

**GALVESTON COUNTY COMMUNITY  
ACTION COUNCIL, INC.**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORTS**

**FISCAL YEAR ENDED NOVEMBER 30, 2018**



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GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

FISCAL YEAR ENDED NOVEMBER 30, 2018

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
Galveston County Community Action Council, Inc.

We have audited the accompanying financial statements of Galveston County Community Action Council, Inc. (the "Council") a Texas nonprofit organization, which comprise the statement of financial position as of November 30, 2018, and the related statement of activities, statement of functional expenses, and statement of cash flows for the fiscal year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility:

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Galveston County Community Action Council, Inc. as of November 30, 2018, and the changes in its net assets and its cash flows for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT, *CONTINUATION*

### OTHER MATTERS

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 16, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards:

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, presented on pages 19 through 20, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

*Bankole, Okoye & Associates PC*

Bankole, Okoye & Associates PC  
Houston, Texas  
September 26, 2019

## Financial Statements

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF FINANCIAL POSITION  
NOVEMBER 30, 2018

ASSETS

Current Assets:

Cash	\$	66,835
Receivables, net - Note 4		886,449
Prepaid expenses		3,363
Inventory - Note 5		<u>5,550</u>
Total Current Assets		962,197

Non-Current Assets:

Property and equipment, net - Note 6		<u>247,297</u>
TOTAL ASSETS	\$	<u>1,209,494</u>

LIABILITIES AND NET ASSETS

*LIABILITIES*

Current Liabilities:

Accounts payable	\$	370,225
Accrued liabilities		186,262
Other payables		11,738
Unearned receipts		<u>17,293</u>
Total Current Liabilities		<u>585,518</u>
TOTAL LIABILITIES		<u>585,518</u>

*NET ASSETS*

Unrestricted		587,697
Temporarily restricted - Note 9		<u>36,279</u>
TOTAL NET ASSETS		<u>623,976</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>1,209,494</u>

*The accompanying notes are an integral part of this financial statement.*

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED NOVEMBER 30, 2018

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Revenues from federal grant programs	\$ 6,565,004	\$ -	\$ 6,565,004
Revenues from other programs	30,908	15,747	46,655
In-kind revenues	748,772	-	748,772
Other income	144	-	144
Net assets released from restrictions:			
Restrictions satisfied by payments	9,185	(9,185)	-
<b>TOTAL REVENUES</b>	<b>7,354,013</b>	<b>6,562</b>	<b>7,360,575</b>
<b>EXPENSES</b>			
Program Services Expenses:			
Early childhood	3,531,135	-	3,531,135
Energy assistance	2,472,724	-	2,472,724
Community services	609,547	-	609,547
Housing	28,894	-	28,894
Total program services expenses	6,642,300	-	6,642,300
Management and general expenses	942,399	-	942,399
<b>TOTAL EXPENSES</b>	<b>7,584,699</b>	<b>-</b>	<b>7,584,699</b>
<b>CHANGE IN NET ASSETS</b>	<b>(230,686)</b>	<b>6,562</b>	<b>(224,124)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>818,383</b>	<b>29,717</b>	<b>848,100</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 587,697</b>	<b>\$ 36,279</b>	<b>\$ 623,976</b>

*The accompanying notes are an integral part of this financial statement.*



GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FISCAL YEAR ENDED NOVEMBER 30, 2018

	Program Services				Management and General	Total Expenses
	Early Childhood	Energy Assistance	Housing	Community Service	Total Program Services	
Salaries	\$ 1,564,858	\$ 138,472	\$ 18,895	\$ 230,122	\$ 1,952,347	\$ 2,506,394
Payroll Taxes	114,031	10,046	1,377	16,793	142,247	183,317
Unemployment Insurance	51,116	3,881	629	8,059	63,685	72,498
Workers Compensation	10,683	137	72	506	11,398	12,441
Health and Dental Insurance	227,263	26,477	4,117	39,006	296,863	350,793
403(b) Thrift Plan	12,233	-	171	-	12,404	14,605
Travel	6,259	2,359	373	1,419	10,410	25,146
Vehicle Expense	21,979	-	-	6,154	28,133	33,730
Equipment	3,363	1,170	40	807	5,380	6,678
Equipment Rental and Maintenance	9,662	4,980	19	3,477	18,138	26,496
Supplies	50,966	12,612	37	8,754	72,369	80,650
Food	150,872	264	-	1,476	152,612	152,612
Contract Costs	361,249	1,703	66	53,777	416,795	460,791
Occupancy	896,778	69,771	1,719	50,326	1,018,594	1,108,462
Printing and Subscriptions	284	823	-	1,807	2,914	4,360
Training	31,879	240	1,285	160	33,564	35,686
License and Fees	15,698	15,337	94	1,787	32,916	44,976
Postage and Shipping	499	809	-	539	1,847	2,849
Direct Client Services	1,463	2,183,643	-	184,578	2,369,684	2,369,824
Depreciation	-	-	-	-	-	92,391
Total	\$ 3,531,135	\$ 2,472,724	\$ 28,894	\$ 609,547	\$ 6,642,300	\$ 7,584,699

The accompanying notes are an integral part of this financial statement.



GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

STATEMENT OF CASH FLOWS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$ (224,124)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	92,391
Changes in operating assets and liabilities:	
Receivables	187,151
Prepaid expenses	(3,363)
Accounts payable	(81,136)
Accrued liabilities	38,379
Other payables	11,738
Unearned receipts	<u>12,500</u>
Total adjustments	<u>257,660</u>
Net cash provided by operating activities	<u>33,536</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	<u>(8,752)</u>
Net cash used in investing activities	<u>(8,752)</u>
NET INCREASE IN CASH	24,784
CASH, BEGINNING OF FISCAL YEAR	<u>42,051</u>
CASH, END OF FISCAL YEAR	<u>\$ 66,835</u>

*The accompanying notes are an integral part of this financial statement.*

## GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

### NOTES TO THE FINANCIAL STATEMENTS FISCAL YEAR ENDED NOVEMBER 30, 2018

#### 1. NATURE OF ORGANIZATION

Galveston County Community Action Council, Inc. (the "Council") was incorporated as a not-for-profit Council on December 15, 1965, under the laws of the State of Texas. The mission of the Council is to meet the needs of low-income families throughout the four county service areas of Galveston, Fort Bend, Wharton, and Brazoria, to enhance the quality of their lives by eliminating poverty and promoting self-sufficiency, pursuant to the Economic Opportunity Act of 1964. The Council also operates the Galveston County Head Start Program.

The Council provides services to stimulate a better focusing of all available local, state, federal and private resources upon the goal of enabling low income families and individuals to attain the skills, knowledge, motivations and to secure the opportunities needed for them to become self-sufficient.

The Council is presently supported primarily through federal, state and local grants, and donations from corporations and foundations.

#### 2. PROGRAMS OF THE COUNCIL

The Council administers the following major programs to meet the needs of the areas it serves:

##### Head Start (Early Childhood Development)

Head Start is a federally funded program for preschool children from low-income families. The Council's Head Start program has been serving children ages 3-4 years old for over 30 years in Galveston County. With full day services for working parents, there are centers located in the cities of Galveston and Texas City, Texas. Head Start is concerned with all areas of a child's development (social, emotional, cognitive, and physical), and seeks to assist children in preparing for kindergarten, with a focus on early literacy. Accordingly, the Council's Head Start program is designed to promote school readiness in young children from low-income families. This educational initiative is also designed to support the mental, social, and emotional development of pre-school aged children. The Head Start program also provides nutrition and transportation services to the children.

##### Comprehensive Energy Assistance Program

The Comprehensive Energy Assistance Program (CEAP) is a federally-funded utility assistance program. CEAP is designed to assist low-income households in meeting their immediate energy needs and to encourage consumers to control energy costs for years to come through energy education. Through this initiative, the Council assists families having incomes at or below 150% of the federal poverty income guidelines by reducing their heating and cooling costs and addressing health and safety issues in their homes through energy-efficiency measures.

##### Community Services Block Grant (Community Services)

Community services programs strive to reduce poverty and empower low-income families to become self-sufficient. Services provided to eligible families include employment assistance, budget counseling, energy conservation training, rental assistance, utilities assistance, information and referral, and case management.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted for nonprofit organizations in the United States of America. Under the accrual method, revenues are recorded in the period earned and when the amount and timing of the revenue can be reasonably determined. Expenses and asset additions are recognized at the time a liability arises which is normally at the time title passes to, or a service is received by, the Council.

The Financial Accounting Standards Board (FASB) is the designated organization for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities, including nonprofit organizations, in the United States of America.

Financial Statement Presentation

The Council prepares its financial statements in accordance with the requirements of FASB's Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-For-Profit Organizations*, and reports information regarding its financial position and activities according to the following three classes of net assets:

*Unrestricted Net Assets* – These are resources that are not subject to donor or contractually imposed stipulations and can be used for the general operations of the Council.

