City of Galveston
Summary of
Audit Examinations

Office of the City Auditor
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City Auditor

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Council Members
Amy Bly
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The Mission of the City Auditor's office is to assist the Mayor and City Council in the effective performance of the City of Galveston's financial and operational responsibilities.

City of Galveston

City Auditor's Office

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September 22, 2016

Mayor and Council,

I am pleased to present a summary of the audit examinations I have performed over the last five (5) years during my tenure as the City Auditor for the City of Galveston. Over this period of time, I have adopted a simple philosophy in order to provide an efficient service to the City of Galveston. I call it the "Tea Cup Philosophy".

Imagine the City of Galveston is a Teacup. The City Auditor's Department performs Revenue Exams to pour dollars into the Teacup (City of Galveston). These exams are focused on finding revenues that the City of Galveston may capture. After all, a government that does not monitor its revenues is a doomed government.

Now imagine a hole in the bottom of that Teacup (City of Galveston). Unfortunately, this is synonymous with governmental entities. The City Auditor's Department performs Compliance Exams so as not to let the dollars leak out of the bottom of the teacup (City of Galveston). The scope of these exams are on city departmental internal controls for efficiencies.

This is called the Teas Cup Philosophy and it has effectively served the City of Galveston well. All of the exams I have performed are on the City's website. I have provided a summary of these exams in the pages that follow. Please do not hesitate to contact me if you wish to discuss one or all of these thirty-seven (37) exams in detail. I enjoy hearing Council's input as well as new ideas on accomplishing goals.

Best Regards,

Glenn Bulgherini

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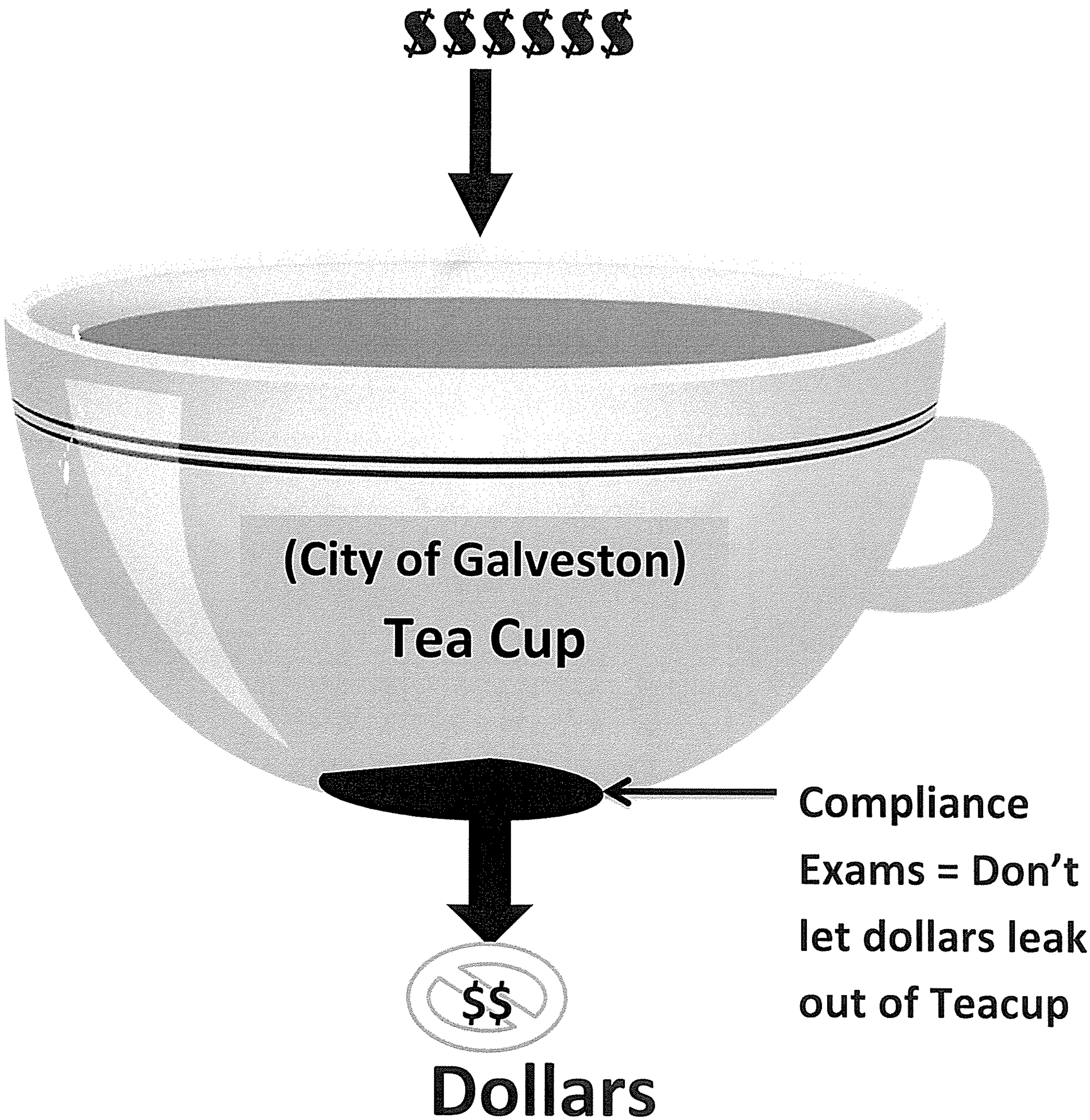
Tea Cup Philosophy

