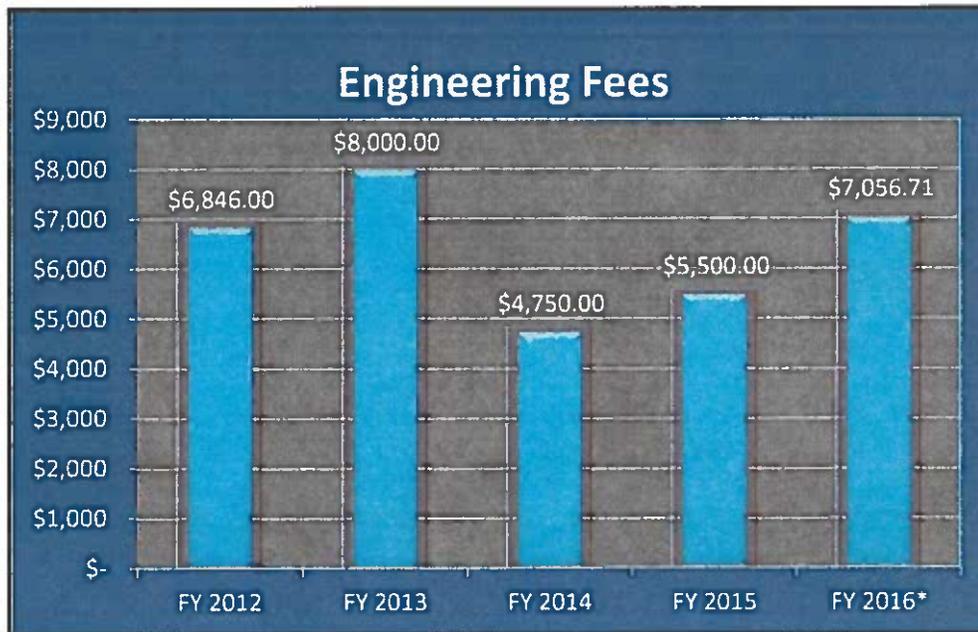
The County Engineering Department policy dictates all voided receipts must be approved by the County Engineer. Void is written across the receipt, the County Engineer signs the receipt and all copies of the receipt are retained in the manual receipt book.

No exceptions were found in reviewing voided receipts.

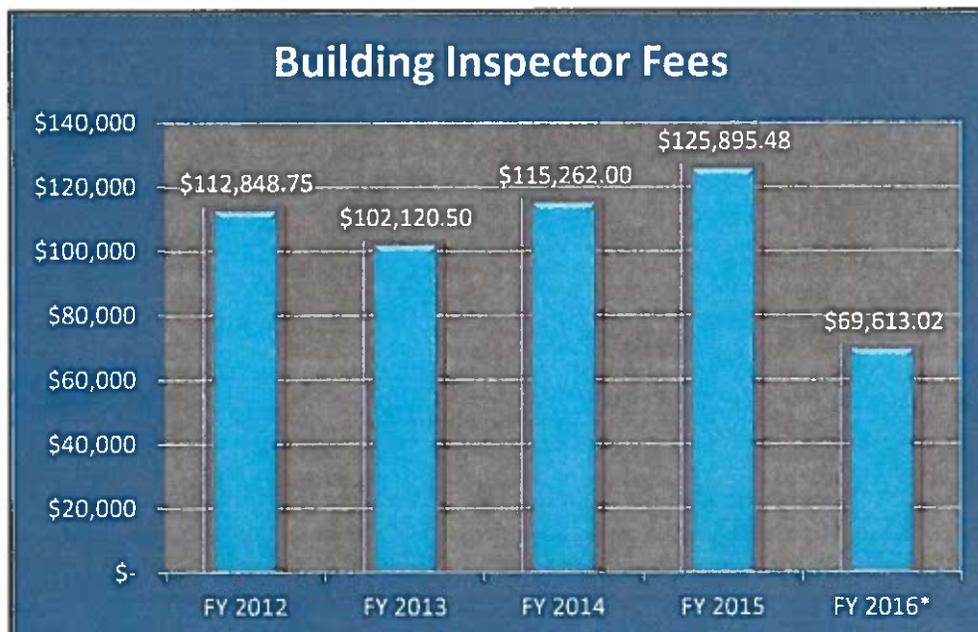
General Information

The County Engineering Department collects engineering fees, building inspector fees, revenue from the sale of road maps and Dickinson Bayou Watershed Steering Committee (DBWSC) dues. The following charts illustrate the total collections for each category over the past five fiscal years. *FY 2016 collections are through 04-30-2016, the end of the audit period.

Revenue from engineering fees has increased substantially since FY2015. As of 04/30/2016, collections have already exceeded the prior fiscal year's total.

