

GALVESTON COUNTY, TEXAS
FEDERAL SINGLE AUDIT REPORT
Year Ended September 30, 2014

GALVESTON COUNTY, TEXAS
FEDERAL SINGLE AUDIT REPORT
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INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galveston County, Texas (the "County") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 17, 2015.

Internal Control over Financial Reporting

In planning and performing the audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding #2014-001, that we consider to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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*.

County's Response to Finding

The County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Texas City, Texas
March 17, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY *OMB CIRCULAR A-133*

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

Report on Compliance for Each Major Federal Program

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, 2014. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance 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, 2014.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal controls over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards required by OMB A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 17, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB

The Honorable Mark Henry, County Judge
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Galveston County, Texas

Circular A-133 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 basic financial statements as a whole.

Whitley Penn LLP

Texas City, Texas
March 17, 2015

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2014

I. - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes, #2014-001

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	CDBG - Housing
14.228	CDBG - Non-Housing
97.036	Disaster Grants/Ike

Dollar threshold used to distinguish between type A and type B federal programs: \$1,633,007

Auditee qualified as low-risk auditee? Yes

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended September 30, 2014

II. - Financial Statement Findings

Finding #2014-001 – District Clerk Segregation of Duties

Criteria:

Segregation of duties job capabilities should be maintained through proper software security authorizations.

Condition:

The Accounting Supervisor has system authorization to perform incompatible duties. Since it is the responsibility of the Accounting Supervisor to reconcile the bank accounts, the following procedures and system authorizations are considered incompatible to that function:

- Preparation of the daily deposits
- Access to receive and post Payments in Odyssey
- Access to perform adjustments

Context:

The auditors noted this while performing risk assessment at the District Clerk's Office.

Effect:

Lack of segregation of duties creates the opportunity for fraud to be committed and errors to be made and not detected in a timely manner during the normal course of operations.

Recommendation:

1. System user rights should be limited to activities that do not allow incompatible duties to be performed.
2. The County Auditor's Office should perform periodic checks of security privileges to ensure individuals have appropriate access.

III. - Federal Award Findings and Questioned Costs

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

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended September 30, 2014

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

Finding #2013-001 – Sub-award Reporting under the Transparency Act
Edward Byrne Justice Administration Grant Program
CFDA #16.738

Resolved: Upon learning of the FFATA compliance requirement, corrective action was immediately taken by filing the reports in the FFATA Sub-award Reporting System (FSRS). In fiscal year 2014, the County was not awarded more than \$25,000 in federal awards subject to FFATA sub-award reporting requirements.

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

Finding #2014-001 – District
Clerk Segregation of Duties

Description: System user rights were extended in January 2015 to the Accounting Supervisor in efforts to perform data clean up within the Odyssey system. The County Auditor’s Office is aware of the granted permissions. A security review will be performed after completion of the project to verify only appropriate user rights are assigned to ensure the segregation of duties is maintained. The project is expected to be completed by the end of the current fiscal year.

