

# GALVESTON COUNTY



## Office of County Auditor

Randall Rice CPA CISA CIO, County Auditor  
Jeff Modzelewski CPA, First Assistant Accounting  
Kristin Bulanek CIA, First Assistant Auditing

P.O. Box 1418, Galveston, Texas 77553

(409) 770-5304

722 Moody Ave 4<sup>th</sup> Floor, Galveston, TX 77550

---

May 24, 2016

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

Honorable Mark A. Henry and Members of the Court:

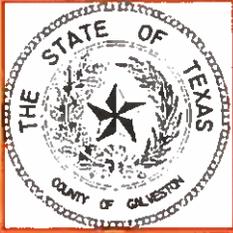
Attached for your consideration is the internal audit report of Galveston County Housing Department – Severe Repetitive Loss Program. The audit covered the period March 1, 2015 through February 29, 2016. Also attached is the response letter from James Gentile, Director of Housing, dated May 11, 2016.

Sincerely,

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

Randall Rice CPA  
County Auditor

Attachment: Galveston County Housing Department - Severe Repetitive Loss Program Audit Report  
Response Letter, James Gentile, Director of Housing



# Galveston County Housing Department - Severe Repetitive Loss Program Audit

April 8, 2016

Galveston  
County  
Internal Audit  
Division

Randall Rice CPA  
CITP CISA CIO CBM DABFA CGMA  
County Auditor

Executive Summary .....	1
Introduction .....	2
Details .....	3-6

# Executive Summary

## Reliability and Integrity of Information (page 3)

- The county was under budget for the SRL program at the close of the audit period.
- All applicants tested met the eligibility requirements set forth in the HMA Unified Guidance.
- Invoices tested were in agreement with Task Order No. 2012-1 FEMA SRL. In addition, proper support documentation was provided for each invoice.
- Requests for reimbursements (RFR #20 and RFR #21) contained the required support documentation and were in compliance with the contract. Payment was received from the state and recorded in ONESolution.

## Safeguarding of Assets (page 4)

- Safeguarding of the assets (funds paid by the homeowners) are adequate.
- Payment schedules for each elevation project reviewed were followed according to the tri-party agreements.

## Compliance with Statutes, Policies and Procedures (pages 5-6)

- Construction contractors were verified for debarment and suspension to ensure the contractors remained in good standing.
- Costs associated with the properties tested were in compliance with the HMA Unified Guidance.
- Quarterly Financial and Progress Reports were submitted to the Texas Water Development Board (TWDB) within 30 days following the quarter's end, as required by the contract between the county and TWDB.
- All deposits tested were in compliance with LGC §113.022(a) Time for Making Deposits.

# Introduction

The Internal Audit Division conducted an internal audit of the Galveston County Housing Department - Severe Repetitive Loss Program, in accordance with Local Government Code §115. The internal audit covered the period March 1, 2015 through February 29, 2016. The audit was performed from March 14, 2016 through April 8, 2016.

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 Galveston County Housing Department - Severe Repetitive Loss Program. The internal audit included, but was not limited to, the applicant files, accounts, reports, contracts and records of the Severe Repetitive Loss Program. The internal audit may also include reports or other records of the County Auditor, other county officials, and third party entities.

The internal audit included examining applicant files and 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 or transactions, 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 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, 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.

## Program Budget

Galveston County signed a contract with the Texas Water Development Board (TWDB) to receive a FEMA grant from the Severe Repetitive Loss (SRL) Program. The contract was approved by Commissioners Court in FY2012, for a budgeted amount of \$34,475,996.76. Internal Audit reviewed the expenditures as recorded in ONESolution for the audit period. The county was under budget for the SRL program as of February 29, 2016.

## Program Eligibility

The county contracted Tetra Tech to be the Grant Administrator for the Severe Repetitive Loss (SRL) Program. The National Flood Insurance Program (NFIP) is responsible for determining the eligibility of program applicants in accordance with the Hazard Mitigation Assistance (HMA) Unified Guidance.

Internal Audit reviewed a sample of applicants eligible for the SRL Program according to Tetra Tech's master workbook. All applicants tested met the eligibility requirements set forth in the HMA Unified Guidance.

## Grant Administrator Invoices

Tetra Tech invoices the county for costs associated with the preparation and presentation of the mitigation offer and for subsequent progress inspections performed throughout the project. Fees associated with the processing of each parcel (property) is applied and billed on a per-parcel basis. Adequate support documents must be provided for each invoice.

Tetra Tech invoices the county for administrative services based on the actual hours reported on timesheets. All non-labor expenses (travel, lodging, meals and other direct project expenses) are billed to the county at cost, without markup. Mileage is invoiced based on the federally published rate at the time the expense was incurred. Adequate support documents must be provided for each invoice.

