



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

County Auditor
Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA

Ron Chapa CPA
First Assistant, Director of Auditing

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First Assistant, Director of Accounting

March 31st, 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 on the Governmental Accounting Standards Board (GASB) Statement 68 Audit. The audit covered the period October 1, 2013 through September 30, 2014. Also attached are the response letters from Mr. Matt Votaw, Ms. Peri Bluemer, and Honorable Kevin Walsh dated March 6-10, 2015.

Sincerely,

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

Randall Rice CPA
County Auditor

cc: Mr. Matt Votaw, Chief Information Officer
Ms. Peri Bluemer, Chief Human Resources Officer
Honorable Kevin Walsh, Galveston County Treasurer

Attachment: GASB 68 Internal Audit Report
Response Letter, Mr. Matt Votaw
Response Letter, Ms. Peri Bluemer
Response Letter, Honorable Kevin Walsh



**Governmental Accounting Standards Board
Statement 68 Audit**

January 23, 2015

Galveston County
Compliance Division

Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA
County Auditor

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Executive Summary

Reliability and Integrity of Information (pages 3-4)

- Reliability and integrity of information can be improved by implementing the following recommendations:
 - Due to the access capabilities of the payroll security role in the TCDRS website, only appropriate employees of the Treasurer's Office should have payroll access. All other employees should have payroll access removed.
 - Assign the Security Administrator role to the Department of Information Technology which does not administer any data entry for TCDRS.
- Payroll data submitted to TCDRS was found to be complete and accurate for the months reviewed. Controls in place for reviewing and submitting payroll to the TCDRS website appear to be adequate and effective.

Safeguarding of Assets (page 5)

- Physical security over sensitive information is adequate.

Compliance with Statutes, Policies and Procedures (page 6)

- Payroll submittals were in compliance with the deadline set by TCDRS.
- Employee deposits to TCDRS accounts reviewed were in compliance with the 7% rate approved by Commissioners Court.
- Employer contributions to TCDRS accounts reviewed were in compliance with the 11.25% rate approved by Commissioners Court.
- Plan change submittals were in compliance with the deadline set by TCDRS.

Introduction

The Governmental Accounting Standards Board (GASB) has released Statement 68, Accounting and Reporting for Pensions, for reporting pension liabilities and expenses which will affect the financial reporting for fiscal years ending June 30, 2015 or later. This statement will require the county to report their unfunded pension liability in the annual county financials.

Due to the requirements of GASB 68, the Galveston County Auditor's Office is to provide reasonable assurance the unfunded pension liability balance and any related numbers making up this balance are reliable. In order to provide this assurance, business processes and internal controls within these processes were reviewed.

The scope of the internal audit encompassed the administrative procedures related to the county employee retirement plan of the Department of Human Resources, county security policies and procedures including safeguarding of assets managed by the Department of Information Technology, and the financial records and administrative procedures related to payroll reports and retirement disbursements from the Treasurer's Office. The internal audit included, but was not limited to, the books, accounts, reports, and records of the Department of Human Resources, Department of Information Technology, and the County Treasurer's Office.

The internal audit included examining data 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 data, there is a risk that errors or fraud were not detected during the internal audit. The department head 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 Human Resources, Department of Information Technology, or the County Treasurer's Office as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Kristin Bulanek, Manager of IT Financial Systems Audit and Compliance and Jordan Guss, Internal Auditor II, 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.

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. Separation of duties can be improved by implementing the following recommendations.

Website Access Roles

There are four types of access roles to the Texas County & District Retirement System (TCDRS) website: Security Administrator, Benefits Administrator, Payroll Administrator, and Decision Maker. The Security Administrator is responsible for granting county employees access to the website and determining the appropriate role county employees should have in the TCDRS system.

At the time of the review, there were 17 county employees with TCDRS employer website access. Internal Audit determined the following:

Finding: County employees were inappropriately assigned payroll access to the TCDRS website allowing them to add, delete, and/or modify payroll files including employee contributions submitted to TCDRS.

Recommendation GASB-15-01: Due to the access capabilities of the payroll security role, only appropriate employees of the Treasurer's Office should have payroll access. All other employees should have payroll access removed.