Imagine the City of Galveston is a Teacup

Revenue Exams = pour dollars in the Teacup



Revenue Examinations

The Office of the City Auditor has performed eighteen (18) revenue exams over the last five (5) years. Eleven (11) of those exams produced a total of $2,753,121 in additional revenues for the City of Galveston. Another four (4) revenue exams uncovered revenue streams yielding approximately $580,000 annually. Three (3) revenue exams had a net zero dollar discovery finding for the City of Galveston.

City Auditor Revenue Examinations

	Audit Examination	Report Summary	Annual Dollars	Start Date	Finish Date
1	Overtime/Special Events Traffic Division Report	Overtime Charges did not reconcile to Work Orders by an average of $120,000 annually for the last five years. City Auditor found this occurred another 5 previous years. City Auditor expected this to continue indefinitely unless brought to the attention of Mayor and City Council. The City Auditor expects this finding to save tax dollars in future years.	$120,000 Annually	10/15/2012	3/31/2013
2	Real Estate Management Company HOT Tax Audit	No additional HOT Taxes were due. This is called a "No Tax Due" (NTD) Audit.	$0.00	7/1/2013	9/5/2013
3	Online Travel Companies (OTC) Audit	Resulted in estimated finding of 2.5 million dollars owed to City of Galveston. City Auditor conservatively expects to collect approx. $250,000 based upon Federal Judge Garcia's judgment award. This was the second time OTC's lost their appeal. The City Auditor expects this finding to generate revenues in future years.	$0.00	8/5/2011	5/8/2013
4	Hotel Tax Compliance with Section 351	Resulted in Ordinance being passed by City Council increasing HOT Tax Revenues by estimated $400,000 annually and City being in compliance with State of Texas Section 351. The City Auditor expects this finding to generate revenues in future years.	$400,000 Annually	11/16/2011	1/3/2013
5	Hot Tax Administrative Report	Findings are (1) Hot Tax Clerk is not using Acela Report and donating sufficient time to HOT Tax discoveries (2) No Delinquent Accounts Report resulting in penalties for late payments being charged to taxpayers reporting late (3) City of Galveston not being reimbursed for administrative fees for Hot Tax audits and collections. New Finance Director immediately corrected (1) and (2) and are presently working on (3). Finding (1) - The City went from collecting Hot Tax Revenues from 283 Taxpayers to 549 taxpayers. Finding (2) - The City Auditor conservatively expects HOT Tax penalty collections to amount to $10,000.00 annually for the City.	$10,000 Annually	11/16/2011	2/28/2013
6	Real Estate Management Company HOT Tax Audit	City Auditor determined $35,972.91 in additional taxes due. Taxpayer agreed with findings and has paid City of Galveston in full. No penalties have been accessed. Approximate reimbursable audit fees to City of Galveston are $5,230.20.	$35,972	1/18/2013	12/11/2013
7	Aircraft Sales Tax Liaison Report	City Auditor forwarded 170 N Numbers over to Texas State Comptroller for sales tax payment verification. City Auditor has knowledge of out of state companies that have not paid sales tax on aircrafts (Information forwarded to Texas State Comptroller).	$12,515 Estimate received from Texas State Comptroller	7/1/2013	9/9/2013
8	License to Use Agreement Fee Collection Report	City Auditor determined $59,277.00 is owed to City of Galveston. Some accounts have been delinquent since the year 2006.	$59,277	2/11/2013	12/15/2013

