

# **GALVESTON COUNTY, TEXAS**

## **STATE SINGLE AUDIT REPORT**

**Fiscal Year Ended  
September 30, 2018**

**GALVESTON COUNTY, TEXAS**

**STATE SINGLE AUDIT REPORT**

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**SEPTEMBER 30, 2018**

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**INDEPENDENT AUDITORS' 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**

To the 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, 2018, 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 26, 2019.

***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 entity'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.

**OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston  
**NEW MEXICO** | Albuquerque

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a material weakness (Item 2018-001).

### **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*.

### **Galveston County's Response to Findings**

Galveston County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Galveston County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas  
March 26, 2019

**INDEPENDENT AUDITORS' 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**

To the 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, 2018. The County's major state programs are identified in the summary of auditors' 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, 2018.

### **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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 26, 2019, 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

May 28, 2019, except for our opinion on the Schedule of Expenditures of State Awards, for which the date is March 26, 2019

**GALVESTON COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**For the Year Ended September 30, 2018**

Grantor/Program Title	State Grantors Number	Expenditures	Passed Through to Subrecipients
<b><u>Texas Commission on Environmental Quality</u></b>			
<b>Direct:</b>			
Low Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP)	582-12-20283	\$ 480,492	\$ 480,492
Local Emergency Planning Committee	582-17-71527	74,105	-
Local Initiatives Project (LIP)	582-14-40129	54,754	-
<b>Total Texas Commission on Environmental Quality</b>		<u>609,351</u>	<u>480,492</u>
<b><u>Texas Department of Motor Vehicles</u></b>			
<b>Direct:</b>			
Texas Automobile Theft Prevention Authority	608-18-0840000	392,782	-
Texas Automobile Theft Prevention Authority	608-19-0840000	36,513	-
<b>Total Texas Department of Motor Vehicles</b>		<u>429,295</u>	<u>-</u>
<b><u>Texas Department of Agriculture</u></b>			
<b>Direct:</b>			
Texans Feeding Texans	HDM-17-1813	8,494	-
Texans Feeding Texans	HDM-18-3016	20,372	-
<b>Total Texas Department of Agriculture</b>		<u>28,866</u>	<u>-</u>
<b><u>Texas Veterans Commission</u></b>			
<b>Direct:</b>			
Veterans Treatment Court	VTC170481	95,730	-
Veterans Treatment Court	VTC180602	24,928	-
<b>Total Texas Veterans Commission</b>		<u>120,658</u>	<u>-</u>
<b><u>Office of the Governor - Criminal Justice Division</u></b>			
<b>Direct:</b>			
Galveston County Adult Drug Court Program	2520006	142,121	-
Galveston County Adult Drug Court Program	2520007	11,277	-
Veterans Treatment Court	3087002	18,281	-
Veterans Treatment Court	3087003	144	-
Law Enforcement Rifle-Resistant Body Armor Project	3478001	86,875	-
<b>Total Office of the Governor - Criminal Justice Division</b>		<u>258,698</u>	<u>-</u>
<b><u>Texas Indigent Defense Commission</u></b>			
<b>Direct:</b>			
Indigent Defense Formula Grant	212-18-084	220,905	-
<b>Total Texas Indigent Defense Commission</b>		<u>220,905</u>	<u>-</u>
<b>Total Expenditures of State Awards</b>		<u>\$ 1,667,773</u>	<u>\$ 480,492</u>

The accompanying notes are an integral part of this schedule.

**GALVESTON COUNTY, TEXAS**

**NOTES TO SCHEDULE OF EXPENDITURES  
OF STATE AWARDS**

**SEPTEMBER 30, 2018**

**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, 2018. 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**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Item 2018-001
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 Uniform Grant Management Standards	No
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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)

Dollar threshold used to distinguish between type A and type B programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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**Findings Relating to the Financial Statements Which Are  
Required to be Reported in Accordance With  
Generally Accepted Government Auditing Standards**

Item 2018-001

**Findings and Questioned Costs for State Awards**

None

**GALVESTON COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Item 2018-001**

Criteria: The objectives of internal control include providing reasonable assurance for the safeguarding of assets.

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.

Cause: The factors contributing to this event include:

- inadequate vendor information establishment/change validation processes
- a lack of understanding/training as to recognition of these types of attacks
- a lack of understanding as to which office/department had the responsibility for validation of vendor information.

Effect: The County made a payment of \$525,282 to an entity disguised as a valid existing vendor.

Recommendation:

Prevention of these types of fraud schemes starts with periodic training regarding various aspects of how to recognize these attacks. Additionally, processes for vendor information validation should be clearly defined.

Technology may also assist with the prevention of these types of attacks. For example, there are various products that perform a validation of vendor ACH/EFT information against national database information targeted at identifying an inconsistency in routing numbers and account numbers. There are also software products that can identify email address inconsistencies that can be recognized at the initial point of entry into County email communications. The County may want to perform a cost/benefit analysis on these types of technologies.

Management's Response:

Since the man in the middle attack that began in March 2018, the Department of Information Technology (IT) has offered training on how to recognize these attacks. For those who were not able to attend, it is the intention of the Department of IT to make a recorded version of the training available. Furthermore, the staff of the Auditor's Office is participating in the cybersecurity training sessions offered by the Texas Association of Counties. We have recommended this training to other County officials in addition to the training offered by the Department of IT.

The County is aware that technology does exist that could assist with the prevention of these types of attacks. The Department of IT is currently looking at different systems available to identify email inconsistencies as well as having already implemented systems to identify and block fraudulent emails. Furthermore, the County is currently reviewing the contract with a third-party company who offers a product to verify emails, bank accounts, contact information, etc.

In addition to the aforementioned, the County has taken the additional steps and added controls where the Auditor's Office identified weaknesses:

- a) Vendor master changes are now verified with the original information provided by the vendor by the Purchasing Department,
- b) EFT changes on vendor master files are audited by the Auditor's Office to ensure proper verification was performed prior to payment release, and
- c) EFT changes in payroll are audited by the Auditor's Office to ensure proper verification was performed prior to payment release.

# GALVESTON COUNTY



## Office of County Auditor

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### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

None