

# GALVESTON COUNTY



## Office of County Auditor

Randall Rice CPA CISA CIO, County Auditor  
Kristin Bulanek CIA, First Assistant County Auditor

P.O. Box 1418, Galveston, Texas 77553

(409) 770-5304

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

---

June 20, 2017

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 the Tax Office's beer and wine permit operations audit. The audit covered the period April 1, 2016 through March 31, 2017. Also attached is the response letter from Honorable Cheryl E. Johnson, dated June 6, 2017.

Sincerely,

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

Randall Rice CPA  
County Auditor

cc: Honorable Cheryl E. Johnson

Attachments: Tax Office's Beer and Wine Audit Report  
Response Letter, Honorable Cheryl E. Johnson



# Tax Office Beer and Wine Audit

May 19, 2017

Galveston County  
Internal Audit  
Division

Randall Rice CPA  
CITP CISA CIO  
CBM DABFA CGMA  
County Auditor

Executive Summary ..... 1  
Introduction ..... 2  
Details ..... 3-5

# Executive Summary

## Reliability and Integrity of Information (page 3)

- The controls in place for entering the permit information and receipting payment using the beer and wine ACT database appear to be adequate and effective.
- No permit fee refunds were issued in the audit period.

## Safeguarding of Assets (page 4)

- Controls are in place to physically secure assets.
- The Tax Office deposits collections daily.
- Adequately prepared and properly supported bank reconciliations are performed monthly.

## Compliance with Statutes, Policies and Procedures (page 5)

- The Tax Office is in compliance with Section 11.38 and 61.36 of the Texas Alcoholic Beverage Code. These codes allow the county to collect up to ½ of the state fee for certain permits and licenses.
- Commissions paid from the state agency were in compliance with Section 61.35 of the Texas Alcoholic Beverage Code.
- Fees paid to the county from the City of League City were in compliance with the contracted amounts.
- Interest transfers from the beer and wine bank account were in compliance with Tax Office policy ADM-64.

# Introduction

The Internal Audit Division conducted an internal audit of the Tax Office's beer and wine permit operations in accordance with Local Government Code §115. The internal audit covered the period April 1, 2016 through March 31, 2017. The audit was performed from April 19, 2017 through May 19, 2017.

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 Tax Office's beer and wine permit operations. The internal audit included, but was not limited to the books, accounts, reports and records of the Tax Office.

The internal audit included examining 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 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 Galveston County Tax Office as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Jordan Guss, Information Systems Audit Team Lead, 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. The office has instituted procedures to separate the custody of the assets from the recording and authorization functions.

### **Receipts**

The Galveston County Tax Office collects beer and wine permit and license related fees for the county and the City of League City.

The Tax Office uses the ACT alcohol permit module to record beer and wine permit transactions. Permit information is uploaded into ACT from the Texas Alcoholic Beverage Commission (TABC) website. The controls in place for entering the permit information and receipting payment using the beer and wine ACT database appear to be adequate and effective.

### **Permit Fee Refunds**

License holders can request a refund from the Tax Office for a beer or wine license withdrawal or for fees incorrectly collected. No permit or license refunds were issued during the audit period; therefore, no testing was performed in this area.

# Safeguarding of Assets

## Physical Security – Collections

Depositing daily is one of the best safeguards of assets (collections) as well as providing the county with maximum benefit of the collections.

Controls are in place to ensure that deputies use lockable cash drawers to safeguard their collections and the collections are locked in the office safe overnight. The Tax Office deposits daily, utilizing the Deputy Constables and Deputy Sheriffs to transport and deposit the money.

## Cash Management

Bank reconciliations, properly prepared and adequately supported, are one of the best methods of cash management available to any official. The accounting staff routinely performs 4-column proof-of-cash bank reconciliations on a monthly basis.

The bank reconciliation for the beer and wine bank account was reviewed and no discrepancies were detected.

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

## **Collection of Local Fees**

Section 11.38 and 61.36 of the Texas Alcoholic Beverage Code allows the county to collect up to ½ of the state fee for certain permits and licenses. Internal Audit tested the fees collected under these statutes and did not find any discrepancies between the authorized amount to collect and what was collected.

## **Commission from Texas Alcoholic Beverage Commission (TABC)**

Section 61.35 of the Texas Alcoholic Beverage Code dictates the commission shall transmit five percent of the license fees to the assessor and collector of taxes of the county in which the applicant's business is located.

The auditor reviewed the commission received from the TABC for each month in the audit period. No discrepancies were found.

## **Entity Billing**

The interlocal agreement between Galveston County and the City of League City allows the Tax Office to collect permit fees due to the City of League City. In return for collecting these fees, the City of League City shall pay to the Tax Office \$3.00 for each permit or license fee collected on League City premises located within Galveston County and \$15.00 for each permit or license fee collected on League City premises located within Harris County.

The auditor reviewed the fee amounts paid from the City of League for each month in the audit period. No issues were noted.

## **Interest Transfers**

Tax Office policy ADM-64 requires all interest transfers to be approved by two authorized personnel. The auditor reviewed the interest transfers from the beer and wine bank account for every month in the audit period to determine compliance with ADM-64. No exceptions were found.



# Cheryl E. Johnson, RTA

Assessor and Collector of Taxes

Galveston County

Galveston County Courthouse

722 Moody Avenue, Galveston, Texas 77550

Toll Free: 877-766-2284 Fax: 409-766-2479 Office: 409-765-3277

Cheryl.E.Johnson@co.galveston.tx.us



June 6, 2017

Mr. Randall Rice, CPA  
County Auditor  
The County of Galveston  
722 Moody Avenue  
Galveston, Texas 77550

Re: Beer & Wine Permit Operations Audit

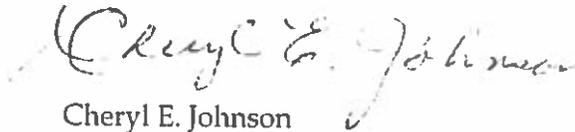
Dear Mr. Rice:

I am in receipt of the above referenced audit dated May 18, 2017. Once again, I am pleased with the Conclusions and that your team found we are in compliance with all statutes, policies and procedures, that assets are safeguarded and that controls are in place to insure reliability and integrity of information.

As you and your team know, it has been a twelve and one-half year team effort to establish and maintain best practices in the Galveston County Tax Office. Thanks to the work of many, we continue to enjoy success in achieving these goals. Please note, we will continue our diligence and will continue to seek methods of improving beyond our current successes.

Please express my appreciation to your team for their assistance and efforts in conducting the audit. I will share the results with our leadership and management team who is daily responsible for the work involved and held accountable for the policies put in place to guide them.

Sincerely,

  
Cheryl E. Johnson

cc: Jordan Guss, Information Systems Audit Team Lead  
Kristin Bulanek, CIA, First Assistant County Auditor  
Ms. Kimberly Hall, Chief Deputy Operations  
Ms. Sheryl Swift, PCC, Chief Deputy Business Services