

# **AUDITOR'S REPORT**

## **SINGLE AUDIT DESK REVIEW PROCEDURES FOR THE PERIOD ENDED AUGUST 31, 2013**



**October 4, 2013**

**Barbara J. Schott, C.P.A.  
Harris County Auditor**

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**BARBARA J. SCHOTT, C.P.A.**  
**HARRIS COUNTY AUDITOR**

October 4, 2013

Mr. Mike Post  
Chief Assistant County Auditor  
1001 Preston, Suite 800  
Houston, TX 77002

RE: Review of Harris County federal grant funds subrecipients' Financial Statements and Single Audit Reports for the period ended August 31, 2013

In accordance with Harris County Audit Services Annual Audit Plan, the Single Audit compliance review of federal funds passed through from Harris County to various subrecipients has been completed. Audited Financial Statements and Single Audit Reports of twenty-three subrecipients have been reviewed to determine compliance with the federal Single Audit Act.

Our procedures included the following:

- Verified the amount of the funding presented on the subrecipient's Schedule of Expenditures of Federal Awards (SEFA) agreed with expenditures recorded in the County's financial records
- Reviewed the Single Audit Report for a summary of instances of noncompliance and evaluated the potential impact on the funds received through the County
- Verified the Single Audit Report's opinion was unqualified; if not then verified the report had adequate explanation to support the opinion
- Reviewed the Single Audit Report for questioned or unsupported cost that was material in relation to the Financial Statements
- Reviewed the Internal Control Report for any significant deficiencies and verified the auditor included a statement of whether they believed any of the significant deficiencies described in the report were material weaknesses
- Verified that the Single Audit Report was performed by an Independent Certified Public Accountant (CPA)
- Verified the date of the Single Audit Report matched the date on the financial statement
- Verified the notes to the Single Audit Report were free from disclosures indicating the inability to continue as a going concern
- Obtained a management letter, if any, and verified that all instances of material noncompliance or material weaknesses were included along with a corrective action plan

Mike Post  
Chief Assistant County Auditor

Pursuant to internal procedures, Audit Services reviews the Financial Statements and Single Audit Reports (financials) of subrecipients that expend \$500,000 or more in federal assistance annually. Subrecipients meeting the expenditure guideline are required to provide their audited Financial Statements to Audit Services within 9 months after their fiscal year end, and Audit Services performs the desk review within a few months of receiving the Financial Statements. Additionally, the financial reporting periods of Harris County and their various subrecipients are different, which can contribute to difficulties in comparing financial records of different organizations. For example, there is a 10 month difference between Harris County's fiscal year ended 2/28/13 and a subrecipient's fiscal year ending 12/31/13.

As a result of the timing issues, the grant funding reported in the Harris County Comprehensive Annual Financial Report (CAFR) will generally not coincide with the grant funding reviewed and presented in the attached report. Additionally, the CAFR presents grant funding expenditures by grant program and not by subrecipient.

A report is attached for your review. This report includes background information and the results of the reviews performed. If you have any questions, please feel free to contact me or Mr. Mark Ledman, Director of Audit Services, at 713-755-3441.

Sincerely,



Barbara J. Schott  
County Auditor

cc: District Judges  
County Judge Ed Emmett  
Commissioners:  
R. Jack Cagle  
El Franco Lee  
Jack Morman  
Steve Radack  
Devon Anderson  
Vince Ryan  
William J. Jackson

Enclosure

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# **SINGLE AUDIT DESK REVIEW PROCEDURES**

**For the six month period ended August 31, 2013**

## **OVERVIEW**

In 1984, the United States Congress passed the Single Audit Act to consolidate a fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget (OMB) issued Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, to implement the Single Audit Act. Currently, non-federal entities that expend \$500,000 or more in federal assistance in a fiscal year are required to undergo a comprehensive financial and compliance audit each year (Single Audit Report).

OMB Circular A-133 defines a subrecipient as “an organization that receives federal financial assistance to carry out a program” from a primary recipient or other subrecipient. A pass through entity is a primary recipient or subrecipient that passes federal grant funds through to subrecipients.

