

GALVESTON COUNTY, TEXAS
STATE SINGLE AUDIT REPORT
Year Ended September 30, 2015

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, 2015, 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 29, 2016.

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 findings #2015-001 and #2015-002, that we consider to be significant deficiencies.

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.

Whitley Penn LLP

Texas City, Texas
March 29, 2016

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, 2015. 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 the Uniform Grant Management Standards 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, 2015.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control 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 each 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 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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 29, 2016, 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 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 29, 2016

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2015

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, #2015-001 and #2015-002
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>
582-12-20283	Low Inc. Asst., Retrofit & Retirement (LIRAP)
SF-14-A10-25200-03	Galveston County Adult Drug Court Program
SF-14-A10-25200-04	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, 2015

II - Financial Statement Findings

Finding #2015-001 – Court Receivables

Criteria:

The County is responsible for establishing internal controls to ensure that procedures are in place to capture all the necessary information for the collections of court fines and collectability of unpaid fines.

Condition:

The County's receivable and associated allowance for uncollectable accounts for fines and forfeitures and certain charges for services by the District Court, County Court, and the Justice of the Peace Courts were not reported on the County's financial statements in prior fiscal years. Furthermore, documentation for capturing information necessary for updating the subsidiary ledgers was not properly maintained in order to adjust cases as they were paid. This was related to several factors, including, but not limited to the following:

- Multiple systems conversions over the years
- Amounts in the system conversion to Odyssey included receivables that were being collected at the time by Adult Probation. Collections by Adult Probation on these accounts subsequent to the conversion were not captured in Odyssey.
- Blank or invalid status codes
- Defendants are deceased
- Defendants have been incarcerated

These factors, combined with the length of time that receivables have been outstanding, caused the amount of the courts receivable balances per the case management systems to not be reflective of the amount that was truly outstanding and/or collectible, though the net effect is not considered immaterial to the financial statements as whole.

Context:

This issue was brought to our attention by the County Auditor's Office as well as noted in our review of the County's internal audit reports.

Effect:

Failure to properly maintain and periodically reconcile systems that capture amounts to be collected. Lack of internal controls over the case management systems can lead to information being produced that is not reliable for making decisions related to the County's operations. Lack of effective internal controls can allow misstatements due to fraud or error to occur and go undetected in the normal course of operations.

Recommendation:

Controls over the County's procedures for collections of court fines should be evaluated for overall effectiveness, as well as for compliance with the governing statutes. Daily transaction reports should be reconciled to source data prior to updating master files in the case management system. Internal controls over the completeness of accounts receivables should be established and implemented to ensure inclusion of all accounts in the financial statements. The collectability of these accounts should be assessed on a periodic basis and allowances and write offs considered based on historical collection rates. The County should continue its efforts in implementing and reinforcing a collection improvement program.

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended September 30, 2015

II - Financial Statement Findings (continued)

Finding #2015-002 – Sheriff Inmate Property Bank Reconciliation

Criteria:

In order to ensure timely and accurate financial reporting and to provide accountability over the County's assets, management is responsible for establishing internal controls over accounting for all financial transactions in the general ledger and reconciling the general ledger to subsidiary ledgers on a periodic basis.

Condition:

The Sheriff's Inmate Property Bank account was not properly reconciled on a monthly basis during the fiscal year. Adjustments to the general ledger were required for the year-end financial reporting.

Context:

During our testing of cash, we noted that the Sheriff Inmate Property bank account had not been reconciled since May 2015. We further noted that this was the result of turnover in personnel and that the County has hired personnel to work on the bank reconciliation and was making significant progress.

Effect:

The effect of not preparing bank reconciliations in a timely manner is that misstatements due to fraud or errors could occur and not be detected by employees during the normal course of operations. Additionally, lack of accurate financial reporting can cause decisions of the County to be made based on incomplete and inaccurate information.

Recommendation:

The County should continue their efforts to bring the Sheriff's Inmate Property bank reconciliations up to date to ensure the accounting records are complete and accurate. Internal controls over timely bank reconciliations should be reinforced and should be communicated to the appropriate personnel. Bank reconciliations should be performed monthly to compare bank balances to the balances in the general ledger. The reconciliations should be reviewed by someone other than the person responsible for preparing them. The review process should include periodic investigation of unusual reconciling items and checks outstanding for a considerable amount of time.

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, 2015

IV - Status of Prior Year Findings and Questioned Costs

Finding #2014-001 – District Clerk Segregation of Duties

Resolved: User rights in the system have been limited to those necessary for cleanup of the system conversion, and will be taken away once this task has been completed.

V - Views of Responsible Officials and Planned Corrective Action

Finding #2015-001 - Courts Receivable **Description:** In mid-2014, the county moved the court collection process from the Justice Administration Department and returned it to the statutory control of Commissioners Court. Subsequent to moving it back to the Court, the county assigned the collections improvement program tasks to a director reporting to the Court.

In late 2014, the county contracted with Perdue Brandon Fielder Collins & Mott, a statewide law firm specializing in the collection of delinquent government receivables, to replace Linebarger Goggan Blair & Sampson, a statewide law firm specializing in court collections which had been hired to collect the justice of the peace courts outstanding receivables. Perdue Brandon will be collecting delinquent receivables for not only the justice of the peace courts, but also the district and county courts.

