

# **AUDITOR'S REPORT**

## **SINGLE AUDIT DESK REVIEW PROCEDURES FOR THE SIX MONTH PERIOD ENDED FEBRUARY 28, 2015**



**June 12, 2015**

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Harris County Auditor**

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

June 12, 2015

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 February 28, 2015

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 twelve 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 Integrated Financial and Administrative Solution (IFAS) System
- 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 costs that were 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

Mr. Mike Post  
Chief Assistant County Auditor

- 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 ending 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, Mr. Bobby Cato, Audit Services Director, (713) 274-5692, or Mr. Mark Ledman, Chief Assistant County Auditor (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.

To further streamline grant management the OMB published new requirements for federal award programs entitled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance)*. The guidance supersedes and consolidates the requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, and A-133.

Under the new requirements the single audit threshold has been increased from \$500,000 to \$750,000. The threshold is the dollar amount of federal awards expended by a non-federal entity during a fiscal year, which if met, requires the entity to have a single audit. The implementation of the increased threshold will apply to audits of fiscal years beginning on or after December 26, 2014. As such, the federal awards reviewed and reported on in this report are not subject to the new requirements.

The OMB defines *subrecipient* as a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. A recipient is a non-federal entity that expends federal awards received directly from a federal awarding agency to carry out a federal program.

Annually, recipients and subrecipients that exceed the single audit 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
- SEFA
- 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 15 to 20 expending funds greater than the single audit threshold 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.

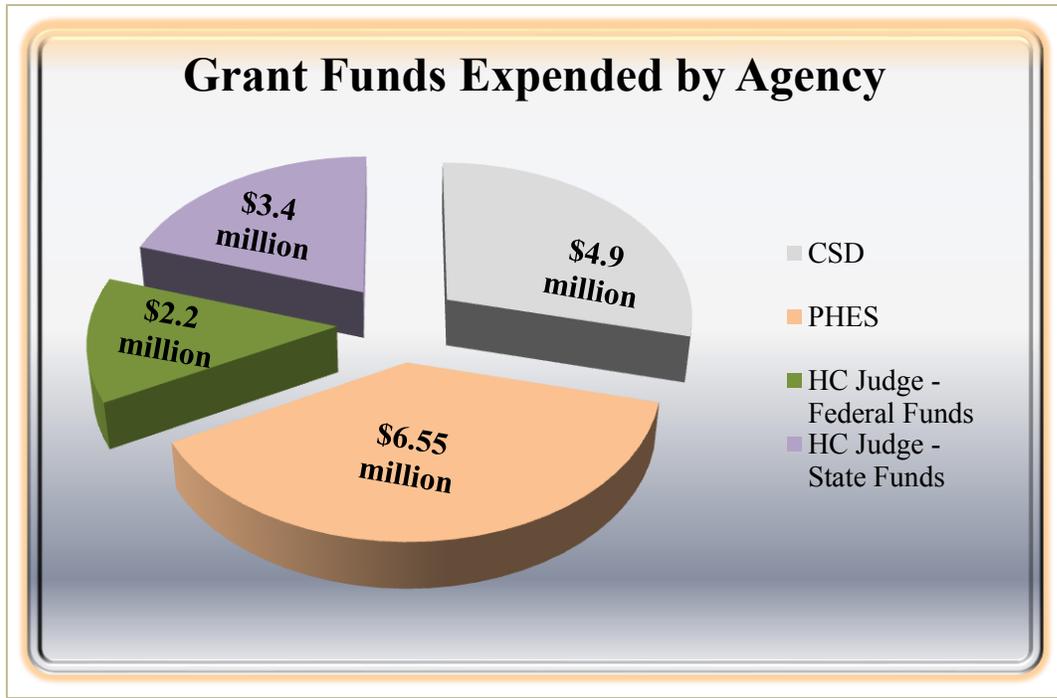
Audit Services conducts a risk assessment in regards to new grants awarded to County departments, new subrecipients receiving grant funds from County departments and existing subrecipients. To assess risk the following criteria was used:

- 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

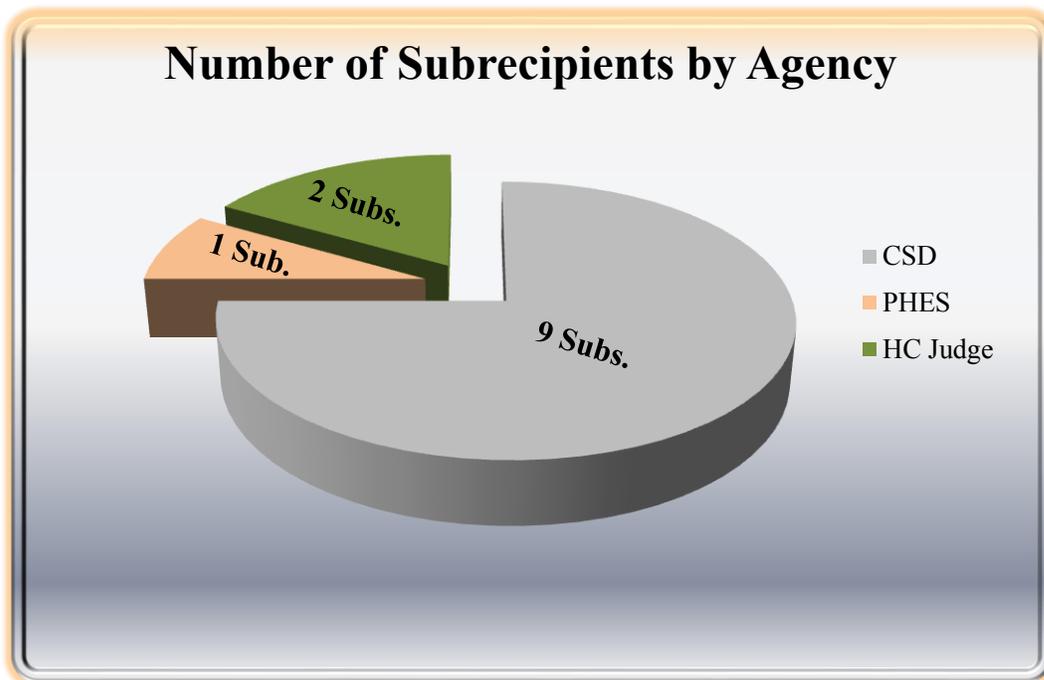
The results of the risk assessment are evaluated for possible site visits being included in the annual Audit Plan.

