

AUDITOR'S REPORT

SINGLE AUDIT DESK REVIEW PROCEDURES FOR THE SIX MONTH PERIOD ENDED AUGUST 31, 2014



October 10, 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

October 10, 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 six month period ended August 31, 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 nine 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 unmodified; 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 of subrecipients that expend \$500,000 or more in federal assistance annually. Subrecipients meeting the expenditure guideline are required to provide their 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 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

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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.

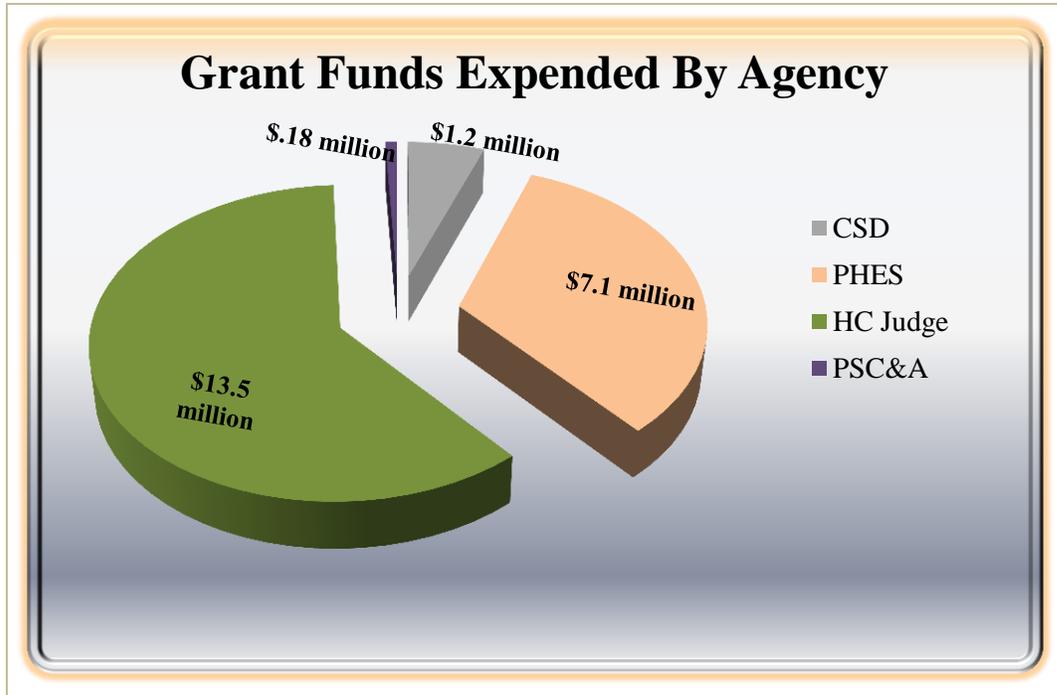
Audit Services conducts a risk assessment in regards to new grants awarded to County departments, new subrecipients receiving grant funds from County departments and existing subrecipients. To assess risk the following criteria was used:

- 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

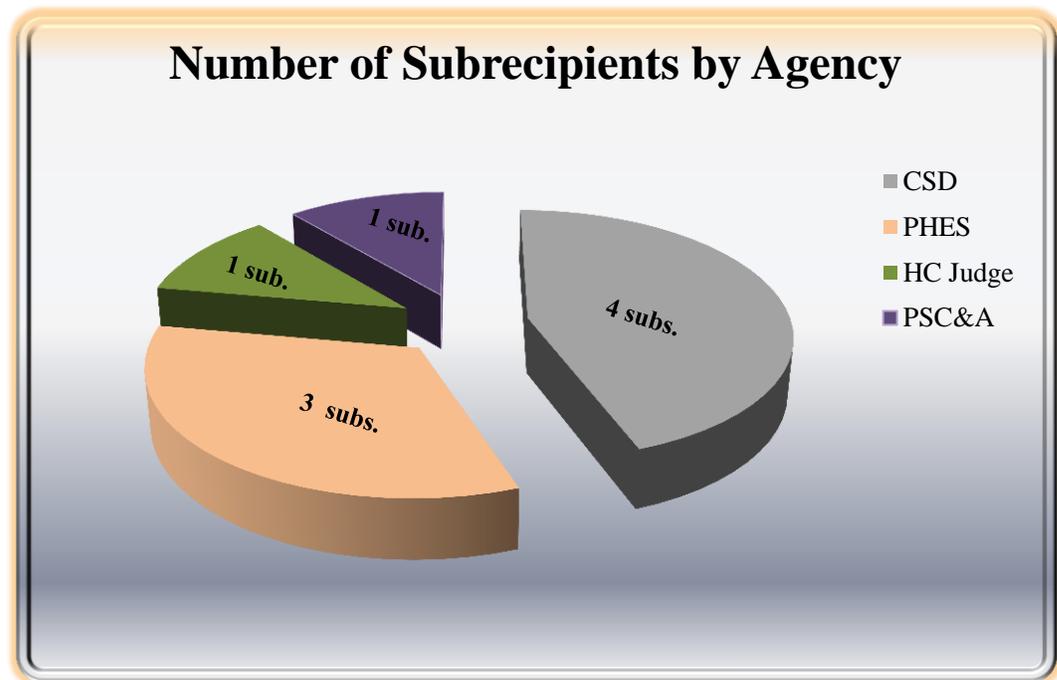
The results of the risk assessment are evaluated for possible site visits being included in the annual Audit Plan.

As reported by the County's financial system and the subrecipients' Schedule of Expenditures of Federal and State Awards, four County agencies passed through approximately \$22 million in federal grant funds for reports received and reviewed during the period ended August 31, 2014.

A pie chart illustrating the grant funds expended through Harris County departments (Community Services Department (CSD), Public Health & Environmental Services (PHES), Harris County Judge (HC Judge) and Protective Services for Children & Adults (PSC&A) is presented below:



For the six months ended August 31, 2014 nine Single Audit Desk Reviews were performed. A pie chart illustrating the number of subrecipients reviewed for each agency is presented below:



RESULTS

We reviewed nine Single Audit Reports, provided by the subrecipients, for a total of approximately \$22 million of federal financial assistance during the six month period ended August 31, 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 August 31, 2014 will be included in our next report for the six months ended February 28, 2015. The list presented below provides the names of the subrecipient reports reviewed.

1. Baylor College of Medicine
2. City of La Porte
3. Communities in Schools of Houston, Inc.
4. Houston Area Community Services
5. Jacinto City
6. Legacy Community Health Services, Inc.
7. Port of Houston Authority
8. Sunbelt Fresh Water Supply District
9. The Montrose Center

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

Material Weakness

Sunbelt Fresh Water Supply District (District)

According to the Independent Auditor's Report, the District's accounting function does not include preparation of 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.

Accordingly, Statement on Auditing Standards No. 115 requires the situation to be reported. However, Statement on Auditing Standards No. 1 states that the independent auditor may make suggestions about the form or content of the financial statements or draft them in whole or in part, based on information from management during the performance of the audit. The auditor's responsibility for the financial statements he has audited is confined to the expression of his opinion of them.

The independent auditor's issued an unmodified opinion of the District's Financial Statements and an unmodified opinion on compliance for major programs.

Noncompliance

Legacy Community Health Services, Inc. (LCHS)

LCHS has five major federal grant programs and the noncompliance stated below does not apply to four of the programs including Harris County's HIV Emergency Relief Grant Program which received an unmodified opinion in the independent auditor's report.

According to the Independent Auditor's Report, LCHS did not comply with requirements regarding eligibility that are applicable to its Consolidated Health Centers Program. Improper sliding fee adjustments were given and appropriate documentation was not maintained for all adjustments given. It is undetermined how many patients received the sliding fee adjustments. Planned corrective action by the subrecipient was included in the report.

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. The Financial Statement & Single Audit Reports reviewed were acceptable, and appear to have been prepared in accordance with Office of Management and Budget Circular A-133. Subrecipient site visits will be conducted as deemed necessary.