In early 2015, the state of Texas compliance group for the Collection Improvement Program audited the procedures of the Collection Improvement Program of the county and determined a portion of the required statutory duties were not in compliance with statute. The state audit did not audit or comment on the dollar balance of the delinquent accounts. A report prepared at the request of the Commissioners Court regarding the dollar balance indicated a total of approximately \$56 million in uncollected accounts receivable. However, an audit by the County Auditor of the basis of the report to Commissioners Court found numerous instances of incorrect or invalid data. The internal audit, after deducting the amounts which could not be validated, established an uncollected accounts receivable balance of about \$17 million. A large portion of the \$17 million, due to age and other factors, was attributed to an allowance for uncollectible amounts.

To determine the validity and potential collectability of outstanding receivables in the court system, the county will provide Perdue Brandon with the data to determine which cases might successfully be collected. This would permit the Commissioners Court to consider action concerning the remaining unpaid balances.

GALVESTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
Year Ended September 30, 2015

V - Views of Responsible Officials and Planned Corrective Action (continued)

Finding #2015-001 - Courts Receivable The state audit noted they would do a follow-up review six months after the issuance of their report in June 2015 to determine the progress of changes to eliminate the items not in compliance and bring the entire program into compliance with the state statutes. To ensure the county was prepared for the six-month review, during December 2015 and January 2016, County Auditor staff performed a compliance audit of court collections operations for the period August 1, 2015 through December 10, 2015. That audit resulted in two findings:

- that a Justice of the Peace office be more diligent in sending completed time-payment agreements to the court collections office the day signed by the defendant, and
- that another Justice of the Peace office verify defendant contact information while the defendant is still in the office signing the time-payment agreement.

These findings were communicated to the appropriate department heads. The County Auditor has added the Collections Improvement Program to the list of periodic audits performed to ensure proper internal controls are in place and state statute is being followed in the collection process. The county has instituted a new software tracking program to assist in the follow-up and timeliness of contact to defendants who have chosen to pay their fines and fees over time

Responsible party: Randall Rice, County Auditor

Estimated completion date: September 30, 2016

Finding #2015-002 - Sheriff Inmate Property Bank Reconciliation **Description:** Timeliness of the reconciliations and provision of the reports to the Auditor's Office was delayed due to turnover in the Sheriff's Office. The accountant in the Auditor's Office who reviews the reconciliations from the Sheriff's Department informed her supervisor a number of times during the year that the reconciliations were not available due to turnover. Additionally, an internal audit resulted in a finding on the same issue - bank reconciliations not being completed timely – and this finding was communicated to the County Sheriff. The Auditor's Office will continue to communicate to the Sheriff's Office when bank reconciliations are not timely.

Responsible party: Randall Rice, County Auditor

Estimated completion date: September 30, 2016

GALVESTON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended September 30, 2015

<u>Grantor/Program Title-State</u>	<u>State Grantors Number</u>	<u>Disbursement/ Expenditures</u>
Texas Commission on Environmental Quality		
Direct:		
<i>Low Inc. Asst., Retrofit & Retirement (LIRAP)</i>	582-12-20283	\$ 134,529
<i>Solid Waste Implementation</i>	14-16-G06	4,165
<i>Solid Waste Implementation</i>	15-16-G01	24,185
<i>Local Initiative Project (LIP)</i>	582-8-89961	83,243
Total Texas Commission on Environmental Quality		<u>246,122</u>
Texas Department of Public Safety		
Direct:		
<i>Texas Automobile Theft Prevention Authority</i>	SA-T01-10051-15	442,621
<i>Texas Automobile Theft Prevention Authority</i>	608-16-0840000	25,469
<i>DWI Task Force STEP Grant</i>	2014 STEP Grant	6,686
Total Texas Department of Public Safety		<u>474,776</u>
Texas Department of Agriculture		
Direct:		
<i>Texans Feeding Texans</i>	HDM-15-1123	49,900
Total Texas Department of Agriculture		<u>49,900</u>
Texas Department of Criminal Justice		
Direct:		
<i>Galveston County Adult Drug Court Program</i>	SF-14-A10-25200-03	156,418
<i>Galveston County Adult Drug Court Program</i>	SF-14-A10-25200-04	11,700
<i>Hope Academy Grant</i>	2704801	3,370
<i>Hope Academy Grant</i>	2704802	93,586
Total Texas Department of Criminal Justice		<u>265,074</u>
Total State Awards Requiring Single Audit Act Compliance		<u>\$ 1,035,872</u>

GALVESTON COUNTY, TEXAS
NOTES ON ACCOUNTING POLICIES FOR STATE AWARDS

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of State Awards (the “Schedule”) includes the state grant activity of the County under programs of the state government for the year ended September 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and the State of Texas Uniform Grant Management Standards Chapter IV, *Texas State Single Audit Circular*. Because the schedule presents only a selected portion of the operations of the County, it is not intended and does not present the financial position, changes in net position/fund balance or cash flows of the County.

Note 2 - Summary of Significant Accounting Policies

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.

Note 3 - Subrecipients

Certain state award programs are passed through to other entities for program administration. The Houston-Galveston Area Council was the subrecipient of funds for the Low Income Assistance Retrofit and Retirement Program (LIRAP) in the amount of \$134,529 for the year ended September 30, 2015.