City Auditor Revenue Examinations

	Audit Examination	Report Summary	Annual Dollars	Start Date	Finish Date
9	Traffic Division Overtime	We will collect from Dishonesty Bond $99,000, net. Per City Attorney - We need to investigate if this qualifies as one single occurrence or one occurrence per year in which case we may be able to collect $99,000 per year as long as city auditor can perform excel spreadsheets and get to TML.	$100,000 Deductable paid by TML	10/15/2012	2/28/2013
10	Real Estate Management Company HOT Tax Audit	Audit of management service company set up for condominium short term rentals of 22 condominium units estimated Taxpayer owing $14,586.67. Reimbursable audit fees are estimated at $7,870.80.	$14,586	3/12/2013	8/26/2013
11	Parking Meters Management Agreement with ABM Parking Services	The hardware and software warranties have expired for the downtown parking meters. The current amount to renew the warranties is $161,025.00. Legal has contacted ABM and they are in the process of updating the warranties and licensing. The provisions have been added to the amendments to the agreement.Three downtown parking meters are currently not in working condition. FEMA will not replace any parking meters that are not in working condition in the event that another natural catastrophe such as a hurricane should hit the City of Galveston again in the future. Sales Tax had not been paid correctly thru August 2013 by the amount of $10,273.87. This amount does not include late penalties and interest. All Sales Tax and other charges should be paid to the State Comptroller. The State Comptroller has the right to shut down all downtown parking meters if all sales tax and other charges are not paid.	$171,298	2/11/2013	11/20/2013
12	HOT Tax Audit Padmanabh, Inc	The City Auditor recommends that this report be forwarded to the Director of Finance for the City of Galveston for collection of $74,617.17 and that in addition to the $74,617.17. The City Auditor has met twice with representatives of Padmanabh, Inc. to explain the results of this audit. These representatives stated at each meeting that the necessary information would be provided. However, all necessary information has not been received by the City Auditor as of the date of this report to substantiate all exemptions deducted for hotel occupancy tax by Padmanabh, Inc. operating as La Quinta Inn at 8710 The City Auditor has met twice with representatives of Padmanabh, Inc. to explain the results of this audit. These representatives stated at each meeting that the necessary information would be provided. However, all necessary information has not been received by the City Auditor as of the date of this report to substantiate all exemptions deducted for hotel occupancy tax by Padmanabh, Inc. operating as La Quinta Inn at 8710 Seawall Boulevard in Galveston, Texas. Representatives of Padmanabh, Inc. have made certain claims in The Galveston Daily News that in the City Auditor's opinions are false. An objective third party expert in the field of hotel occupancy taxes was contracted upon an agreement between the City of Galveston and Padmanabh, Inc. The objective third party expert agreed entirely with the City Auditor's report and is willing to testify as an expert witness in case of litigation.	$42,000 Settlement	11/1/2012	10/24/2013

City Auditor Revenue Examinations

	Audit Examination	Report Summary	Annual Dollars	Start Date	Finish Date
13	HOT Tax Audit Red Roof Inn	The City Auditor's Office performed a hotel occupancy tax revenue monitoring audit on Red Roof Inn located at 5914 Seawall in Galveston, Texas. The auditors determined that hotel occupancy taxes had been collected from guests but not remitted to the City of Galveston. The total tax due to the City of Galveston plus penalty and interest is $239,237.91.	$239,237	9/10/2014	12/16/2014
14	HOT Tax Audit Smidt JD Branch Holdings LLC.	The City Auditor's Office performed a hotel occupancy tax revenue monitoring audit on JD Branch Holdings LLC located at 3628 Ave O 1/2 in Galveston, Texas. The auditors determined that hotel occupancy taxes had been collected from guests but not remitted to the City of Galveston. The total tax due to the City of Galveston plus penalty and interest is $2,898.17.	$2,898	9/9/2014	12/16/2014
15	Analysis of Coin Operated Machines	The City Auditor found two vendors from 2012 and 2013 totaling $150 for each year not paid. Both were considered immaterial amounts. The City Auditor recommends that the City of Galveston Planning Department send out a form that will serve as a reminder to vendors in October or November of each year. The notice will remind vendors to pay and in the future give vendors the opportunity to pay online.	$300	2/28/2014	3/16/2015
16	HOT Tax Audit Mettlach Enterprise Inc.	The Hotel Occupancy Tax for 1310 Ave. N 1/2 was selected because it was believed that Hotel Occupancy Taxes for this location was not being remitted to the City of Galveston. However, it was determined during this audit that Hotel Occupancy Taxes for 1310 Ave. N 1/2 are being remitted to the City of Galveston under the name Gulf Breeze Vacation Rentals. The City Auditor recommends that this report be classified as No Additional Taxes Due.	$0.00	9/9/2014	4/15/2015
17	Eight (8) Percent Temporary Hauling Fess	The City Auditor Department has an estimated 221 permit holders owe the City of Galveston the eight (8) percent temporary hauler fees. These 221 permit holders owe the City of Galveston a combined total of $147,296.00 in which City Council forgave. Enforcement of Ordinance 15-62 will yield the City of Galveston an additional $50,000 per year in the future. The City Auditor recommends that the City Manager direct the Finance Director to begin collection efforts.	$50,000 Annually	5/21/2015	1/25/2016
18	Debt Service Fund Finance Department Audit	Audit Finding #1: An excess of cash in the amount of $1,164,118 should be returned to the Industrial Development Corporation Fund (IDC). Each of the four silos should receive 25 percent of the $1,164,118, equating to $291,029 for each silo. The four silos are: Beach Nourishment; Economic Development; Parks; and Public Infrastructure. Audit Finding #2: An amount of $910,920 should be transferred from Reserved Fund Balance of The Debt Service Fund to Unreserved Fund Balance within The Debt Service Fund. This will increase the availability for general debt service purposes by $910,920. The Finance Department made the appropriate journal entries for audit findings.	$2,075,038	7/13/2015	1/28/2016

