



**THE COUNTY OF GALVESTON**  
COUNTY AUDITOR'S OFFICE  
P.O. Box 1418  
GALVESTON, TEXAS 77553

**County Auditor**  
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First Assistant, Director of Accounting

April 28, 2015

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 April 1, 2014 through February 28, 2015. Also attached is the response letter from the Director of Housing and Economics, Mr. James Gentile, received April 20, 2015.

Sincerely,

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

Randall Rice CPA  
County Auditor

cc: Mr. James Gentile, Director of Housing and Economics

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 16, 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)

- Program eligibility is determined by Horne, LLP, a third party contracted directly by the state. The Director of Housing reviews the applicants deemed eligible and sends a letter of approval for participation in the program to the applicants. All participants tested had been reviewed and had received a letter from the Director of Housing.
- The county is currently under budget for all projects.
- 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 requirements for continued participation in the program.

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

- Entities are verified for debarment and suspension prior to entering into contracts with the county.
- Invoices from construction contractors include allowable costs and agree with the work and prices established in the Work Write-Ups/Bids.
- Invoices from construction contractors are reviewed by the Director of Housing.
- The CDBG Program pays for homeowner, windstorm, and flood (if applicable) insurance for the first year after the property is constructed. Homeowner insurance policies and payments were verified for a sample of applicants with completed construction. No exceptions were noted.

# 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 §115.001(2). The internal audit covered the period April 1, 2014 through February 28, 2015. The audit was performed from February 25 – March 20, 2015.

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, dockets, and records of the Housing 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 Housing Department, as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Madeline Walker, Internal Auditor, performed the audit.

# **Reliability and Integrity of Information**

## **Program Eligibility**

The Texas General Land Office contracted Horne, LLP (Horne) to be the Grant Administrator for the CDBG Program. Horne is responsible for determining the eligibility of applicants, and the Director of Housing is responsible for reviewing the approved applications and forwarding a letter of approval for participation in the program to the applicants.

Internal Audit reviewed a sample of participants approved by Horne and all contained the approval letter signed by the Director of Housing.

## **Program Budget**

The county budget packet for the program was compared to the contracted amounts to verify agreement. The county is currently under budget for all projects.

## **Requests for Reimbursements**

Construction contractors perform the work agreed upon in the work write-ups and submit invoices to the county for payment. The county pays the contractors then sends a Request for Reimbursement to the state. Various documents are to be included with these Requests for Reimbursement, depending on the stage of construction.

Requests for Reimbursement tested were found to be complete and accurate.

## **Cash Management**

A sample of Requests for Reimbursements sent to the state was tested to verify the entire requested amount was approved by the state and received by the county. All requests tested were fully reimbursed.

## **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 such documentation. The files tested all contained the Promissory Note signed by the homeowner.

# **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.

## **Allowable Costs**

For each property to be rehabilitated, reconstructed, or newly constructed, the construction contractor and homeowner sign a Work Write-Up Form (GLO Form 11.17). This form details the pricing and work to be completed for each property.

Slum and blight demolition requires contractors to submit a work bid. The approved bids list the allowable work and amount that can be charged for the demolition.

A sample of invoices submitted to the county by the construction contractors were reviewed for both non-rental housing and slum and blight projects to ensure the invoiced items were allowable and the costs matched the Work Write-Up Form/Work Bid. The invoices tested agreed with the corresponding forms.

## **Invoice Review**

The Director of Housing 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.

Invoices are being reviewed and signed by the Director of Housing.

## **Insurance Requirement**

Under the CDBG Program, the county pays for the first year of homeowner's insurance, windstorm insurance, and flood insurance (when applicable) for homes rehabilitated, reconstructed, and newly constructed in the program.

Homeowner insurance policies and payments were verified for a sample of applicants with completed construction. No exceptions were noted.



## COUNTY OF GALVESTON

**James Gentile**  
DIRECTOR OF HOUSING

04/20/15

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

Re: CDBG Round 2 Audit for April 1, 2014 to February 28, 2015

Dear Mr. Rice,

Please know I have reviewed and approved the 2014- 2015 CDBG Round 2 Audit, prepared by your office covering April 1, 2014 to February 28, 2015.

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

Sincerely,

*James Gentile*

James Gentile  
Director of Housing