

GALVESTON COUNTY, TEXAS

STATE SINGLE AUDIT REPORT

**Fiscal Year Ended
September 30, 2019**

GALVESTON COUNTY, TEXAS

STATE SINGLE AUDIT REPORT

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable County Judge and
Members of the Commissioners Court
Galveston County, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galveston County, Texas (the "County") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Patillo, Brown & Hill, L.L.P.

Waco, Texas
March 23, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE STATE OF TEXAS
UNIFORM GRANT MANAGEMENT STANDARDS**

Honorable County Judge and
Members of the Commissioners Court
Galveston County, Texas

Report on Compliance for Each Major State Program

We have audited the compliance of Galveston County, Texas (the "County") with the types of compliance requirements described in the State of Texas' *Uniform Grant Management Standards* ("UGMS") that could have a direct and material effect on each of the County's major state programs for the year ended September 30, 2019. The County's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of *UGMS*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major State Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with *UGMS*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of State Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 23, 2020, which contained unmodified opinions on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the audit requirements of *UGMS* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *UGMS*. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 23, 2020

GALVESTON COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF STATE AWARDS

SEPTEMBER 30, 2019

<u>Grantor/Program Title</u>	<u>State Grantors Number</u>	<u>State Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>Texas Commission on Environmental Quality</u>			
Direct:			
Low Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP)	582-12-20283	\$ 664,914	\$ 664,914
Local Initiatives Project (LIP)	582-14-40129	<u>50,592</u>	<u>-</u>
Total Texas Commission on Environmental Quality		<u>715,506</u>	<u>664,914</u>
<u>Texas Department of Motor Vehicles</u>			
Direct:			
Texas Automobile Theft Prevention Authority	608-19-0840000	431,959	176,390
Texas Automobile Theft Prevention Authority	608-20-0840000	<u>17,083</u>	<u>-</u>
Total Texas Department of Motor Vehicles		<u>449,042</u>	<u>176,390</u>
<u>Texas Veterans Commission</u>			
Direct:			
Veterans Treatment Court	VTC180602	89,798	-
Veterans Treatment Court	VTC19023	<u>40,394</u>	<u>-</u>
Total Texas Veterans Commission		<u>130,192</u>	<u>-</u>
<u>Office of the Governor - Criminal Justice Division</u>			
Direct:			
Galveston County Adult Drug Court Program	2520007	140,607	-
HOPE Drug Court	2520008	12,120	-
Veterans Treatment Court	3087003	<u>17,086</u>	<u>-</u>
Total Office of the Governor - Criminal Justice Division		<u>169,813</u>	<u>-</u>
<u>Texas Indigent Defense Commission</u>			
Direct:			
Indigent Defense Formula Grant	212-19-084	<u>234,622</u>	<u>-</u>
Total Texas Indigent Defense Commission		<u>234,622</u>	<u>-</u>
Total Expenditures of State Awards		\$ <u>1,699,175</u>	\$ <u>841,304</u>

GALVESTON COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES
OF STATE AWARDS

SEPTEMBER 30, 2019

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of State Awards (the "Schedule") includes the state grant activity of the County under programs of the state government for the year ended September 30, 2019. The information in this schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular*. Because the schedule presents only a selected portion of the operations of the County, it is not intended and does not present the financial position, changes in net position/fund balance or cash flows of the County.

Note 2 - Summary of Significant Accounting Policies

Galveston County, Texas, accounts for state funding using the modified accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Equipment purchases for grant purposes are treated as expenditures in the Schedule of Expenditures of State Awards. State grant funds are considered to be earned to the extent of qualifying expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenue until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

GALVESTON COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SEPTEMBER 30, 2019

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

State Awards:

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the State of Texas <i>Uniform Grant Management Standards</i>	No

Identification of major programs:

<u>State Grant Number</u>	<u>Name of State Program</u>
582-12-20283	Low Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP)
608-19-0840000 & 608-20-0840000	Texas Automobile Theft Prevention Authority

Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

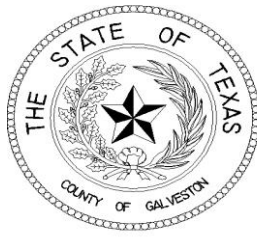
**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With
Generally Accepted Government Auditing Standards**

None

Findings and Questioned Costs for State Awards

None

GALVESTON COUNTY



Office of County Auditor

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Item 2018-001

Condition: In fiscal year 2018, the County fell victim to a "man in the middle" fraud scheme. In this case, the attacker deceived a County employee into believing he/she was communicating with an existing valid vendor. The attacker then also misled the existing valid vendor into believing he/she was communicating with a valid County employee.

The attacker was then able to successfully have the County establish an Automated Clearing House / Electronic Funds Transfer (ACH/EFT) payment channel to the attacker's bank account rather than the valid vendor's bank account. The County made a payment of \$525,282 to an entity disguised as a valid existing vendor.

Current Status:

This matter has been resolved. The County has modified its business processes for vendor information validation. Further, the staff of the Auditor's Office completed training on cybersecurity offered by the Texas Association of Counties to help prevent these types of attacks in the future.