Internal Audit tested a sample of invoices to verify accuracy of the information and to confirm the rates charged were in agreement with Task Order No. 2012-1 FEMA SRL. In addition, Internal Audit verified proper support documentation was provided for each invoice. No exceptions were noted.

## **Reliability and Integrity of Information (cont.)**

### **Request for Reimbursement (RFR)**

Article VII - Distributing Grant Funds of the contract between the Texas Water Development Board (TWDB) and the county sets the criteria for compensation and reimbursements to the county. Article VII - Item 3 states the county shall submit payment requests and the required documentation for reimbursement according to the 'Payment Request Submission Schedule' and in accordance with the approved task and expense budgets contained in 'Exhibit C - Task Budget' of the contract.

There were 2 requests for reimbursements submitted to the TWDB during the audit period: RFR #20 and RFR #21. Internal audit reviewed each RFR to verify compliance with the contract. No exceptions were noted. Payment was received from the state and recorded in ONESolution.

# 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.

## Minimizing Exposure to Loss

Daily depositing is one of the best methods of minimizing exposure of collections to loss. Tetra Tech, Grant Administrator, receives checks directly from the homeowner. The checks are made payable to Galveston County and hand delivered to the Housing Department personnel. A deposit warrant is prepared and both the deposit warrant and the check are submitted to the Treasurer's Office for deposit.

Safeguarding of the assets is adequate.

## Cash Management

The contractors participating in the SRL program receive a payment from the county after completion of each phase of work and submitting the proper documentation. The payment schedule for each elevation project is as follows:

- Phase 1 (Pre-elevation/mobilization) – 30% of the elevation contract amount
- Phase 2 (Project 60% Complete) - 30% of the elevation contract amount
- Phase 3 (Project 90% Complete) - 30% of the elevation contract amount
- Phase 4 (Final Inspection) – 10% of the elevation contract amount

Internal Audit reviewed a sample of elevation projects to verify the payment schedule was followed according to the tri-party agreements. The payment amounts were tested for accuracy. No exceptions were noted.

# **Compliance with Statutes, Policies and Procedures**

As part of the audit, the auditor evaluated the adequacy and effectiveness of internal controls and governance regarding compliance with laws, regulations and contracts within the Severe Repetitive Loss Program operations.

## **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. No exceptions were noted.

## **Allowable/Unallowable Costs**

The Hazard Mitigation Assistance (HMA) Unified Guidance provides a listing of allowable and unallowable costs under the Severe Repetitive Loss Program. The Housing Department reviews and approves invoices from construction contractors prior to submitting them to Accounts Payable.

Internal Audit confirmed the allowable costs associated with the properties tested were in compliance with the HMA Unified Guidance. Approval by the Housing Department was also verified on invoices tested. Internal Audit found no exceptions during the review.

## **Quarterly Reports**

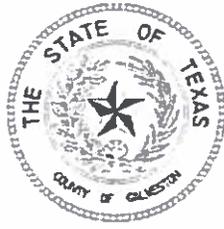
The FEMA SRL program requires the county to submit quarterly financial status reports and performance reports within 30 days following the end of each quarter until the project is completed. Internal audit reviewed the dates of the quarterly reports submitted during the audit period and verified the information on the reports was reasonable and accurate.

Both the quarterly financial reports and the quarterly progress reports were submitted by the stated deadline. No exceptions were noted.

## **Timeliness of Deposits**

LGC §113.022(a) Time For Making Deposits states a county officer or other person who receives money shall deposit the money with the county treasurer on or before the next regular business day after the date on which the money is received. If this deadline cannot be met, the officer or person must deposit the money, without exception, on or before the fifth business day after the day on which the money is received.

All deposits tested were in compliance with LGC §113.022(a) Time For Making Deposits.



## COUNTY OF GALVESTON

**James Gentile**

DIRECTOR OF HOUSING & ECONOMIC DEVELOPMENT

May 11<sup>th</sup>, 2016

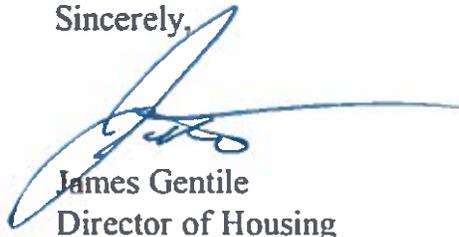
Randall Rice  
County Auditor  
722 Moody, 4<sup>th</sup> Floor  
Galveston, Texas 77550

Dear Mr. Rice,

I am in receipt of the draft internal audit on the Severe Repetitive Loss Program (SRL) for periods March 1, 2015 through February 29, 2016.

I would like to thank your team for their efforts and professional execution.

Sincerely,

A handwritten signature in blue ink, appearing to read "James Gentile", is written over the typed name and title.

James Gentile  
Director of Housing