

GALVESTON COUNTY, TEXAS
FEDERAL SINGLE AUDIT REPORT
Year Ended September 30, 2012

GALVESTON COUNTY, TEXAS
FEDERAL SINGLE AUDIT REPORT
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mark Henry, County Judge
and Members of the Commissioners Court
Galveston County, Texas

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Galveston County, Texas (“the County”) as of and for the year ended September 30, 2012, which collectively comprise the County’s basic financial statements and have issued our report thereon dated March 28, 2013. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Galveston County Health District, as described in our report on the County’s financial statements. This report does not include the results of other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

To the Honorable Mark Henry, County Judge
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item #12-01, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

Closing

This report is intended solely for the information and use of the County Commissioners, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Whitley Penn LLP

March 28, 2013

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH *OMB CIRCULAR A-133***

To the Honorable Mark Henry, County Judge
and Members of the Commissioners Court
Galveston County, Texas

Compliance

We have audited the compliance of Galveston County, Texas (“the County”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County’s major federal programs for the year ended September 30, 2012. The County’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County’s management. Our responsibility is to express an opinion on the County’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County’s compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance

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and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended September 30, 2012, and have issued our report thereon dated March 28, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Closing

This report is intended solely for the information and use of the County Commissioners, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Whitley Penn LLP

March 28, 2013

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2012

I. - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identified?	None reported
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, #12-01
Noncompliance material to financial statements noted?	None reported

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None reported
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	None reported

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grant - Housing
14.228	Community Development Block Grant - Non-Housing
16.710	Cops Hiring Recovery Program (ARRA)
97.039	Hazard Mitigation Grant Program - Home Buy Out Program
97.039	Hazard Mitigation Grant Program - Severe and Repetitive Loss Program

Dollar threshold used to distinguish between type A and type B federal programs:	\$1,589,510
Auditee qualified as low-risk auditee?	No

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended September 30, 2012

II. - Financial Statement Findings

Finding #12-01 – Tax Office Bank Reconciliation

Criteria:

Cash accounts should be reconciled on a timely basis, and outstanding reconciling items should be properly identified and supported.

Condition:

During fiscal year 2012, the Tax Office closed the Highway bank account and monies were transferred to a new bank account. At the time the account was closed, reconciling items associated with that account had not been completely identified. As of the date of this report, the Tax Office Highway bank account has been reconciled through June 30, 2012. Consequently, the amount due to the County for their portion of the receipts had not been determined or properly recorded in the general ledger.

Context:

The auditors noted this while performing standard cash procedures.

Effect:

The primary activity of the Tax Office Highway bank account is the deposits of motor vehicle registration payments and the distribution to the State and County. Failure to reconcile bank accounts timely can create the opportunity for misstatements due to fraud or errors to occur and not be detected in a timely manner.

Recommendation:

The Tax Office should continue their efforts to identify the reconciling items and to make the appropriate entries to ensure that the accounting records are complete and accurate.

III. - Federal Award Findings and Questioned Costs

The audit disclosed no federal award findings and questioned costs required to be reported.

Section IV. - Status of Prior Year Findings and Questioned Costs

Finding #11-01 - Internal Controls over Sub-recipient Monitoring of the Low Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP)

Resolved: Upon communication of this finding to management, and as of the date of the issuance of the 2011 state single audit report, the Director of Community Services arranged a meeting with H-GAC (sub-recipient) to discuss the sub-recipient's processes and internal audit procedures. The Director of Community Services met with H-GAC's AirCheck Texas Project Coordinator, Workforce Program Manager, and AirCheck Texas Financial Aid Specialist. The Director of Community Services is continuing to work on formally documenting the procedures for monitoring the LIRAP program.

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended September 30, 2012

Section V. - Views of Responsible Officials and Planned Corrective Action

Finding #12-01 Tax Office Bank
Reconciliation

Description: Management concurs with the recommendation. In addition to the change in bank accounts, a change in personnel contributed to reconciliations falling behind. A corrective action plan has been in place since October 2012, and, at the conclusion of tax season, additional staff was assigned to assist with the effort.