Responsible party: Randall Rice, County Auditor

Estimated completion date: September 30, 2015

GALVESTON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement/ Expenditures
U.S. Department of Agriculture			
Passed through Texas Department of Human Services:			
<i>National School Lunch Program</i>	10.555	N/A	\$ 69,097
Total U.S. Department of Agriculture			69,097
U.S. Department of Housing and Urban Development			
Passed through the Texas General Land Office:			
<i>CDBG Housing Grant</i>	14.228	72090014	237,440
<i>CDBG Non-Housing Grant</i>	14.228	DRS010052	1,216,538
<i>CDBG Housing Grant</i>	14.228	125110006725 & 125130006727	42,856,610
<i>CDBG Non-Housing Grant</i>	14.228	134650007974	65,655
Total U.S. Department of Housing and Urban Development			44,376,243
U.S. Department of Justice			
Direct:			
<i>Edward Byrne Justice Assistance Grant Program</i>	16.738	2011-DJ-BX-3279	5,141
Passed through Texas Criminal Justice Division:			
<i>Juvenile Accountability Block Grant</i>	16.523	JB-12-J20-1330014	6,310
<i>Victims of Crime Act Program (VOCA)</i>	16.575	VA-13-V30-25500-02	40,256
<i>Victims of Crime Act Program (VOCA)</i>	16.575	VA-14-V30-25500-03	3,899
<i>Violence Against Womens Act (VAWA)</i>	16.588	WF-13-V30-2704101	45,839
<i>Violence Against Womens Act (VAWA)</i>	16.588	WF-14-V30-2704102	4,536
Total passed through Texas Criminal Justice Division			100,840
Total U.S. Department of Justice			105,981
Department of Homeland Security			
Passed through Governor's Division of Emergency Management/ Texas Department of Public Safety			
<i>Disaster Grants/Ike</i>	97.036	FEMA 1791-DR-TX	1,180,244
Total passed through Texas Department of Public Safety			1,180,244
Passed through Houston Galveston Area Council			
<i>Emergency Management Performance</i>	97.042	14-TX-EMPG-334	62,977
<i>Urban Area Security Initiative</i>	97.008	EMW 2011-SS-00019	345,957
<i>Urban Area Security Initiative</i>	97.008	EMW 2012-SS-00018-S01	42,939
<i>Urban Area Security Initiative</i>	97.008	EMW 2013-SS-00045	17,842
<i>State Homeland Security Program</i>	97.067	EMW 2013-SS-00045	246,330
Total passed through Houston Galveston Area Council			716,045
Passed through Texas Water Development Board			
<i>Hazard Mitigation Grant Program - Severe and Repetitive Loss Program</i>	97.039	TWDB-1200011417	7,220,227
Total Department of Homeland Security			9,116,516

* Denotes Cluster

GALVESTON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement/ Expenditures
U.S. Department of Health and Human Services			
Passed through Houston Galveston Area Council:			
<i>Supportive Services, Title III-B*</i>	93.044	AAA011-08	\$ 134,456
<i>Congregate & Home Delivered Meal Program, Title III-C*</i>	93.045	AAA011-08	<u>419,530</u>
Total Passed through Houston Galveston Area Council			<u>553,986</u>
Passed through the Texas Department of Family and Protective Services			
<i>Foster Care Title IV-E</i>	93.658	23379437	35,819
<i>Foster Care Title IV-E</i>	93.658	23357158	<u>47,715</u>
Total Passed through Texas Department of Family and Protective Services			<u>83,534</u>
Passed through the Texas Juvenile Probation Commission			
<i>Foster Care Title IV-E</i>	93.658	TJPC-E-2013-084	<u>56,782</u>
Total Passed through Texas Juvenile Probation Commission			<u>56,782</u>
Total U.S. Dept. of Health and Human Services			<u>694,302</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration			
Passed through Texas Department of Transportation			
<i>DWI No Refusal-Blood Draw Grant</i>	20.600	583EGF5013	<u>12,098</u>
Total U.S. Department of Transportation - National Highway Traffic Safety Administration			<u>12,098</u>
U.S. Department of Interior			
Direct Award			
<i>2007 Coastal Impact Assistance Program (CIAP)</i>	15.668	F13AF00064	<u>59,322</u>
Total U.S. Department of Interior			<u>59,322</u>
Total Federal Awards			<u>\$ 54,433,559</u>

* Denotes Cluster

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 unearned 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 bore interest at 2.875% per annum and matured on June 18, 2014. The terms of the loan provided that if the recipient jurisdiction had not recovered sufficiently to meet its operating budget after three full fiscal years, repayment of all or part of the loan might be cancelled. In the fiscal year ending September 30, 2014, the County was required to repay the entire amount of the loan, including principal of \$5 million plus \$659,281 in interest.