*Temporarily Restricted Net Assets* – These are resources that are subject to donor or contractually imposed stipulations that may or will be met, either by actions of the Council and/or by the passage of time.

*Permanently Restricted Net Assets* – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon may be used by the Council. There were no permanently restricted net asset as of November 30, 2018.

The Council is also required under FASB ASC Topic 958-205, to present a statement of cash flows.

Revenue Recognition

Generally, the Council recognizes governmental grants as revenues when the grants are earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement.

Revenues from contributions, donations and other sources are recognized when received or unconditionally promised by a third party. Program income and other income are recognized when received. Conditional promises by third parties to give cash or other assets to the Council are not recognized until the cash or other assets are received or the condition is substantially met, whichever is earlier.

## GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

### NOTES TO THE FINANCIAL STATEMENTS FISCAL YEAR ENDED NOVEMBER 30, 2018

The Council follows the provisions of FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending upon the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, then unrestricted resources as they are needed.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donated property are recorded at their estimated fair value at the time the donation was received.

Contributed services which increase non-financial assets such as property or inventory, as well as services contributed by individuals with specialized skills which would have otherwise been purchased, are reported as unrestricted support. Other contributed services that enhance the Council's programs, but are not so essential that they would otherwise be purchased, are not recorded as support for financial statement purposes.

#### Donated Services and In-kind Support

The Council receives donated goods and services as part of its programs. In accordance with FASB ASC Topic 958-605, *Non-for-Profit Entities - Accounting for Contributions Received and Contributions Made*, donated materials and services for which the Council made no payment or compensation are recognized as in-kind contributions and contra in-kind expenses at their estimated fair value at the date of receipt if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Council received many hours of donated services from volunteers helping with the Council's administrative and program activities. For the fiscal year ended November 30, 2018, the Council recorded volunteer hours and services that totaled \$285,467, which are included in in-kind revenues and expenses in the statements of activities and functional expenses.

#### Donated Facilities

The Council uses certain facilities for its Head Start centers for which the Council pays less than market rates because the landlord intentionally discounted the rents to provide in-kind support to the program. The Council has accounted for such contributions in the financial statements. For the fiscal year ended November 30, 2018, the Council has recorded a total of \$463,305 for donated facilities, which are included in in-kind revenues and expenses in the statements of activities and functional expenses.



## GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

### NOTES TO THE FINANCIAL STATEMENTS FISCAL YEAR ENDED NOVEMBER 30, 2018

#### Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and investments that are available for current use with maturity dates of less than three months from the date of acquisition. The Council's policy is to report cash and cash equivalents at their carrying value since the carrying value approximates their fair value because of the short maturities of those financial instruments. The Council's total cash balance was \$66,835 at November 30, 2018. There were no cash equivalents as of November 30, 2018.

#### Property and Equipment

The Council's policy is to capitalize all expenditures exceeding \$5,000 for each unit of equipment, furniture and fixtures, real property, and leasehold improvements at cost (whether purchased or donated). Such items acquired under grants from Federal and state sources are considered to be owned by the Council while used in the programs for which they are purchased or in programs authorized in the future. However, the funding source has a reversionary interest in the property.

Property and equipment are depreciated and amortized using the straight-line method based on their estimated useful lives as follows:

<u>Property and Equipment</u>	<u>Estimated Useful Life</u>
Equipment	3-7 years
Vehicles	5 years
Buildings and Improvements	15-40 years
Leasehold Improvements	Lease term

Maintenance and repairs are charged to operations when incurred. Major improvements and renewals that extend the life of the property or equipment are capitalized.

#### Functional Classification of Expenses

In accordance with FASB ASC Topic 958-720-45-2, *Functional Classification of Expenses*, the costs of providing various programs and other activities of the Council have been summarized on a functional basis (i.e., expenses have been grouped according to the purpose for which they were incurred) in the statements of activities and in the statements of functional expenses. The primary functional classifications of the Council's uses of resources are *program services* expenses, *management and general* expenses, and *fundraising* expenses. *Fundraising* and *management and general* activities are considered the supporting activities – i.e., activities performed to support the Council's program activities. Management and general expenses include those expenses that are not directly identifiable with the core function but provide for the overall support and direction of the Council.

Expenses that can be directly identified with a specific program or support service are classified directly to that program or service and are not allocated to other programs and services. However, expenses that are attributable to more than one program or services have been allocated among the programs and support services benefitted. The allocated expenses include the following:

- ≈ For the personnel that work for multiple program or support services, their costs are allocated based on estimates of the personnel's time and effort for each program or service.

## GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

### NOTES TO THE FINANCIAL STATEMENTS FISCAL YEAR ENDED NOVEMBER 30, 2018

- ≈ Other allocable expenses are allocated to programs and support services based on the Council's cost allocation policy.

#### Management's Judgment and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the following aspects of the financial statements:

- ≈ the reported amounts of assets and liabilities,
- ≈ the disclosure of contingent assets and liabilities at the date of the financial statements, and
- ≈ the reported amounts of revenues and expenses during the reporting period.

Significant estimates included in the accompanying financial statements relate to (a) the useful lives applied in the calculation of depreciation on property and equipment, and (b) the bases used for allocating expenses, where applicable, to program and supporting activities in the statement of functional expenses. Actual results could differ from the estimates.

#### Income Taxes

The Council is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"), and is not subject to income taxes under section 501(a) of the Code. The Council did not conduct any unrelated business activities. Therefore, the Council has made no allowance for federal income tax in the accompanying financial statements.

The Council applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The Council believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Council files Form 990, *Return of Organization Exempt from Income Tax*, in the United States federal jurisdiction within the United States. The Federal income tax returns of the Council for 2016 through 2014 will remain subject to examination by the Internal Revenue Service, generally for three years after they were filed.

#### Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net assets classifications; deficiencies in information about liquidity and availability of resources; and the lack of consistency in the type of information provided about expenses and investment returns. Among other provisions, ASU No. 2016-14 requires enhanced disclosures around the nature and amount of net asset

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

restrictions (including donor or contract imposed restrictions and internally imposed restrictions also known as board-designated net assets); how the organization manages its liquidity; the methods used to allocate expenses to benefitted program and support functions; and an analysis of expense amounts by both their natural and functional classifications. ASU No. 2016-14 will become effective for the Council's fiscal year 2019 financial statements. The adoption of ASU No. 2016-14 will result in certain changes to the presentation of the Council's financial statements and footnote disclosures beginning from the fiscal year ending November 30, 2019.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. This Update requires a lessee of property under an operating lease agreement, such as but not limited to leases of an office or storage space, to recognize in the statement of financial position (a) a liability to make lease payments (the lease liability) and (b) a right-of-use "asset" representing its right to use the underlying asset for the lease term. The implementation of this new standard, which will become effective for the Council's fiscal year 2021 financial statements, would result in the following new accounting requirements:

- i. Initial measurement, and inclusion in the statement of financial position, of the right-of-use asset and the corresponding lease liability at the present value of the lease future payments based on the term of the lease;
- ii. Recognition of a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and
- iii. Classification of all cash payments for operating leases within the operating activities section in the statement of cash flows.

The Council is currently evaluating the effect of the adoption of ASU 2016-02 on its financial statements.

4. RECEIVABLES

Receivables represent mostly billed reimbursable expenses, which are receivable primarily from U.S. Department of Health and Human Services and the Texas Department of Housing and Community Affairs as the federal grantor or pass-through agency. The Council considers all the receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is deemed necessary.

	Amount
Head Start	\$ 179,648
Child and Adult Care Food Program (CACFP)	62,153
Low Income Home Energy Assistance Program (CEAP)	562,098
Community Service Block Grant (CSBG)	62,054
Section 8	20,496
Receivables, Net	<u>\$ 886,449</u>



GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

5. INVENTORY

Inventory consists of gift cards and are valued at cost.

6. PROPERTY AND EQUIPMENT

The following are the changes in property and equipment for the fiscal year ended November 30, 2018:

	Balance 11/30/2017	Additions	Retirements	Balance 11/30/2018
<i>Non-Depreciable:</i>				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
<i>Depreciated/Amortized:</i>				
Equipment	154,028	-	-	154,028
Software	-	8,750	-	8,750
Buildings and Leasehold Improvements	51,375	-	-	51,375
Vehicles	514,321	-	-	514,321
Total	744,724	8,750	-	753,474
<i>Accumulated Depreciation and Amortization</i>				
Equipment	28,493	30,806	-	59,298
Software	-	1,215	-	1,215
Buildings and Leasehold Improvements	15,412	10,275	-	25,687
Vehicles	369,882	50,095	-	419,977
Total Accumulated Depreciation and Amortization	413,787	92,391	-	506,177
Property and Equipment, Net	\$ 330,937	\$ (83,641)	\$ -	\$ 247,297

Depreciation expense for the fiscal year ended November 30, 2018, was \$92,391.