Responsible party: Cheryl Johnson, Tax Assessor Collector

Estimated completion date: July 1, 2013

GALVESTON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement/ Expenditures
U.S. Department of Agriculture			
<i>Passed through Texas Department of Human Services:</i>			
<i>National School Lunch Program</i>	10.555	N/A	\$ 58,514
Total U.S. Department of Agriculture			58,514
U.S. Department of Housing and Urban Development			
<i>Passed through the Texas General Land Office:</i>			
<i>CDBG Housing Grant</i>	14.228	72090014	41,771,059
<i>CDBG Non-Housing Grant</i>	14.228	DRS010052	5,176,942
Total U.S. Department of Housing and Urban Development			46,948,001
U.S. Department of Justice			
<i>Direct:</i>			
<i>Edward Byrne Justice Assistance Grant Program*</i>	16.738	2011-DJ-BX-3279	19,620
<i>FY 09 Recovery Act Edward Byrne Memorial Justice Asst. (ARRA)*</i>	16.804	2009-SB-B9-3131	1,998
<i>Cops Hiring Recovery Program (ARRA)</i>	16.710	2009-RK-WX-0821	546,368
			567,986
<i>Passed through Texas Criminal Justice Division:</i>			
<i>Juvenile Accountability Block Grant</i>	16.523	JB-11J20-13300-13	5,323
<i>Victims Coordinator Liaison Grant (VCLG)</i>	16.575	VA-12-V30-25500-01	3,259
<i>Violence Against Womens Act (VAWA)</i>	16.588	WF-09-V30-20028-02	45,652
<i>Violence Against Womens Act (VAWA)</i>	16.588	WF-10-V30-20028-03	4,834
Total passed through Texas Criminal Justice Division			59,068
Total U.S. Department of Justice			627,054
Department of Homeland Security			
<i>Passed through Governor's Division of Emergency Management/ Texas Department of Public Safety</i>			
<i>Emergency Management Performance</i>	97.042	12-TX-EMPG-0334	97,541
<i>Hazard Mitigation Grant Program-Home Buy out Program</i>	97.039	DR 1791-059	3,399,063
<i>Disaster Grants/Ike</i>	97.036	FEMA 1791-DR-TX	192,300
Total passed through Texas Department of Public Safety			3,688,904
<i>Passed through Houston Galveston Area Council</i>			
<i>Urban Area Security Initiative</i>	97.008	2009-SS-T9-0064	73,921
<i>Urban Area Security Initiative</i>	97.008	EMW 2011-SS-00019	41,226
<i>State Homeland Security Program</i>	97.067	2009-GE-T9-0034	7,240
<i>Citizen Corp Program</i>	97.053	2010-SS-T0-0008	17,878
Total passed through Houston Galveston Area Council			140,265
<i>Passed through Texas Water Development Board</i>			
<i>Hazard Mitigation Grant Program - Severe and Repetitive Loss Program</i>	97.039	TWDB-1200011417	685,035
Total Department of Homeland Security			4,514,204

* Denotes Cluster

GALVESTON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement/ Expenditures
U.S. Department of Health and Human Services			
<i>Passed through Houston Galveston Area Council:</i>			
<i>Supportive Services III-B</i>	93.044	AAA011-08	\$ 74,783
<i>Congregate & Home Delivered Meal Program III-C</i>	93.045	AAA011-08	495,288
Total Passed through Houston Galveston Area Council			<u>570,071</u>
 <i>Passed through the Texas Department of Family and Protective Services</i>			
<i>Foster Care Title IV-E</i>	93.658	23379437	30,000
<i>Foster Care Title IV-E</i>	93.658	23357158	75,000
Total Passed through Texas Department of Family and Protective Services			<u>105,000</u>
 <i>Passed through the Texas Juvenile Probation Commission:</i>			
<i>Foster Care Title IV-E</i>	93.658	TJPC-E-2012-084	46,302
Total U.S. Dept. of Health and Human Services			<u>721,373</u>
 U.S. Department of Energy			
<i>Passed through Texas Comptroller of Public Accounts:</i>			
<i>Energy Efficiency and Conservation Block Grant - ARRA</i>	81.128	3732MM	114,504
Total U.S. Department of Energy			<u>114,504</u>
Total Federal Awards			<u>\$ 52,983,650</u>

GALVESTON COUNTY, TEXAS
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS

Note 1 - Basis of Accounting

Galveston County, Texas accounts for federal funding using the modified accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Equipment purchases for grant purposes are treated as expenses in the schedule of expenditures of federal awards and typically capitalized for financial statement purposes.

Federal grant funds are considered to be earned to the extent of expenses made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 2 - Community Disaster Loan Program

In fiscal year ended September 30, 2009, the County participated in the Community Disaster Loan Program through the Department of Homeland Security (FEMA) and received an award of \$5 million. The note bears interest at 2.875% per annum and matures on June 18, 2014. Neither principal nor interest payments are required until maturity. The terms of the loan provide that if the recipient jurisdiction has not recovered sufficiently to meet its operating budget after three full fiscal years, repayment of all or part of the loan may be cancelled. The amount of accrued interest on the loan as of September 30, 2012 was \$432,038.

Note 3 - Related Party Transactions

A County Commissioner is the owner of a title company that processes the settlements of the Hazard Mitigation Grant Program buy outs. In the fiscal year ended September 30, 2012, that title Company earned revenues of \$84,580 from those settlements. The Commissioner abstains from voting on all agenda items that involve the buy-out program and that could entail a conflict of interest.