Compliance Examinations

The Office of the City Auditor has performed seventeen (17) compliance exams. Another two (2) exams were performed for the City Attorney's Office that are held confidential.

The City Auditor includes appendices with each compliance exam (example on following page). These appendices list in detail the internal controls that each city department or function was examined for. The City Auditor includes these appendices in the compliance exams as an aide to management for developing written internal controls, standard operating procedures, and policies and procedures.

EXAMPLE

Appendix 1: Example Administrative Controls Checklist	Internal Control is Designed and Operating Effectively	Opportunities Exist for Improvement
A—Activities Allowed or Unallowed, and B—Allowable Costs/Cost Principles		
Control Objectives. To provide reasonable assurance that grant awards are expended only for allowable activities and that the cost of goods and services charged to grant awards are allowable and in accordance with the specific cost principles.		
1. Control Environment. Policies and procedures are in place to provide reasonable assurance that the control environment for grant administration is conducive to and reflects an appropriate management attitude toward internal controls for grants. Items a. - h. below should be in writing.		
a. Management sets reasonable and timely budgets for grant programs to minimize incentives to miscode expenditures.	X	X
b. Management takes appropriate action for known departures from approved policies concerning grant administration.	X	
c. Management documents enforcement of appropriate penalties for misappropriation or misuse of funds.	X	
d. Questioned costs are resolved and documented on a timely basis.	X	
e. An organization-wide policy of who is held accountable for misappropriation or misuse of funds relating to all grants.	X	
f. A list of allowable and unallowable expenditures for approving and pre-auditing grant expenditures.	X	
g. An indirect cost allocation plan been prepared and approved by management, when applicable, for each grant.	X	

City Auditor Compliance Examinations

	Audit Examination	Report Summary	Start Date	Finish Date
1	GHA Report	Analyzed Internal Controls to be put in place by GHA to administer residential housing program. City Auditor commented on internal controls in place. City Auditor informed Finance Committee and Mayor and City Council.	7/22/2011	9/9/2011
2	Timeshare HOT Tax Audit	A website exists of a rental pool at a Timeshare resort. Currently, No HOT Tax dollars are being collected. A list was compiled from this website in order to collect HOT Tax.	9/10/2012	9/9/2013
3	CDM Report	Quantified job performance of CDM. Audit report shows: (1) average under estimation of scope of work equal to 38.7014% (2) improper documentation of change orders occurred 87.8040% of the time (3) Noncompliance issues with Historical homes averaged 2.833 per house.	6/5/2012	9/9/2013
4	Investigation of Finance Director and Assistant City Manager over Public Works	Investigation ordered by Mayor and City Council to determine possible wrongdoing.	8/22/2012	8/26/2013
5	City Hall Security Report	City Auditor recommended a guard on the first floor and for the City Manager to recheck the quality of the windows replaced at City Hall.	9/6/2012	9/9/2013
6	Formalized Reporting Structure	City Auditor recommends City Manager implement Written Standard Operating Procedures for all department. City Manager agrees as long as written policies and procedures do not take away from productivity. City Auditor agrees with this. City Auditor believes this will make each department extremely more efficient in dealing with high employee turnover and dealing with lack of communication between department heads and employees.	7/2/2011	9/5/2013
7	Fire Marshall Report	Immaterial variances in fire watch and hazardous material escorts resulting in City losing a total of $400. Material Finding is that Fire Marshall's not reimbursing City for use of city vehicles during fire watch and hazardous material escorts. Estimated annual cost of Fire marshal vehicles including depreciation is $6,000. The City Auditor estimates total annual reimbursement from Fire Marshall to the City should be $2,000.00 annually.	7/25/2012	3/15/2013

