

AUDITOR'S REPORT

SINGLE AUDIT DESK REVIEW PROCEDURES FOR THE SIX MONTH PERIOD ENDED FEBRUARY 29, 2016



April 8, 2016

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

April 8, 2016

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

RE: Review of Harris County (County) federal grant funds subrecipients' Financial Statements and Single Audit Reports for the six month period ended February 29, 2016

In accordance with the County Auditor's Office Audit Services Department (Audit Services) Annual Audit Plan, the Single Audit compliance review of federal funds passed through from the County to various subrecipients has been completed. Audited Financial Statements and Single Audit Reports of eight 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 System (IFAS)
- 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 Statements
- 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 the 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 the County's fiscal year ending 2/28/15 and a subrecipient's fiscal year ending 12/31/15.

As a result of the timing issues, the grant funding reported in the County's 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. Please contact Bobby Cato, Director of Audit Services (713-274-5692), Mark Ledman, Chief Assistant County Auditor, Audit Division (713-274-5673) or me if you have any questions.

Sincerely,



Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
Jack Morman
Steve Radack
Gene Locke
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 applies 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 County subrecipients to ensure that funds passing through the County are recorded, monitored, and reported on. The database contains pertinent information regarding the subrecipient such as their fiscal year, the County granting department,

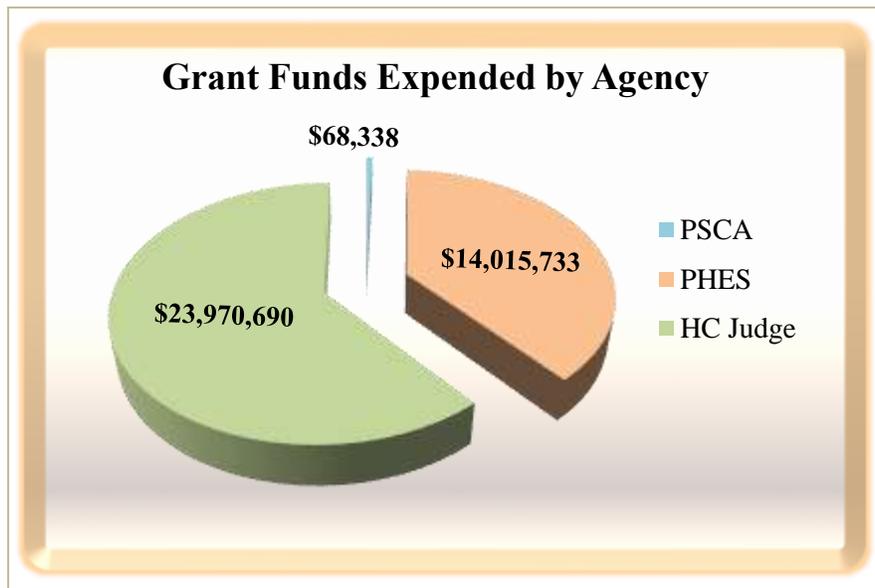
funds awarded, and funds expended. The County has an annual average of 70 active subrecipients with 10 to 15 expending funds greater than the single audit threshold that passed through the County during their fiscal year. Audit Services performs an average of 20 single audit desk reviews annually. Commissioners 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 \$38,054,761 in federal and state grant funds for reports received and reviewed during the period ended February 29, 2016. A pie chart illustrating the grant funds expended through the County departments; Protective Services for Children & Adults (PSCA), Public Health & Environmental Services (PHES), and the County Judge's Office (HC Judge) 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 appear 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 a total of \$38,054,761 of federal and state financial assistance during the six month period ended February 29, 2016. Some subrecipients (although not required as their grant funds expended were less than the single audit threshold) also submitted their financial statements to us for review. Audit reports reviewed after February 29, 2016 will be included in our next report for the six months ended August 31, 2016. The list below presents the subrecipient reports reviewed and the County agency providing funding.

Protective Services For Children & Adults

City of Houston, Texas 2014

Public Health & Environmental Services

City of Houston 2013

City of Houston 2014

Harris Health System 2015

Houston Area Community Services, Inc. 2014

Saint Hope Foundation, Inc. 2014

Judge's Office

City of Houston 2013

City of Houston 2014

Galveston Wharves 2014

Houston Galveston Area Council, Texas 2014

Houston Advanced Research Center 2014

Port of Texas City 2014

One of the Single Audit Reports contained a material weakness as presented below:

Material Weakness

City of Houston 2014

According to the Independent Auditor's Report, various departments within the City did not adjust certain accounts to reflect appropriate year-end balances on the financial statements on a timely basis. Management subsequently correctly recorded the transactions and account balances, and as a result the City's financial statements are fairly stated. In addition, the recent approval by City Council on December 3, 2014 of the City's Financial Policies provides additional guidance for financial reporting for all departments.