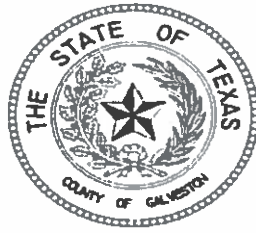


GALVESTON COUNTY



Office of County Auditor

Randall Rice CPA CISA CIO, County Auditor
Kristin Bulanek CIA, First Assistant County Auditor

P.O. Box 1418, Galveston, Texas 77553

(409) 770-5304

722 Moody Ave 4th Floor, Galveston, TX 77550

June 18, 2018

Honorable Mark A. Henry, County Judge, and
Members of the Commissioners Court
722 Moody Avenue
Galveston, Texas 77550

Honorable Mark A. Henry and Members of the Court:

Attached for your consideration is the internal audit report of the County Engineering Department Audit that covered the period May 1, 2017 through April 30, 2018. Also attached is the response letter from Michael C. Shannon, County Engineer, dated June 5, 2018.

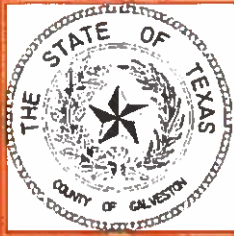
Sincerely,

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

Randall Rice CPA
County Auditor

cc: Michael C. Shannon, County Engineer

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



County Engineering Department Audit

May 14, 2018

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)

- Adequate controls are in place to ensure proper separation of duties relative to recording, authorizing and collecting.

Safeguarding of Assets (page 4)

- Physical security over assets (collections) is adequate.
- There were no material exceptions when issuing receipts.

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.
- No exceptions were noted in reviewing refunds.
- No exceptions were noted in the testing of voided receipts.

General Information (page 6)

- Funds are collected from the Dickinson Bayou Watershed Steering Committee (DBWSC) and all three department divisions: Engineering, Building Inspector and Right of Way.

Introduction

The Internal Audit Division conducted an internal audit of the County Engineering Department, in accordance with Local Government Code (LGC) §115. The internal audit covered the period May 1, 2017 through April 30, 2018. The audit was performed from May 2, 2018 through May 14, 2018.

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

- Reliability and integrity of the information
- 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.

Lillian Arredondo, 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.

Separation of Duties

One of the most important internal 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 Technician and Compliance Officer collect building permit fees and engineering fees for services rendered and record the transactions in the manual receipt book and receipt log. The receipts are totaled and all payments are entered on the cash receipt in ONESolution by the Administrative Coordinator. The County Engineer or Assistant County Engineer provide a signature of approval on the receipt log and the ONESolution batch report. The collections, along with proper support documentation, are taken to the Treasurer's Office for deposit.

The Engineer's Office has a proper separation of duties.

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 2, 2018. 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 collections until the day of deposit.

Physical Security – Manual Receipts

A pre-numbered, county-issued manual receipt is provided for each check or money order payment. 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. The receipt book is kept in a drawer, inaccessible to customers, at the front counter.

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-Approved 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 approved 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 noted in reviewing refunds.

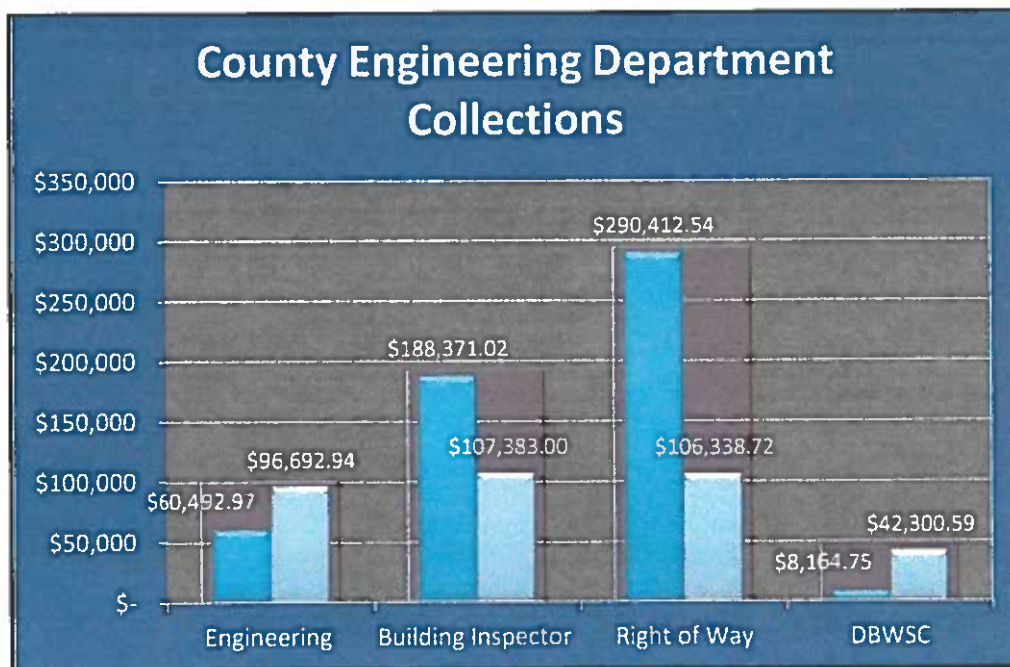
Voided Receipts

The County Engineering Department policy dictates all voided receipts must be approved by the County Engineer or an approved employee in his absence. Void is written across the receipt, the County Engineer or approved employee sign the receipt and an explanation for the void is documented. All copies of the receipt are retained in the manual receipt book.

No exceptions were noted in the testing of voided receipts.

General Information

The County Engineering Department collects different revenue for each office division and participant dues for the Dickinson Bayou Watershed Steering Committee (DBWSC). The three divisions that make up the County Engineering Department are Engineering, Building Inspector and Right of Way. The following chart illustrates the year over year comparison of the total collections that occurred from May 1, 2016 – April 30, 2017 and May 1, 2017 to April 30, 2018 for the three divisions and the DBWSC. The DBWSC dues are based on each entity's proportionate share of the county watershed. The participant dues from the DBWSC are spent on operating and engineering costs the committee decides to incur.



MICHAEL C. SHANNON, PE, CFM
COUNTY ENGINEER



NANCY M. BAHER, PE
ASSISTANT COUNTY ENGINEER

THE COUNTY OF GALVESTON
Office of the County Engineer
722 Moody, Galveston, TX 77550
(409) 770-5453

June 5, 2018

Randall Rice, CPA
County Auditor
722 Moody, 4th Floor
Galveston, TX 77550

Re: County Engineering Department internal audit May 1, 2017 through April 30, 2018

Dear Mr. Rice:

I have received your draft internal audit report dated May 14, 2018. The audit indicated that adequate controls are in place, physical security of assets is adequate, and no exceptions were noted in compliance with statutes, policy and procedures.

Sincerely,

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

Michael C. Shannon, PE, CFM
County Engineer

cc: Nancy Baher, Assistant County Engineer
Elizabeth Robertson, Administrative Coordinator
Sean Welsh, Permit Manager
Nicole Steely, Compliance Officer