



THE COUNTY OF GALVESTON
COUNTY AUDITOR'S OFFICE
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June 10, 2014

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

Honorable Judge and Members of the Court:

Attached for your consideration is the internal audit report of the Housing Department - Community Development Block Grant (CDBG) Program, Round 2. The audit covered the period March 1, 2013 through March 31, 2014. Also attached is the response letter from Housing Director James Gentile, received May 29, 2014.

Sincerely,

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

Randall Rice CPA
County Auditor

cc: James Gentile, Connie Nicholson

Attachment: Housing Department – CDBG Program, Round 2 Audit Report
Response Letter, Mr. James Gentile



Housing Department - Community Development Block Grant Program (Round 2) Audit

April 24, 2014

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)

- Program eligibility is determined by a third party contracted directly with the State. The County reviews the applicants deemed eligible.
- The program is in alignment with the projected costs in the budget for the current stage. (The program recently passed the twelve month benchmark for the Non-Rental Housing portion.)
- Requests for Reimbursement are submitted to the State for approval. The County is being fully reimbursed by the State for expenses paid to the construction contractors.
- Promissory Notes are signed by the homeowner to ensure awareness of the deed restrictions on the property to remain in the program.

Compliance with Statutes, Policies, and Procedures (page 4)

- Entities are checked for debarment and suspension prior to entering into contracts with the County.
- Invoices from construction contractors agree with prices set in the Tri-Party Agreements.
- Invoices from construction contractors are reviewed for allowable costs.
- The program pays for homeowner (and flood if applicable) insurance for the first year after the property is constructed.

Introduction

The Internal Audit Division conducted an internal audit of the Galveston County Community Development Block Grant (CDBG) Program, Round 2, as required by Local Government Code §115.0035. The internal audit covered the period March 1, 2013 through March 31, 2014. The audit was performed from March 17, 2014 through April 24, 2014.

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

- Reliability and integrity of the information.
- 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 Galveston County CDBG Housing Program, Round 2. The internal audit included, but was not limited to, the books, accounts, reports, docket, and records of the Community Services Department.

The internal audit included examining applicant files / 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 / 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 Department of Community Services, as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Jordan Guss, Internal Auditor II, performed the audit.

Reliability and Integrity of Information

Program Eligibility

The General Land Office (GLO) contracts directly with Horne, LLP to be the Grant Administrator for the program. Horne, LLP is responsible for determining the eligibility of applicants. The County reviews each applicant approved by Horne, LLP and sends a letter to the applicant approving them for participation in the program.

Internal Audit reviewed a sample of participants approved by Horne, LLP to determine if the County was signing and sending out the approval letters. All participant files tested contained the approval letter with the Director of Housing's signature.

Program Budget

The budget packet for the program was compared to the contract amount to verify agreement. No exceptions were noted.

Requests for Reimbursements

The construction contractors perform the work agreed upon in the contracts and submit invoices to the County for payment. The County pays the construction contractors then sends a Request for Reimbursement to the State. The appropriate County personnel should review the Requests for Reimbursement prior to submittal to the State for completeness and accuracy to ensure the request is approved by the State.

All Requests for Reimbursement tested were reviewed and approved by the appropriate County personnel.

Cash Management

Internal Audit tested a sample of Requests for Reimbursement approved by the State to verify the entire requested amount was approved and received by the County. No exceptions were noted.

Promissory Notes

Upon completion of a home, the homeowner is required to sign a Promissory Note detailing the requirements for continued participation in the program. Internal Audit reviewed a sample of participant files to verify the existence of the Promissory Note signed by the homeowner. No exceptions were noted.

Compliance with Statutes, Policies, and Procedures

Debarment, Suspension, and Exclusion

The County is required to review each construction contractor's status to verify the entities are not debarred, suspended, or otherwise excluded to eliminate the risk of the County executing business with entities not in good standing.

Internal Audit searched each construction contractor involved in the program in the Excluded Parties List System (EPLS) to verify the entities are in good standing. Furthermore, Internal Audit located the GLO Form 11.11 Building Contractor Eligibility Verification in the participant files and verified the Director of Housing's signature was present on the form. No exceptions were noted.

Construction Contractor Invoices

For each property to be rehabilitated, reconstructed, or newly constructed, the County enters into Tri-Party Agreements with the construction contractor and the homeowner. The Tri-Party Agreement details the pricing and work to be completed.

Internal Audit reviewed a sample of invoices submitted to the County by the construction contractors to verify the contracted amount agreed with the amount billed on the invoices. All invoices reviewed agreed with the amounts in the Tri-Party Agreements.

Allowable Costs

The appropriate County personnel is required to review invoices from construction contractors to ensure all costs are allowable according to the Galveston County Housing Assistance Program (GCHAP) Policies and Procedures.

All invoices reviewed were in compliance with the allowable costs listed in the GCHAP Policies and Procedures. The appropriate County personnel's signature was present on all invoices reviewed. No exceptions were noted.

Insurance Requirement

The County uses grant funds to pay for the first year of homeowner insurance (including flood when applicable) for homes rehabilitated, reconstructed, and newly constructed in the program.

Internal Audit reviewed a sample of participant files with construction completed to verify homeowner insurance policies were present. No exceptions were noted.



COUNTY OF GALVESTON

James Gentile
DIRECTOR OF HOUSING

Mr. Randal Rice, CPA
Galveston County Auditor
722 Moody, 4th Floor
Galveston, TX. 77550

Re: CDBG Round 2 Audit for March 2013 to March 2014

Dear Mr. Rice,

Please know I have reviewed and approved the 2013- 2014 CDBG Round 2 Audit, prepared by your office covering March 1, 2013 to March 1, 2014.

As always, I appreciate the fine work and assistance from your office.

Sincerely,

James Gentile

James Gentile
Director of Housing