Annually, primary recipients and subrecipients that exceed the \$500,000 “grant funds expended” threshold must engage independent auditors to conduct audits according to the Single Audit Act. The auditors perform uniform audit procedures established by the Single Audit Amendment of 1996 and produce a Single Audit reporting package that includes the following:

- Independent Auditor’s Report
- Audited Financial Statements
- Schedule of Expenditures of Federal Awards
- Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Corrective Action Plan (if appropriate)

Audit Services maintains a database of Harris County subrecipients to ensure that funds passing through Harris County are recorded, monitored, and reported on. The database contains pertinent information regarding the subrecipient such as their fiscal year, the Harris County granting department, funds awarded and funds expended. Harris County has an annual average of 75 active subrecipients with 12 to 15 expending funds greater than \$500,000 that passed through Harris County during their fiscal year. Audit Services performs an average of 26 single audit desk reviews annually. Commissioners Court agendas are reviewed periodically to identify new potential subrecipients and letters are sent periodically to subrecipients informing them of their reporting responsibilities and deadlines, as well as requesting financial statements, management letters or other information.

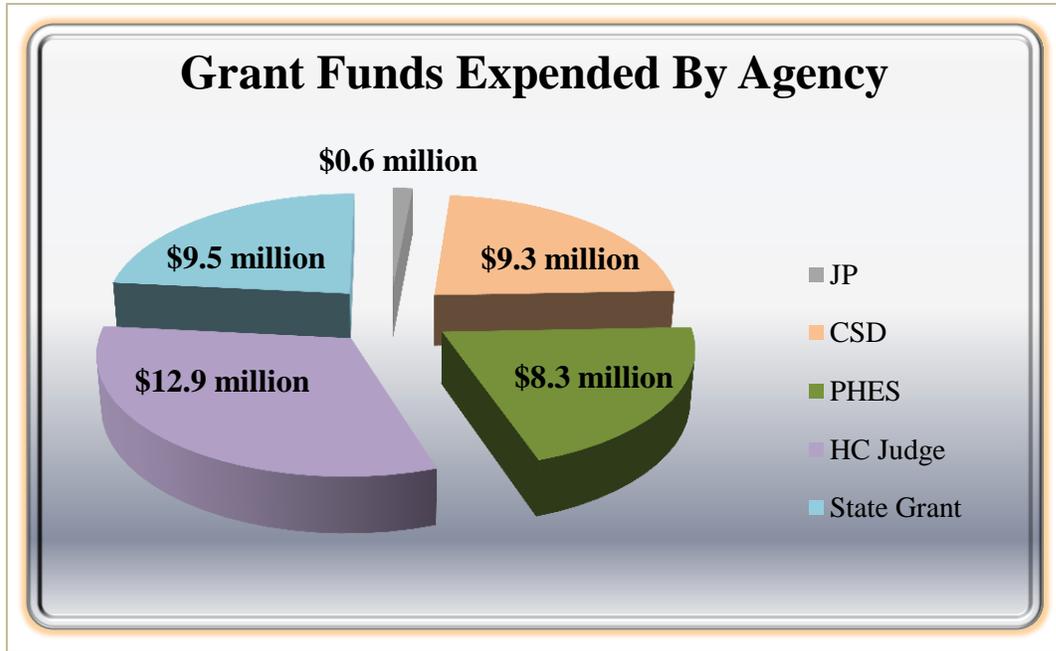
Audit Services conducts a risk assessment in regards to new grants awarded to County departments, new subrecipients receiving grant funds from County departments and existing subrecipients. To assess risk the following criteria was used:

- Type of funds, size, complexity and purpose of the award
- Matching funds
- Basis of payment
- Program income
- Unique grant requirements
- Issues identified by Single Audit Desk Review performed
- Grant funds received from more than one County department
- History of timely and accurate reporting