City Auditor Compliance Examinations

	Audit Examination	Report Summary	Start Date	Finish Date
8	Municipal Court Audit	The purpose of this report is to determine if the City of Galveston is paying the City's Collection Agency for Municipal Court according to the Texas Comptroller Allocation Rule for installments. The City Auditor's office has determined that the City of Galveston is paying the City's Collection Agency accurately and following the Texas Comptroller Allocation Rule for installments. The City Auditor's Office sampled twenty-eight (28) Citations that were over sixty (60) days due. Out of the twenty-eight (28) Citations sampled the Warrant Officer's collected payments on five (5) of the Citations. This is a twenty (20%) percent overlap in efforts. The City Auditor's office recommends that the contract with the City's Collection Agency be revised and adjusted to fit the needs of the Municipal Court.	4/2/2013	3/16/2015
9	HOT Tax Audit Colony Park #3 and Colony Park #31	Confidential for Legal Review.	5/17/2013	9/17/2015
10	System for P-Card Reconciliations	Confidential for Legal Review.	9/28/2015	12/12/2015
11	System of Bank Reconciliations	The City of Galveston's bank accounts had not been reconciled in ten months. However, the City contracted with an external accountant to address this deficiency. The City's bank accounts have now been reconciled to the general ledger and written policies and procedures are being followed.	6/5/2014	12/16/2014
12	System for Recording Grant Funds to be Received	The purpose of this report is to evaluate the effectiveness of the Finance Department's system for recording grant funds to be received. The City Auditor identified that the City would receive $584,183 in revenue from Federal Transit Authority (FTA) Grant 5311. However this grant was not recorded in the City's 2013 general ledger or 2013 budget. The City Auditor also identified FTA Grant 5307 as recorded in the City's 2013 general ledger and 2013 budget as $1,010,000 in revenue. However the City of Galveston will not receive FTA Grant 5307 in the amount of $1,010,000. The City Auditor recommends that a system be put in place that will allow the Finance Department to receive accurate and timely financial information from all Grant Administrators within the City of Galveston.	1/6/2014	4/15/2015

City Auditor Compliance Examinations

	Audit Examination	Report Summary	Start Date	Finish Date
13	System for Grants Management Audit	The City Auditor Department evaluated the design and operating effectiveness of the internal controls over grant compliance as described in Appendix 1 – Administrative Controls Checklist, Appendix 2 – Accounting Controls Checklist, and Appendix 3 – Financial Reporting Checklist. Also noted in the three appendices were internal controls in which opportunities may exist for the improvement of transparency, documentation, and timeliness over grant compliance. The City Auditor Department has no findings to report in this audit and will make itself available to consult with the Finance Department should management choose to act upon improving any internal controls for enhanced transparency, documentation, and timeliness over grant compliance.	9/15/2014	6/12/2015
14	Cash Management Audit	The City Auditor Department evaluated the design and operating effectiveness of the internal controls over cash management compliance as described in Appendix 1 – Administrative and Reporting controls and Appendix 2 – Accounting Controls Checklist. Also noted in the two appendices were internal controls in which opportunities may exist for the improvement of transparency, documentation, and timeliness over cash management compliance. The City Auditor Department has no findings to report in this audit and will make itself available to consult with the Finance Department should management choose to act upon improving any internal controls for enhanced transparency, documentation, and timeliness over cash management compliance.	12/1/2014	11/10/2015
15	Accounts Receivable Audit	The City Auditor Department evaluated the design and operating effectiveness of the internal controls over Accounts Receivable compliance as described in Appendix 1 – Control Activities Checklist – Governmental Funds and Appendix 2 – Accounting Controls Checklist – Enterprise Funds. Also noted in the two appendices were internal controls in which opportunities may exist for the improvement of transparency, documentation, and timeliness over accounts receivable compliance. The City Auditor Department has no findings to report in this audit and will make itself available to consult with the Finance Department should management choose to act upon improving any internal controls for enhanced transparency, documentation, and timeliness over accounts receivable compliance.	2/6/2015	11/24/2015