7. COMPENSABLE ABSENCES

The Council accounts for compensable absences (accrued vacation) in accordance with FASB ASC Topic 710-10- 50-1, *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. The Council's policy is to accrue eight (8) hours per month for vacation for each full-time employee, excluding Head Start employees but including Head Start Director and Secretary. Unused vacation hours can be carried forward without limit. Upon termination employees are entitled for a cash payment for a maximum of 240 hours of accrued vacation. Employees are not compensated for unused sick leave. Included in accrued liabilities as of November 30, 2018, is an amount of \$21,959 for compensable absences.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

8. EMPLOYEE RETIREMENT PLAN

The Council participates in a 403(b) defined contribution retirement plan (the Plan). Employees are eligible to contribute to the Plan on their dates of hire. Employees and employer contributions are fully vested at all times. The Council contributed \$14,609 to the Plan for the fiscal year ended November 30, 2018.

9. NET ASSETS

Unrestricted Net Assets

The Council had unrestricted net assets of \$587,697 as of November 30, 2018, which were available to support the programs and activities of the Council.

Temporarily Restricted Net Assets

Temporarily restricted net assets were \$36,279 as of November 30, 2018. Temporarily restricted net assets are available for the program activities, and comprise the net assets, of the following funding sources:

	Amount
Reliant CNP Program	\$ 13,778
NTN	10,795
WCEC-Utilities	3,239
Tri Eagle Energy	2,208
United Way	2,150
Nueces Electric Coop	1,414
Head Start Donations	1,023
CPL Neighbor to Neighbor	922
Breeze Energy	750
Total Temporarily Restricted Net Assets	<u>\$ 36,279</u>

10. CONTINGENCIES

The Council receives grants from federal and state and other funding sources, which may be subject to review and audit by the awarding agencies. If such reviews and audits result in the discovery of unallowable activities and unallowable costs, any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Council with the terms of the grants/contracts. In the opinion of the Council's management, such disallowances, if any, would not be significant in relation to the financial statements of the Council.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

11. LEASE COMMITMENTS

As of November 30, 2018 the Council has entered into several non-cancelable operating leases for facilities that expire at various times through April 2022. Total rent expense for the fiscal year ended November 30, 2018 was \$527,642. Based on the terms of the operating lease agreements, the following is a schedule of the minimum annual lease payments for the remaining terms of the leases:

<u>Fiscal Year Ending November 30,</u>	<u>Amount</u>
2019	\$ 490,920
2020	299,661
2021	87,768
2022	36,570
Thereafter	-
Total	<u>\$ 914,919</u>

As of November 30, 2018, the Council has entered into a number of month to month operating leases for office equipment and storage space. Total payments for the year ended November 30, 2018, were \$26,497. There are no future minimum lease amounts.

12. IN-KIND CONTRIBUTIONS

Under the grant agreements, the Council (grantee) receives a percentage of total estimated project funds from the Federal government. The balance of the project funds is contributed to the Council from non-Federal sources, including in-kind contributions of services or property from the community or non-Federal governmental organizations. Presently, the Head Start program is the only program requiring and receiving in-kind match. The services and goods donated to the Council are valued according to the grant guidelines. The following in-kind contributions that met the criteria for recognition under the accepted accounting principles generally accepted in the United States of America, have been recognized in the Head Start program:

	<u>Amount</u>
Donated Space	\$ 463,305
Donated Services	285,467
	<u>\$ 748,772</u>

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2019. This was the date the financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

## Supplementary Information

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U. S. Department of Health and Human Services			
Direct Program			
Head Start Program	N/A	93.600 (M)	\$ 2,990,957
<i>Pass-Through:</i>			
<i>Texas Department of Housing &amp; Community Affairs</i>			
Low-Income Home Energy Assistance Program	58170002592	93.568	302,318
Low-Income Home Energy Assistance Program	58180002789	93.568	2,328,055
		Total for 93.568 (M)	<u>2,630,373</u>
Community Services Block Grant	61170002633	93.569	84,794
Community Services Block Grant	61180002858	93.569	742,712
		Total for 93.569 (M)	<u>827,506</u>
Total U.S. Department of Health and Human Services			<u>6,448,836</u>
U. S. Department of Agriculture			
<i>Pass-Through:</i>			
<i>State of Texas Department of Agriculture</i>			
Child and Adult Care Food Program	2392	10.558	<u>204,525</u>
Total U.S. Department of Agriculture			<u>204,525</u>
Total Federal Financial Assistance			<u>\$ 6,653,361</u>

(M) = Major Program

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

Note 1 - The Organization

The Galveston County Community Action Council, Inc. (the "Council") receives federal grants to meet the needs of low-income families throughout the four county service areas of Galveston, Fort Bend, Wharton, and Brazoria, to enhance the quality of their lives by eliminating poverty and promoting self-sufficiency, pursuant to the Economic Opportunity Act of 1964; as well as to operate the Galveston County Head Start Program.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activities of the Council under programs of the federal government for the fiscal year ended November 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (federal Uniform Guidance). Because the Schedule presents only a selected portion of the Council's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Council.