Finding: The Security Administrator role manages contacts, assigns web access, and establishes plan roles. This role is currently administered by the Department of Human Resources which also administers benefits and data entry regarding benefits for TCDRS.

Recommendation GASB-15-02: Assign the Security Administrator role to the Department of Information Technology which does not administer any data entry for TCDRS.

Newly Hired Employees

When a new employee is hired by the county, Human Resources is responsible for setting up the new employee's TCDRS account on the TCDRS website and entering employee information into IFAS, the county's financial recording system, based on information from the New Hire Personnel Action. No material exceptions were found.

Reliability and Integrity of Information (cont.)

Terminated Employees

Upon termination of employment, a Notification of Termination form is completed. This information is entered into IFAS to be further used in the payroll process. No material exceptions were found.

Payroll Submittals

TCDRS requires the county to submit payroll data including employee deductions and employer contributions on a monthly basis. Payroll data submitted to TCDRS was found to be complete and accurate for the months reviewed. Controls in place for reviewing and submitting payroll to TCDRS appear to be adequate and effective.

Safeguarding of Assets

Physical Security – Sensitive Information

Sensitive employee information is used by the Department of Human Resources, the County Treasurer's Office, and the County Auditor's Office during the payroll process. The departments appear to practice adequate safeguarding procedures to protect this information by storing data on password-locked computers and using physical locks on offices, file cabinets, and file rooms.

The Department of Information Technology has the following safeguarding procedures in place regarding passwords: they must be a minimum of 8 characters in length, expire within 90 days, not be displayed when entered, and not be identical to the previous 10 passwords. The system automatically prompts the user to reset their passwords at expiration.

Controls over safeguarding of information appear to be adequate and effective. There are no recommendations at this time.

Compliance with Statutes, Policies, and Procedures

Payroll Submittal Deadline

TCDRS requires the county to submit payroll data including employee deductions and employer contributions to the TCDRS website by the 15th day of the following month. The submitted payroll files reviewed were in compliance with the deadline.

Employee Deposits

Employees are required to participate in the TCDRS retirement plan if they are benefit-eligible. The percentage of each employee's paycheck that is deposited in their TCDRS account is set by the county.

The rate during the audit period for employee deposits was 7% of the employee's gross pay. For all employees tested, deposits to TCDRS accounts were in compliance with the approved rate.

Employer Contributions

The county contributes a percentage of each benefit-eligible employee's paycheck into each employee's TCDRS account.

The rate during the audit period for employer contributions was 11.25% of the employee's gross pay. For all employees tested, employer contributions to TCDRS accounts were in compliance with the approved rate.

Plan Change Deadline

The deadline set by TCDRS to make changes to the employee deposit or employer contribution rates is December 15th of each year. The plan change submitted during the audit period was in compliance with the deadline.



Matt Votaw

Lauren Michaels
Administrative Assistant

Chief Information Officer
County of Galveston

Galveston County Courthouse
722 Moody Avenue, Galveston, Texas 77550

March 6, 2015

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

Re: GASB 68 FY 2014 Audit

Mr. Rice,

The following is my response to the FY 2014 audit performed on the Information Technology Department by the Galveston County Auditor's Office.

Website Access Roles

Finding: County employees were inappropriately assigned payroll access to the TCDRS website allowing them to add, delete, and/or modify payroll files including employee contributions submitted to TCDRS.

Recommendation GASB-15-01: Due to the access capabilities of the payroll security role, only appropriate employees of the Treasurer's Office should have payroll access. All other employees should have payroll access removed.

Finding: The Security Administrator role manages contacts, assigns web access, and establishes plan roles. This role is currently administered by the Department of Human Resources which also administers benefits and data entry regarding benefits for TCDRS.

Recommendation GASB-15-02: Assign the Security Administrator role to the Department of Information Technology which does not administer any data entry for TCDRS.

