

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

GALVESTON COUNTY, TEXAS
STATE 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.

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.

To 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 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, State 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 AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS CHAPTER IV
*TEXAS STATE SINGLE AUDIT CIRCULAR***

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 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular* that could have a direct and material effect on each of the County's major state programs for the year ended September 30, 2012. The County's major state 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 state 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; the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and, State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular*. 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 state 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 compliance requirements referred to above that could have a direct and material effect on each of its major state 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 state 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 state program in order to

To the Honorable Mark Henry, County Judge
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determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, and the State of Texas Uniform Grant Management Standards Chapter IV Texas State Single Audit Circular, 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 state 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 state 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 State 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 State Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit* Circular 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 state 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, State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


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

State 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>State Grant Number</u>	<u>Name of State Program</u>
582-9-90416-15	Low Inc. Asst., Retrofit & Retirement (LIRAP)
582-12-20283	Low Inc. Asst., Retrofit & Retirement (LIRAP)
HDM-11-705	Texans Feeding Texans
HDM-12-808	Texans Feeding Texans
SA-T01-10051-12	Texas Automobile Theft Prevention Authority
SA-T01-10051-13	Texas Automobile Theft Prevention Authority

Dollar threshold used to distinguish between type A and type B State programs:	\$300,000
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 – State Award Findings and Questioned Costs

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

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

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 STATE AWARDS
For the Year Ended September 30, 2012

Grantor/Program Title-State	State Grantors Number	Disbursement/ Expenditures
Texas Commission on Environmental Quality		
<i>Direct:</i>		
<i>Low Inc. Asst., Retrofit & Retirement (LIRAP)</i>	582-9-90416-15	\$ 284,815
<i>Low Inc. Asst., Retrofit & Retirement (LIRAP)</i>	582-12-20283	11,103
Total Texas Commission on Environmental Quality		<u>295,918</u>
Texas Department of Public Safety		
<i>Direct:</i>		
<i>Texas Automobile Theft Prevention Authority</i>	SA-T01-10051-12	440,432
<i>Texas Automobile Theft Prevention Authority</i>	SA-T01-10051-13	30,588
Total Texas Department of Public Safety		<u>471,020</u>
Texas Department of Agriculture		
<i>Direct:</i>		
<i>Texans Feeding Texans</i>	HDM-11-705	55,481
<i>Texans Feeding Texans</i>	HDM-12-808	81,568
Texas Department of Agriculture		<u>137,049</u>
Total State Awards Requiring Single Audit Act Compliance		<u>\$ 903,987</u>

GALVESTON COUNTY, TEXAS
NOTES ON ACCOUNTING POLICIES FOR STATE AWARDS

Note 1 - Basis of Accounting

Galveston County, Texas accounts for state 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 state awards and typically capitalized for financial statement purposes.

State 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.