As reported in IFAS and the subrecipients' SEFA, three County departments passed through approximately \$17.1 million in state and federal grant funds for reports received and reviewed during the period ended February 28, 2015.

A pie chart illustrating the grant funds expended through Harris County departments Community Services Department (CSD), Public Health & Environmental Services (PHES) and the County Judge's Office (HC Judge) is presented below:



For the six months ended February 28, 2015, twelve Single Audit Desk Reviews were performed. A pie chart illustrating the number of subrecipients reviewed for each agency is presented below:



## RESULTS

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 IFAS. The Financial Statements and Single Audit Reports reviewed were acceptable, and appear to have been prepared in accordance with OMB Circular A-133. Accordingly, subrecipient site visits will be conducted as deemed necessary. Details of the Financial Statements and Single Audit Reports reviewed are presented below.

We reviewed twelve Single Audit Reports, provided by the subrecipients, for a total of approximately \$17.1 million of federal and state financial assistance during the six month period ended February 28, 2015. Some subrecipients (although not required as their grant funds expended were less than the single audit threshold) also submitted their reports to us for review. Audit reports reviewed after February 28, 2015 will be included in our next report for the six months ended August 31, 2015. The list presented below provides the names of the subrecipient reports reviewed.

1. Bridge Over Troubled Waters, Inc.
2. Catholic Charities of the Archdiocese of Galveston-Houston
3. Harris Health System
4. Healthcare for the Homeless - Houston
5. Houston Area Community Services, Inc.
6. Houston Area Women's Center
7. Houston-Galveston Area Council
8. Neighborhood Centers, Inc.
9. Sequoia Improvement District
10. Texas Inter-Faith Housing Corporation
11. The Galveston Wharves
12. Harris County Water Control & Improvement District #21

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

### Material Weakness

#### **Sequoia Improvement District (District)**

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

Accordingly, Statement on Auditing Standards No. 115 states that deficiencies identified

during the audit that upon evaluation are considered significant deficiencies or material weaknesses under this section should be communicated, in writing, to management and those charged with governance as part of each audit, including significant deficiencies and material weaknesses that were communicated to management and those charged with governance in previous audits and have not yet been remediated. 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 or she has audited is confined to the expression of his or her opinion of them.

The Independent Auditor issued an unmodified opinion of the District's Financial Statements and an unmodified opinion on Compliance for Major Programs.

**Harris County Water Control & Improvement District #21 (District)**

The Independent Auditor's identified certain deficiencies in internal controls that were considered to be material weaknesses.

According to the Independent Auditor's Report, District staff do not possess the technical expertise to prepare Financial Statements and related note disclosures in accordance with accounting principles promulgated by the Governmental Accounting Standards Board and to determine adjustments necessary to convert fund financial data to government wide financial data. These are common material weaknesses for small special purpose governments and while the cost of acquiring the technical expertise to comply with the financial reporting requirements may be cost prohibitive, management should carefully review the Financial Statements and adjustments prepared by the external auditor. The District staff also lack the technical expertise to prepare the SEFA, which is a reporting requirement associated with participation in federal grant programs.

According to the Independent Auditor's Report, the District has inadequate segregation of duties over all accounting processes due to budgetary constraints that limit the number of people who can be hired for administrative purposes. Additionally, monthly/annual closing procedures are inadequate, and bank/investment reconciliation are not performed timely and not reviewed.

Noncompliance

According to the Independent Auditor's Report the District is in noncompliance with its bond resolutions. The District's bond resolution states that property taxes levied for debt services purposes may be used solely for expenses incurred in assessment and collection of taxes and for payment of principal and interest on the bonds. The District transferred funds from the Debt Service Fund to the General Fund to subsidize the salary and benefits of an employee.

For further analysis, Audit Services contacted executive management of the CSD (grantor department). They informed us that most of the findings related to the District's 2013 audit were resolved in the recently issued 2014 audit.

As detailed in the Independent Auditor's Report, a corrective action plan was put in place by District's management for each of the material weaknesses and the noncompliance described above and an unmodified opinion was issued on the Financial Statements. An unmodified opinion was also issued on Compliance for Major Programs as there were no findings.