Response: IT will establish a workflow process in Onbase which will start with a document being filled out by a user department requesting add/change/delete access to TCDRS or any user access to TCDRS. This document will be routed through the Galveston County Auditor's Office and Galveston County Treasurer's Office for final approval. Once final approval is received, a Heat Ticket will be opened and the request document will be routed to the appropriate personnel in IT. Once received by the appropriate personnel in IT, the changes will be made in TCDRS and the document will be routed back to the Galveston County Auditor for filing. IT will assume the role of System Administrator for all access to the TCDRS Website.



Matt Votaw

Lauren Michaels
Administrative Assistant

Chief Information Officer
County of Galveston

Galveston County Courthouse
722 Moody Avenue, Galveston, Texas 77550

A meeting was held on March 5, 2015 between IT Management and the Auditor's Office to discuss the audit findings and the proposed new process. All parties agreed in with the response and the proposed new process.

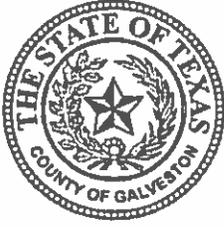
IT plans to have this new process implemented within the next few weeks. A final review will be scheduled with the Auditor's Office once the process is implemented. In the meantime, if you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Matt Votaw".

Matt Votaw
Chief Information Officer
Galveston County Texas

cc: Peri Bluemer, Chief Human Resources Officer
Kevin Walsh, County Treasurer



County *of* Galveston

Human Resources

Peri Bluemer
Chief Human Resources Officer

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

Re: GASB 68 FY 2014 Audit

Mr. Rice,

The following is my response to the FY 2014 audit performed on the Information Technology Department by the Galveston County Auditor's Office.

Finding: County employees were inappropriately assigned payroll access to the TCDRS website allowing them to add, delete, and/or modify payroll files including employee contributions submitted to TCDRS.

Recommendation GASB-15-01: Due to the access capabilities of the payroll security role, only appropriate employees of the Treasurer's Office should have payroll access. All other employees should have payroll access removed.

Finding: The Security Administrator role manages contacts, assigns web access, and establishes plan roles. This role is currently administered by the Department of Human Resources which also administers benefits and data entry regarding benefits for TCDRS.

Recommendation GASB-15-02: Assign the Security Administrator role to the Department of Information Technology which does not administer any data entry for TCDRS.

Response: I cannot agree or disagree with the finding that employees were "inappropriately assigned payroll access" in the past as I was not here and not able to comment on the rationale in doing this. However, I can tell you that I agree completely with the recommendations above.

A meeting was held on March 6, 2015 between your Audit Team and myself to discuss the audit findings and the proposed new process. All parties agreed in with the response and the proposed new process.

IT and HR plan to have this new process implemented within the next few weeks. A final clean up of Administrative Access will be scheduled with the Auditor's Office asap. In the meantime, if you have any questions, please do not hesitate to contact me.

Sincerely:

A handwritten signature in black ink, appearing to be "Peri A. Bluemer", written over a horizontal line.

Peri A. Bluemer
Chief HR Officer

409-770-5395
FAX: 409-770-5386



722 MOODY STREET
4TH FLOOR
GALVESTON, TEXAS 77550

KEVIN C. WALSH, C.P.A.

COUNTY TREASURER
COUNTY OF GALVESTON

March 10, 2015

Re: County Treasurer's Office Payroll Division- Internal Audit-GASB 68 FY 2014

I have reviewed and agree with the findings in the internal audit Payroll GASB 68 FY 2014. I understand payroll has complex sections that involve Human Resource, Auditors Office and Information Technology. As the Treasurer, I stress the importance of safeguarding all payroll information, and have internal procedures in place to ensure confidentiality. I agree with the internal audit recommendation of changing the role of issuing security access from Human Resources to Information Technology.

Thank you for the opportunity to respond; as an elected official of Galveston County, I make every effort to guarantee all payroll functions under my control are done in a manner which the employees of Galveston County would be pleased with.

Feel free at any time to speak with myself or my payroll staff regarding responsibilities of the Galveston County Treasurer's Payroll division.

Again, thank you for the in-depth review and positive report of reliability, safeguarding, and compliance.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Walsh".

Kevin C. Walsh, CPA

Galveston County Treasurer