Note 3 - Summary of Significant Accounting Policies

In accordance with U.S. generally accepted accounting principles, the Council accounts for all awards under federal programs on an accrual basis of accounting. Accordingly, expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the federal Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Federal grant funds are considered to be earned to the extent of qualifying expenditures made under the provisions of the grants. When such funds are advanced to the Council, they are recorded as deferred revenues until earned. Otherwise, federal grant funds are received on a reimbursement basis from the respective federal program agencies or pass-through entities.

Note 4 - Indirect Cost Rate

The Council did not elect to use the 10% de minimis cost rate.

Note 5 - Program Income

The Council did not generate program income. Accordingly, no program income was used to reduce the amount of federal funds expended in providing the programs. Similarly, program expenditures funded in cash or kind to meet the Council's matching contributions, where applicable, to grant budgets have not been included in the amounts reported on the Schedule.



Note 6 - Relationship of the Schedule to Financial Reports Submitted to Grant Awarding Agencies

Expenditures included on the Schedule may differ from amounts reflected in the financial reports submitted to grant awarding agencies and pass-through entities because of the following reasons:

- Expenses accrued at the end of the Council's fiscal year may not have been included in the financial reports submitted to grant awarding agencies until after year end;
- Program matching costs that are reported in the financial reports submitted to awarding agencies are not included in the amounts reported on the Schedule; and
- Differences may exist between grant periods and the Council's accounting period.

Note 7 - Contingencies

Federal grants require the fulfillment of certain conditions set forth in grant agreements, and may be regularly monitored and reviewed by grantors, both during and after the programs. Failure to satisfy the requirements of contract agreements could result in disallowed costs and return of funds to grantors. Management believes that the Council is in substantial compliance with grant provisions and requirements and that disallowed costs, if any, will not be significant to affect the amounts and disclosures in the Council's financial statements.



## Single Audit Section

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

The Board of Directors of  
Galveston County Community Action Council, Inc.

We have audited, in accordance with the 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 Galveston County Community Action Council, Inc. (the "Council"), which comprise the statement of financial position as of November 30, 2018, and the related statement of activities, statement of functional expenses, and statement of cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2019.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Council'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 opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, CONTINUATION

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bankole, Okoye & Associates PC*

Bankole, Okoye & Associates PC  
Houston, Texas  
September 26, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE FEDERAL UNIFORM  
GUIDANCE.

To the Board of Directors of  
Galveston County Community Action Council, Inc.

Report on Compliance for Each Major Federal Program

We have audited Galveston County Community Action Council, Inc.'s (the "Council") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the fiscal year ended November 30, 2018. The Council's major federal programs are identified on page 24 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the federal "Uniform Guidance"). Those standards and the federal Uniform Guidance 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 federal program occurred. An audit includes examining, on a test basis, evidence about the Council'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 federal program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on Each Major Federal Program

In our opinion, the Council 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 federal programs for the fiscal year ended November 30, 2018.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE FEDERAL UNIFORM  
GUIDANCE, CONTINUATION

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, and 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

The Council's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Council 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 Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the federal Uniform Guidance, 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 Council'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 federal 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 federal 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 federal 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, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, and 2018-003, which we consider to be significant deficiencies.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE FEDERAL UNIFORM  
GUIDANCE, CONTINUATION

The Council's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the federal Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Bankole, Okoye & Associates PC*

Bankole, Okoye & Associates PC  
Houston, Texas  
September 26, 2019

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

**PART 1: SUMMARY OF AUDITORS' RESULTS**

Financial Statements Section:

1. The opinion expressed in the independent auditors' report was:

☒ Unmodified      ☐ Modified      ☐ Adverse      ☐ Disclaimed

2. The independent auditors' report on internal control over financial reporting described:

Material weakness(es) identified?      ☐ Yes      ☒ No

Significant deficiency(ies) identified?      ☐ Yes      ☒ No

Noncompliance considered material to financial statements?      ☐ Yes      ☒ No

Federal Awards Section:

3. The independent auditors' report on internal control over compliance with requirements applicable to major federal awards programs described:

