

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

GALVESTON COUNTY, TEXAS
STATE 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 STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE AWARDS REQUIRED BY 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

Report on Compliance for Each Major State 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* 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, 2014. The County's major state 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 state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major state program 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; 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.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major State 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 state 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 state 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 state program 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. *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 state 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 and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

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

***Report on Schedule of Expenditures of State Awards required by OMB A-133 and the State of Texas
Uniform Grant Management Standards Chapter IV Texas State Single Audit Circular***

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 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 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

State 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>State Grant Number</u>	<u>Name of State Program</u>
SA-T01-10051-14	Texas Automobile Theft Prevention Authority
SA-T01-10051-15	Texas Automobile Theft Prevention Authority
SF-14-A10-25200-02	Galveston County Adult Drug Court Program
SF-14-A10-25200-03	Galveston County Adult Drug Court Program

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

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

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

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.

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 STATE AWARDS
For the Year Ended September 30, 2014

Grantor/Program Title-State	State Grantors Number	Disbursement/ Expenditures
Texas Commission on Environmental Quality		
Direct:		
<i>Low Inc. Asst., Retrofit & Retirement (LIRAP)</i>	582-12-20283	\$ 100,633
<i>Solid Waste Implementation</i>	14-16-G06	38,173
<i>Local Initiative Project (LIP)</i>	582-8-89961	121,861
Total Texas Commission on Environmental Quality		<u>260,667</u>
Texas Department of Public Safety		
Direct:		
<i>Texas Automobile Theft Prevention Authority</i>	SA-T01-10051-14	436,714
<i>Texas Automobile Theft Prevention Authority</i>	SA-T01-10051-15	24,733
<i>DWI Task Force STEP Grant</i>	2014 STEP Grant	8,634
Total Texas Department of Public Safety		<u>470,081</u>
Texas Department of Agriculture		
Direct:		
<i>Texans Feeding Texans</i>	HDM-13-1123	94,252
<i>Texans Feeding Texans</i>	HDM-14-1123	24,632
Total Texas Department of Agriculture		<u>118,884</u>
Texas Department of Criminal Justice		
Direct:		
<i>Galveston County Gang Surveillance and Arrest Initiative</i>	CO-11-A10-2731-01	15,110
<i>Galveston County Adult Drug Court Program</i>	SF-14-A10-25200-02	168,777
<i>Galveston County Adult Drug Court Program</i>	SF-14-A10-25200-03	10,786
<i>Hope Academy Grant</i>	2704801	109,176
<i>Hope Academy Grant</i>	2704802	6,414
Total Texas Department of Criminal Justice		<u>310,263</u>
General Land Office		
<i>Coastal Erosion Planning & Response Act</i>	14-070-000-7912	3,511
Total General Land Office		<u>3,511</u>
Total State Awards Requiring Single Audit Act Compliance		<u>\$ 1,163,406</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 unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.