

GALVESTON COUNTY



Office of County Auditor

Randall Rice CPA CISA CIO, County Auditor
Kristin Bulanek CIA, First Assistant County Auditor

P.O. Box 1418, Galveston, Texas 77553

(409) 770-5304

722 Moody Ave 4th Floor, Galveston, TX 77550

November 16, 2020

Honorable Mark A. Henry, County Judge, and
Members of the Commissioners Court
722 Moody Avenue
Galveston, Texas 77550

Honorable Mark A. Henry and Members of the Court:

Attached to be received and filed is the quarterly audit report of the continuous monitoring activities that covered the period July 1, 2020 to September 30, 2020.

Sincerely,

Randall Rice CPA Digitally signed by Randall Rice CPA
Date: 2020.11.05 16:40:31 -06'00'

Randall Rice CPA
County Auditor

Cc: Kristin Bulanek CIA, First Assistant County Auditor
Rufus Crowder CPPO, CPPB, Purchasing Department
Lauren Swift, Accounting Division
Taylor Lee, Accounts Payable Division

Attachment: Quarterly Continuous Monitoring Audit Report – FY 2020 Quarter 4

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November 16, 2020

To: Honorable Mark A. Henry, County Judge, and
Members of the Commissioners Court

From: Mr. Randall Rice CPA
Galveston County Auditor

Re: FY 2020 Quarter 4 Continuous Monitoring
July 1, 2020 – September 30, 2020

The Galveston County Auditor's Office performs weekly continuous monitoring activities to monitor financial transactions and to identify weak controls so they may be corrected or replaced, reducing the risks to the county. Continuous monitoring activities are in accordance with Local Government Code §115 Audit of County Finances. The internal audit covered the period July 1, 2020 through September 30, 2020.

The primary objectives of the internal audit are to provide reasonable assurance concerning:

- Reliability and integrity of the information.
- Safeguarding of assets.
- Compliance with laws, regulations, contracts, policies, plans and procedures.

Continuous monitoring performed by the Auditor's Office is critical in preventing/detecting fraud. As the testing was not a detailed examination of all transactions, there is a risk that errors or fraud will not be detected during the review.

Continuous monitoring activities implemented by the Galveston County Auditor's Office are focused on the ongoing testing of system controls and continued assurance that adequate support exists for critical changes that have occurred. There are several key areas in which continuous monitoring has been implemented.

General Ledger

The general ledger is the main accounting record of Galveston County. The main purpose of the general ledger system is to record financial activity of the county and to produce financial and management reports to assist individuals with decision making. Information recorded in the general ledger is transferred from accounts payable, accounts receivable, cash receipts, fixed assets and payroll. The general ledger further reflects changes made through journal entries completed by accounting staff. In addition, the general ledger is the central source for the Comprehensive Annual Financial Report.

General Ledger (cont)

The following tests are performed to detect errors in the general ledger:

- Out-of-Balance Transactions (Total credit amounts equaled total debit amounts)
- Transactions recorded after business hours, weekends or holidays
- Accounts Payable (AP) Check/EFT and Payroll Check/EFT number sequencing
- Accounts Receivable (AR) and Cash Receipts (CR) number sequencing

Internal Audit reviewed the general ledger transactions made during the audit period:

- No out-of-balance transactions were detected in the general ledger.
- 3 sets of transactions were recorded on weekend days. These transactions were verified as approved by management.
- No discrepancies were noted in AP Check/EFT or Payroll Check/EFT number sequencing.
- No discrepancies were noted in AR or CR number sequencing.

Vendor Master File Changes

The foundation of Galveston County's purchasing process is a three-way check system, designed to ensure segregation of duties and provide systematic controls. In any purchase made by the county, three departments are involved: (1) The receiving department, (2) Purchasing Department, and (3) Accounts Payable. The receiving department submits purchase requests. The Purchasing Department maintains vendor master files in the financial system and ensures proper documentation has been completed and received by Purchasing. AP receives and pays vendor invoices. Internal audit reviews vendor master file data changes in critical fields to ensure business processes are followed and adequate documentation exists to support the change.

Internal audit reviewed the vendor master file changes. During the audit period, 1,524 changes were made to fields designated as critical.

Finding: There were 25 findings detected during the audit period. Purchasing was notified and the majority of the findings were corrected. The following findings remain unresolved:

- 5 critical information changes were made to the vendor master file without adequate support documentation (PEID/W9 forms) scanned in OnBase.

Electronic Funds Transfer (EFT) Verification

Beginning in June 2018, only authorized vendors were permitted to receive payments via electronic funds transfers (EFT). Internal audit performs a weekly test, prior to the AP check file being released for payment, to ensure only authorized vendors have payment type 'EFT' recorded in the financial system. Internal audit reviewed the vendor master file payment types for scheduled AP payments during the audit period. No discrepancies were noted.

Conflict of Interest – Vendors

A conflict of interest exists when a reasonable member of the public with adequate information would believe a relationship between an active county employee and a county vendor is unacceptable and may inappropriately influence the county to make a decision that is not in the public interest. The conflict of interest test provides reasonable assurance that an employee of the county is not an active vendor for the county. No conflicts of interest were detected between active county employees and active vendors.

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Internal Audit continues to work with Accounting, Accounts Payable and the Purchasing Department to monitor transactions with the intent to reduce errors and ensure effective internal controls are in place. We thank the staff of all three divisions for their cooperation.

Respectfully,

Randall Rice CPA Digitally signed by Randall Rice CPA
Date: 2020.11.05 16:39:44 -06'00'

Randall Rice CPA
County Auditor

CC: Kristin Bulanek CIA, First Assistant County Auditor
Rufus Crowder, Purchasing Agent