Material weakness(es) identified?      ☐ Yes      ☒ No

Significant deficiency(ies) identified?      ☒ Yes      ☐ No

4. The opinion expressed in the independent auditors' report on compliance with requirements applicable to major federal awards was:

☒ Unmodified      ☐ Modified      ☐ Adverse      ☐ Disclaimed

5. Any audit findings disclosed that are required to be reported in accordance with Section §200.516 of the Uniform Guidance?      ☒ Yes      ☐ No

6. IDENTIFICATION OF MAJOR PROGRAMS:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.568	Low-Income Home Energy Assistance Program
93.569	Community Services Block Grant
93.600	Head Start

7. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

8. Auditee qualified as low-risk auditee as defined in Section §200.520 of the federal Uniform Guidance?      ☐ Yes      ☒ No



GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

**PART 2: FINANCIAL STATEMENT FINDING SECTION**

This section identifies material weaknesses, significant deficiencies, fraud, illegal acts, violation of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a federal Uniform Guidance audit.

No matters were reported.

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

**PART 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

This section identifies the audit findings required to be reported by Section §200.516 of the federal Uniform Guidance, *Audit Findings*, such as material instances of noncompliance, including questioned costs, and material weaknesses or significant deficiencies in internal control over compliance for federal grant programs, as well as any abuse findings involving federal awards that are material to a major program.

**Item No. 2018-001:** Non-compliance with audit reporting package submission deadline required by the Uniform Guidance.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Low-Income Home Energy Assistance Program..... CFDA 93.568  
Community Services Block Grant ..... CFDA 93.569  
Head Start ..... CFDA 93.600

	Questioned Costs
<p><u>Criteria:</u></p> <p>Section §200.512 of the Uniform Guidance, <i>Report Submission</i>, requires that the audit must be completed and the data collection form and audit reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.</p>	
<p><u>Condition:</u></p> <p>The Council's data collection form and audit reporting package for the fiscal year ended November 30, 2018, were not submitted in a timely manner to the Federal Audit Clearinghouse. The Uniform Guidance required that the submittal be made by or before August 31, 2019.</p>	None
<p><u>Cause:</u></p> <p>It appears that the Council experienced last minute resignation of its audit firm, resulting in the late completion of its financial and compliance audits, thus contributing to this instance of noncompliance.</p>	
<p><u>Effect:</u></p> <p>Non-compliance with a compliance requirement that is considered to be direct and material to the Council's federal award program.</p>	None
<p><u>Recommendation:</u></p> <p>The Council should establish processes and controls, including planning in advance for audit reports and related submittals, in order to enhance the overall operational efficiency in the accounting and financial reporting</p>	

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

	Questioned Costs
functions and ensure timely submittal of financial statements to the federal audit clearinghouse.	
<u>Views of Responsible Officials and Planned Corrective Actions:</u>	
Management's response and corrective action plans are described on pages 30 through 32 of this report.	

Item No. 2018-002: Eligibility Documentations --  
(Repeat Finding. Previously reported as item 2017-003).

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Low-Income Home Energy Assistance Program..... CFDA 93.568  
Community Services Block Grant ..... CFDA 93.569

	Questioned Costs
<u>Criteria:</u>	
LIHEAP and CSBG statutes establish client eligibility criteria as well as requirements to verify clients' income as part of the eligibility criteria. Accordingly, federal regulations require the Council to maintain records sufficient to document client eligibility and need for receiving benefits under these program.	
<u>Condition:</u>	
LIHEAP - Out of 45 unduplicated samples of clients, the Council was unable to produce the folders maintained for 4 clients, in which eligibility information was maintained. In addition, in 5 out of 46 cases examined, the Council did not accurately determine the clients' total family income, even though those clients would still have qualified for benefits even if their family incomes were correctly calculated.	None
CSBG - Out of 25 unduplicated samples of clients, the Council was unable to produce the folders maintained for 7 clients, in which eligibility information was maintained. In addition, in 1 out of 25 cases examined, the Council did not accurately calculate the client's total family income.	