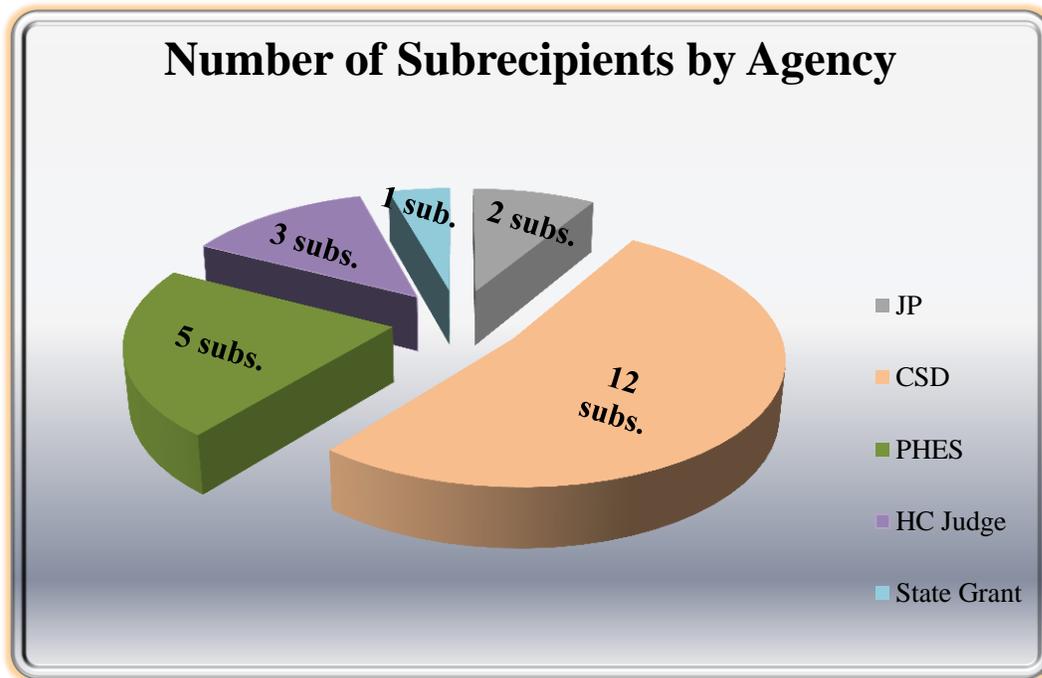
The results of the risk assessment are evaluated for possible site visits being included in the annual Audit Plan.

As reported by the County's financial system and the subrecipients' Schedule of Expenditures of Federal and State Awards, four County agencies and one State of Texas agency passed through approximately \$40.6 million in federal grant funds for reports received and reviewed during the period ended August 31, 2013.

A pie chart illustrating the grant funds expended through Harris County departments (Juvenile Probation (JP), Community Services Department (CSD), Public Health & Environmental Services (PHES) and Harris County Judge (HC Judge)) and the Texas Commission on Environmental Quality (State) is presented below:



For the six months ended August 31, 2013 twenty-three Single Audit Desk Reviews were performed. A pie chart illustrating the number of subrecipients (sub.(s)) reviewed for each agency is presented below:



## RESULTS

We reviewed twenty-three Single Audit Reports, provided by the subrecipients, for a total of approximately \$40.6 million of federal and state financial assistance during the six month period ended August 31, 2013. Some subrecipients (although not required as their grant funds expended were less than \$500,000) also sent their reports to us for review. Audit reports reviewed after August 31, 2013 will be included in our next report for the six months ended February 28, 2014. The list presented below provides the names of the subrecipient reports reviewed.

1. AIDS Foundation Houston
2. Baylor College of Medicine
3. Bering Omega Community Services
4. Catholic Charities of the Archdiocese of Galveston-Houston
5. City of Houston
6. City of Jacinto City
7. City of LaPorte
8. Harris County Housing Authority
9. Harris County Mental Health & Mental Retardation Authority
10. Harris County Water Control and Improvement District No. 36
11. Healthcare For The Homeless - Houston
12. Houston Area Women's Center
13. Houston Galveston Area Council
14. Houston Volunteer Lawyers Program, Inc.
15. Lee College District
16. Legacy Community Health Services
17. Montrose Counseling Center, Inc.
18. Neighborhood Centers, Inc.
19. Port of Houston Authority
20. Port of Texas City Security Council, Inc.
21. San Jacinto Community College District
22. Saint Hope Foundation, Inc.
23. Search Homeless Services

Based on the procedures performed, the grant funds that passed through the County and disclosed by the Independent CPA in the Single Audit Reports appeared to materially agree to the amounts recorded in the County's financial records with one exception.

Audit Services was informed by the City of Houston (COH) and the grantor department that the difference between the COH's Schedule of Expenditures of Federal Awards and the County's financial records is due to the postponement of certain reimbursements by Harris County until further review of the COH's procurement process and the receipt of a revised project budget.

