

AUDITOR'S REPORT

SINGLE AUDIT DESK REVIEW PROCEDURES FOR THE PERIOD ENDED FEBRUARY 28, 2014



May 9, 2014

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

Mike Post, C.P.A.
Chief Assistant County Auditor
Accounting Division

Mark Ledman, CISA,
M.P.A.
Chief Assistant County Auditor
Audit Division



1001 Preston, Suite 800
Houston, Texas 77002-1817
(713) 755-6505

FAX (713) 755-8932
Help Line (713) 755-HELP

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

May 9, 2014

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 February 28, 2014

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 fourteen 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

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 financials 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 financials. 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 13 ended 2/28/13 and a subrecipient's fiscal year 13 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, Chief Assistant County Auditor - Audit Division, at 713-274-5673.

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 February 28, 2014

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.

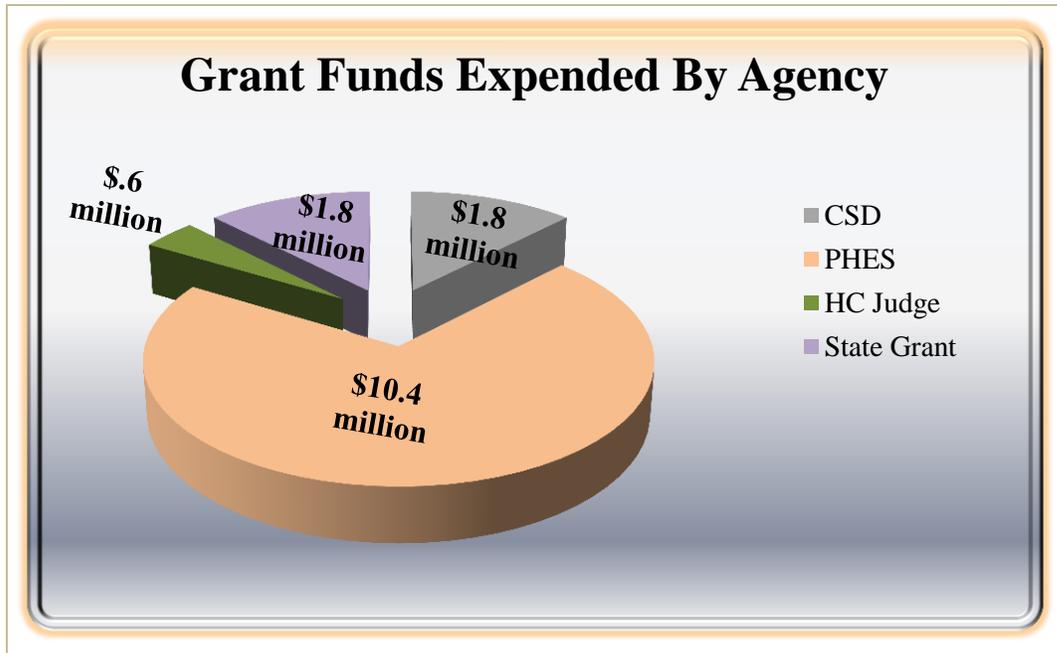
Audit Services conducts a risk assessment in regards to new grants awarded to County departments, new subrecipients receiving grant funds from County departments and existing subrecipients. To assess risk the following criteria was used:

- 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

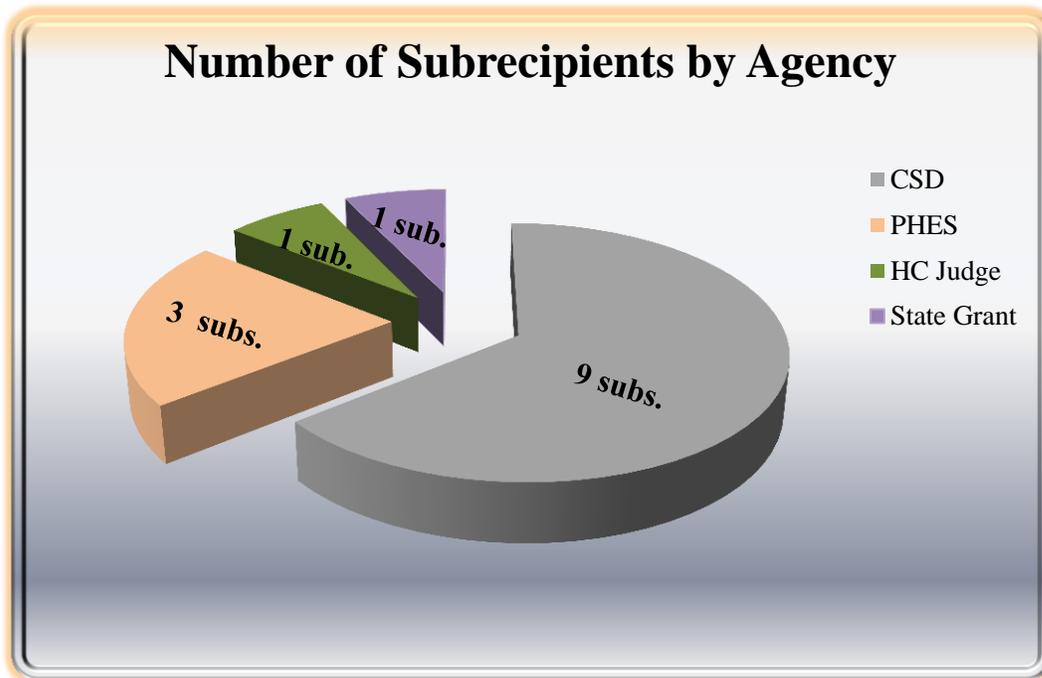
The results of the risk assessment are evaluated for possible site visits being included in the annual Audit Plan.

As reported by the County's financial system and the subrecipients' Schedule of Expenditures of Federal and State Awards, three County agencies and one State of Texas agency passed through approximately \$14.6 million in federal grant funds for reports received and reviewed during the period ended February 28, 2014.

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



For the six months ended February 28, 2014 fourteen 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 fourteen Single Audit Reports, provided by the subrecipients, for a total of approximately \$14.6 million of federal and state financial assistance during the six month period ended February 28, 2014. Some subrecipients (although not required as their grant funds expended were less than \$500,000) also submitted their reports to us for review. Audit reports reviewed after February 28, 2014 will be included in our next report for the six months ended August 31, 2014. The list presented below provides the names of the subrecipient reports reviewed.

1. AIDS Foundation Houston
2. Bering Omega Community Services
3. Bridge Over Troubled Water
4. Catholic Charities of the Archdiocese of Galveston-Houston
5. Harris Health System
6. HealthCare For The Homeless
7. Houston Galveston Area Council
8. Lee College District
9. Port of Galveston
10. Saint Hope Foundation
11. San Jacinto College
12. SEARCH Homeless Services
13. The Men's Center
14. Water Control Improvement District #36

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.

Two 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 dedicated resources with 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.

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

The Independent Auditor's Report stated that certain adjustments and reclassifications were required to properly present the financial statements in accordance with generally accepted accounting principles. The auditors noted that certain expenses had not been coded to the appropriate function, indicating that internal controls over proper coding of disbursements were not operating sufficiently to ensure proper presentation of expenses. The auditors also noted that controls over review of grant billings were not operating sufficiently to ensure proper cutoff of revenue.

According to the Independent Auditor's Report weaknesses were noted in internal controls that were applicable to one of AFH's Federal Grant Programs. AFH drew funds for its Supportive Housing Program that AFH later determined to have been in excess of allowable federal expenditures, primarily due to AFH not meeting its matching requirements. AFH does not have procedures that are sufficient to ensure compliance with cash management requirements and AFH does not have a system of internal controls to ensure that costs reported as match meet appropriate criteria and are supported by appropriate documentation.

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 findings or concerns pertaining to AFH's use of Harris County's 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.