City Auditor Compliance Examinations

	Audit Examination	Report Summary	Start Date	Finish Date
16	Capital Assets Audit	The City Auditor Department evaluated the design and operating effectiveness of the internal controls framework over capital. There is a significant deficiency in the City's capital assets internal control framework. The Finance Department maintains a manual spreadsheet for tracking capital assets acquired and disposed of by the City. This spreadsheet is not reviewed in a timely manner by management. Therefore, a material risk exists for the proper reporting of the City's capital assets. The Finance Department should implement internal controls for the adherence of monitoring capital assets spreadsheet. Current Activity: The Finance Department is completing its implementation of its own previously unutilized automated system for tracking capital fixed assets. The Fixed Asset module in Banner, the City's financial system, is now populated with the 3,718 fixed assets previously maintained in spreadsheet form. Finance staff is completing its reconciliation of this data currently. Also, the new module has recognized and produced 506 fixed asset transactions as of June 13 in FY 2016 that are in suspense awaiting approval once the aforementioned reconciliation of FY 2015 is complete.	1/27/2014	6/14/2016
17	Inventory Process Audit	The City Auditor Department constructed a list of internal controls for inventory processes within a local municipality and listed each internal control in a separate spreadsheet described and attached as Appendix 1 – Inventory Processes. This list is not intended for the use of management but rather to inform management of the specific internal controls analyzed in this audit for the City's Inventory Process. Each internal control listed in Appendix 1 was then evaluated to determine if the control design and operations of the control proved to be effective in an applicable reporting framework or a financial reporting framework for inventories at the City of Galveston. The City Auditor recommends that the City of Galveston develop a comprehensive policy that establishes government-wide requirements regarding inventory. This policy should include the types of items that should be considered inventory reportable to Finance for inclusion in the Comprehensive Annual Financial Report (CAFR) and establish annual reporting requirements for all departments. It should also include instructions regarding inventory security, inventory segregation of duties, the performance of annual physical counts by departments and requirements for reporting discrepancies between book and physical inventories to the Finance Department for proper resolution. The Policy should specify standards for the identification, documentation, reporting, and removal of surplus inventory and disposals, including the transfer of surplus inventory between departments and the sales thereof to outside vendors.	3/10/2016	8/17/2016

City Auditor Compliance Examinations

	Audit Examination	Report Summary	Start Date	Finish Date
18	Overtime Police and Fire Department Audit	The City of Galveston allows overtime pay to address emergency situations, deliver essential services, provide holiday coverage, and other priority staffing needs that require the Police and Fire employees to work beyond their normally scheduled work hours. The City is legally required by the Fair Labor Standard Act (FLSA), Texas State Law, the City of Galveston Employee Handbook and the Collective Bargaining agreements to compensate non-exempt employees at one and one-half (1.5) times their regular rate of pay for each hour of work in excess of 40 hours in a work week. There are no findings for the City Auditor to report to The Mayor and The Council. The City Auditor recommends that the internal controls for overtime analysis could be greatly enhanced through a routinely documented system of monitoring overtime general provisions and overtime reporting. A documented system of monitoring could aid management in terms of their cost-effectiveness and alternatives to the use of premium pay to accomplish tasks.	6/6/2016	8/30/2016
19	Contributions of Hotel Occupancy Tax to Arts and Historical Preservation Audit	Article III of Chapter 33 of the Code for the City of Galveston, as amended, levies a hotel occupancy tax and provides for distribution of the receipts to entities that perform services that are appropriate under the enabling statues. Section 33-92 of the City Code designates arts and historic preservation organizations as eligible recipients of sixth-eights (6/8) of one seventh (1/7) of the hotel occupancy tax proceeds. The City enters into a contract with each organization and grants them the recommended portion of the HOT funds. The City Audit Department analyzed Ordinance 15-076 and created a twenty (20) point checklist (Appendix 1). The twenty point checklist was compared with each Organization's application for accuracy, missing documentation, and completion of each application. The City Audit Department found 12 instances where applicants failed to meet program requirements, yet received funding. The City Audit Department recommends that Ordinance 15-076 be simplified and condensed. The City Audit Department also recommends that all applications and documentation associated with contributions of Arts and Historical Preservation HOT funds be kept in one central location secured by a City of Galveston employee.	7/22/2016	9/14/2016