Five of the Single Audit Reports contained material weaknesses or noncompliance as presented below:

- **Harris County Water Control and Improvement District No. 36 (District):**  
According to the Independent Auditor's Report, as is common within the system of internal controls of small organizations, the accounting function of the District does not have the accounting expertise to prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Reliance on the auditors to perform these functions is considered a material weakness. Although Statement on Auditing Standards 115 (SAS 115) requires the situation to be reported, it is a weakness in the preparation of the financial statements and not in the day to day operations of the District.
- **Catholic Charities of The Archdiocese of Galveston Houston (CCAGH):**  
The Independent Auditor's Report stated that there were insufficient procedures in place to ensure compliance with state licensing requirements and there were instances of alleged noncompliance with policies within the grant agreement. CCAGH has taken appropriate action to be in compliance with state licensing requirements and has devised a corrective action to train the staff. Harris County Emergency Shelter Grant funds were not affected by the material weakness.
- **Legacy Community Health Services (LCHS):**  
According to the Independent Auditor's Report LCHS did not comply with their sliding fee policy, and improper adjustments were given to ineligible patients in one of their grant programs. Management's corrective action plan included review and re-training of eligibility/billing guidelines for the grant program. Harris County HIV Emergency Relief Program grant funds were not affected by the finding.
- **Harris County Housing Authority (HCHA):**  
According to the Independent Auditor's Report audit adjustments were required to prepare the financial statements due to HCHA not having an adequate system of internal controls in place for reviewing and monitoring its financial reporting. Management has implemented a system of internal controls for reviewing and monitoring expenditures and the reporting of those expenditures. Management has established procedures to ensure that HCHA follows appropriate accounting standards supported by the necessary documentation.

The Independent Auditor's Report stated that HCHA did not maintain separate bank accounts for each program and did not adequately monitor the allocation of funds. As a result, grant funds were commingled which is not allowed in federal programs and

HCHA overspent on certain programs. New management has established separate program bank accounts to avoid future commingling, and is negotiating a payment plan to reimburse misspent funds. All future expenses will be allocated to the proper program.

For further analysis Audit Services obtained from CSD (the granting department) their HCHA project site visit reports. Overall CSD's monitoring found that HCHA was making efforts to comply with the applicable federal requirements. The results of CSD's site visits were as follows: seven of eight site visits reported no financial or programmatic findings or concerns. One programmatic finding reported is presented below.

CSD reported that pursuant to the agreement for the project, HCHA is required to lease 90% (68 units) to households with income not exceeding 60% of Median Family Income (MFI). Based on our review of the Rental Housing Compliance Report submitted during the review, 56 units were leased to households in the 60% MFI category. HCHA's corrective action is to lease vacated units to households earning 60% or less MFI and it is anticipated that the required level of 60% will be achieved by November 2013.

- **AIDS Foundation Houston (AFH):**

The Independent Auditor's Report noted deficiencies in AFH's internal control over financial reporting which affects AFH's ability to prepare financial statements in accordance with generally accepted accounting principles. Deficiencies included the lack of formal methodology for allocating costs to proper categories, lack of procedures to ensure proper cutoff of revenues and expenditures for government grants and lack of procedures to reconcile contributions recorded in the general ledger to the donor database.

According to the Independent Auditor's Report certain deficiencies were noted that were applicable to federal and state programs. The deficiencies pertained to inadequate internal controls in the following areas: ensuring that non-payroll disbursements are executed in accordance with management authorization, sufficient procedures to document actual hours worked for employees' salaries allocated between two or more programs, adequately safeguarding grant purchased assets, correctly identifying federal awards in the schedule of expenditures of federal awards and ensuring that grant matching requirements are met. The deficiencies listed above have been responded to by AFH management and corrective action plans implemented in which the majority were completed by the issuance date of the financial statements.

For further analysis, Audit Services obtained CSD's (granting department) most current site visit report. CSD's report stated that as a result of the most recent review, AFH is making efforts to comply with applicable federal requirements and at this time CSD is not citing any finings or concerns pertaining to use of Shelter Plus Care Program funds.

In conclusion, all of the Single Audit Desk Reviews were deemed acceptable, and a determination to cancel any of the contracts was not required. However, site visits will be conducted as deemed necessary.