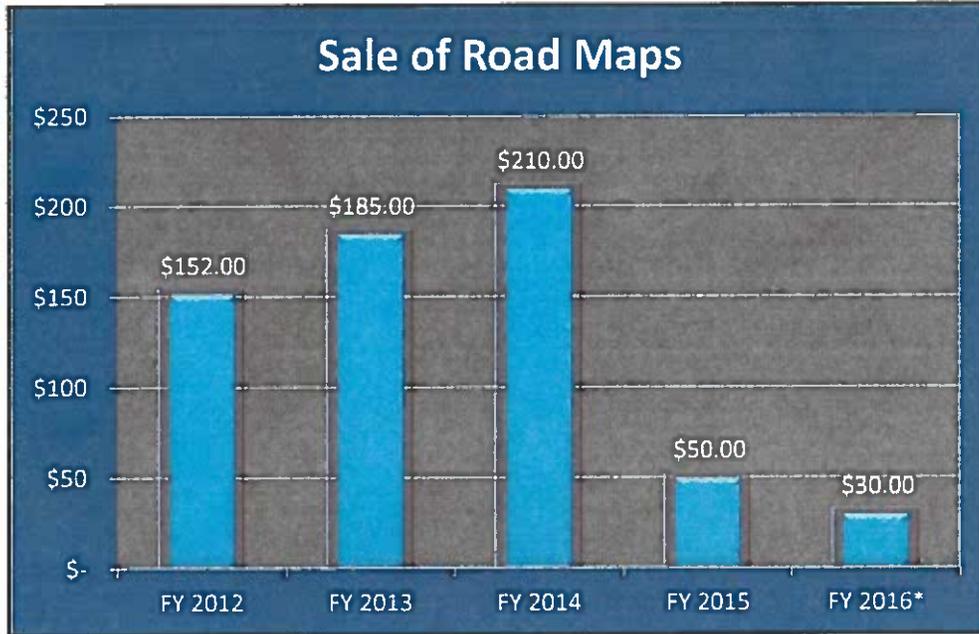


Building inspector fees appear to be consistent with the prior fiscal years collections. The amount reflected on the chart for FY2016 is only for the first seven months.

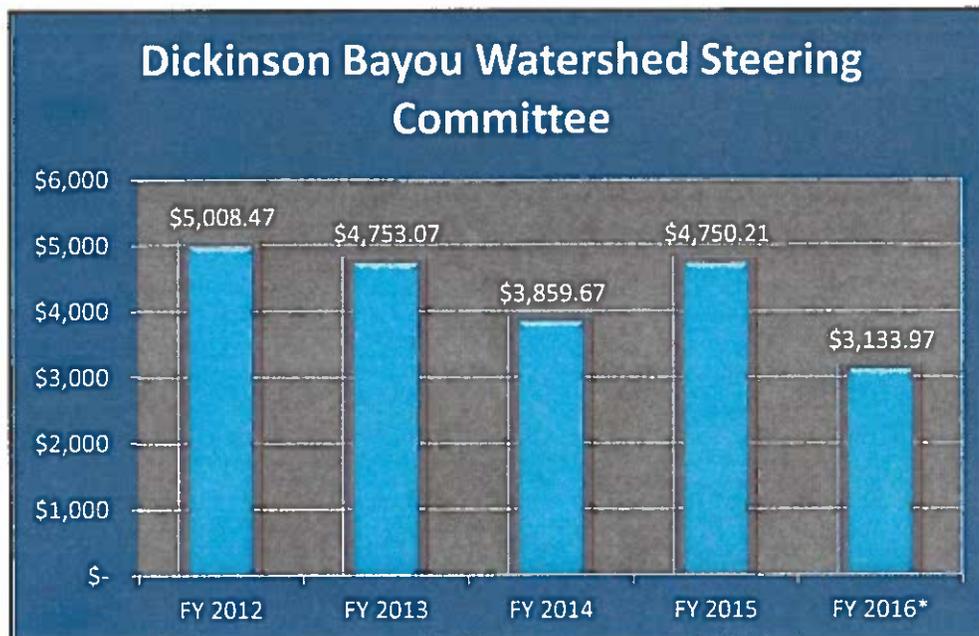


General Information (continued)

Revenue from the sale of road maps decreased in FY2015 and the trend appears to continue thru FY2016. The decrease is partly due to the change of map prices from \$7 to \$5.



The DBWSC dues are based on each entities proportionate share of the county watershed. The revenue from the DBWSC dues is spent on operating and engineering costs the committee decides to incur.



MICHAEL C. SHANNON, PE, CFM
COUNTY ENGINEER



THE COUNTY OF GALVESTON
Office of the County Engineer
722 Moody, Galveston, TX 77550
(409) 770-5552

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County Auditor
722 Moody, 4th Floor
Galveston, TX 77550

Re: County Engineering Department FY 2016 internal audit

Dear Mr. Rice:

I have received your draft internal audit report dated June 9, 2016.

The Engineering Department will require the signature of the Administrative Coordinator on the ONESolution Batch Proof prior to submitting collection to the Treasurer's Office.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. Shannon".

Michael C. Shannon, PE, CFM
County Engineer

cc: Elizabeth Robertson, Administrative Coordinator
Sean Welsh, Permit Manager
Mandy Cherry, Permit Technician
Nicole Steely, Permit Technician