

GALVESTON COUNTY



Office of County Auditor

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February 14, 2017

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, 2015 through February 28, 2016. Also attached is the response letter from the Director of Contract Services, Mr. James Gentile, received January 25, 2017.

Sincerely,

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

Randall Rice CPA
County Auditor

cc: Mr. James Gentile, Director of Contract Services

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



County of Galveston
Professional Services Department
David M. Delac, Chief Financial Officer

CDBG Housing Department
CDBG Non-Housing
Child Welfare
Fleet
Grants/FEMA

Budget
Financial Assistance
Guardianship Program
Indigent Burials
Indigent Health Care

James Gentile
Director of Contract Services

01/25/17

Mr. Randall Rice
County Auditor
722 Moody, 4th Floor
Galveston, Texas 77550

Re: Community Development Block Grant (CDBG) Program, Round 2 FY207 Audit

Dear Mr. Rice,

I am in receipt of the current audit performed by the Galveston County's Auditing Department. I would like to thank and acknowledge your audit team for their timely, thorough and professional management of this audit. Please utilize this letter to serve as my response and acknowledgment of the audit materials.

Thank you for your time and attention.

Sincerely,

James M. Gentile

James Gentile
Director of Contract Services



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

January 5, 2017

Galveston
County
Internal Audit
Division

Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA
County Auditor

Executive Summary	1
Introduction	2
Details	3-4

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 Contract Services 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 Contract Services.
- 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 Contract Services.
- 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. The internal audit covered the period March 1, 2015 through February 28, 2016. The audit was performed from December 6, 2016 through January 5, 2017.

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.

Christina Fogg, Internal Auditor I, 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 Contract Services 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 Contract Services.

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 System for Award Management (SAM) database to verify the entities are in good standing. Furthermore, Internal Audit obtained Form 1295 Certificate of Interested Parties from the Housing Department and verified the affidavit was notarized and signed.

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 Contract Services 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 Contract Services.

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.