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

	Questioned Costs
<p><u>Cause:</u></p> <p>It appears that the filing system used by the Council for client folders, including the system for tracking the retrieving and returning of the folders to the filing system, may need to be improved upon.</p> <p>In addition, some case workers were not always reviewing their documentation of clients' income eligibility status for correctness before approving the clients to receive benefits.</p>	
<p><u>Effect:</u></p> <p>Non-compliance with the programs' compliance requirement for proper documentations of eligibility determinations.</p>	None
<p><u>Recommendations:</u></p> <p>The Council should review and improve the filing system used for clients' folders, including the system for tracking folder-retrievals and folder-refiling, to avoid misplacements or misfiling of the folders.</p> <p>We also recommend for the Council to implement more in-house trainings of LIHEAP and CSBG case workers, as well as increase supervisory review of client eligibility determination documentations, to ensure that errors in the documentations are identified and corrected in a timely manner.</p>	
<p><u>Views of Responsible Officials and Planned Corrective Actions:</u></p> <p>Management's response and corrective action plans are described on pages 30 through 32 of this report.</p>	

**Item No. 2018-003:** Special Tests and Provisions – Fiscal Oversight.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Head Start ..... CFDA 93.600

	Questioned Costs
<p><u>Criteria:</u></p> <p>Federal statutes (in 42 USC 9837(d)(2)(A) and (E)), and the Uniform Guidance's provisions for the administration of the Head Start program require a non-federal grantee to share accurate and regular financial information with the governing body and the policy council, including monthly financial statements, including credit card expenditures and the financial audit. The regulations (in 42 USC 9839(a)(2)(A), (B), and (D)) also require the non-federal grantee to make available to the public its</p>	

GALVESTON COUNTY COMMUNITY ACTION COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED NOVEMBER 30, 2018

	Questioned Costs
audited annual financial statements and other annual financial information including an explanation of budgetary expenditures and proposed budget for the fiscal year.	
<p><u>Condition:</u></p> <p>For most of the fiscal year ended November 30, 2018, the Council did not share monthly financial statements with the governing body and the policy council. In addition, the Council's recent annual financial statements and annual budgetary and expenditure information are not published on its website or in other public domains.</p>	None
<p><u>Cause:</u></p> <p>Frequent turnovers of key personnel and absence of consistent strong leadership presence within the fiscal functions.</p>	
<p><u>Effect:</u></p> <p>To the extent that monthly financial information was not available, the governing body was limited in its ability to fully exercise its fiscal responsibility for both the Council and the Head Start program.</p>	None
<p><u>Recommendation:</u></p> <p>The Council should establish processes and controls to ensure that monthly financial statements are prepared in a timely manner and are shared with the governing body and the policy council in their monthly meetings. In addition, the Council should publish its audited annual financial statements and other required annual financial information on its website or other public domains, to make them available to the public.</p>	
<p><u>Views of Responsible Officials and Planned Corrective Actions:</u></p> <p>Management's response and corrective action plans are described on pages 30 through 32 of this report.</p>	



# Galveston County Community Action Council, Inc.

Joe Compian  
Board President

Robert M. Quintero  
Interim Executive Director

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Galveston, Texas 77552

## MANAGEMENT'S RESPONSES TO THE CURRENT FINDINGS, AND CORRECTIVE ACTION PLANS

FISCAL YEAR ENDED NOVEMBER 30, 2018

Item No. 2018-001: Non-compliance with audit reporting package submission deadline required by the Uniform Guidance.

### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Low-Income Home Energy Assistance Program .....	CFDA 93.568
Community Services Block Grant .....	CFDA 93.569
Head Start .....	CFDA 93.600

### Recommendation:

The Council should establish processes and controls, including planning in advance for audit reports and related submittals, in order to enhance the overall operational efficiency in the accounting and financial reporting functions and ensure timely submittal of financial statements to the federal audit clearinghouse.

### Views of Responsible Officials and Planned Corrective Actions:

*Several factors contributed to the delay in completion and submission of the annual audit. The Council experienced significant turnover in the fiscal and program area in 2017/2018. Learning curve for the new personnel and the time it took to clear back-logs delayed the audit readiness. In addition, significant resources were committed to developing and implementing quality improvement plans requested by the funding sources. The council also published a request for proposal (RFP) for procurement of audit services considering the cost and level of service expected from an audit firm. The firm that was initially selected terminated its agreement due to timeline and cost factors.*

*The CFO and the Executive Director will be responsible for ensuring the timely selection of an audit firm and execution of the audit contract to provide adequate time for the firm to conduct the audit. Given the available resources and the new processes implemented as part of the quality improvement plans, the books will be closed soon after the year end and will be ready for audit in 60-90 days thereafter. The Council expects to complete and submit the 2019 audit prior to the submission deadline.*

# Galveston County Community Action Council, Inc.

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## MANAGEMENT'S RESPONSES TO THE CURRENT FINDINGS, AND CORRECTIVE ACTION PLANS, CONTINUATION

### Item No. 2018-002: Eligibility Documentations.

#### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Low-Income Home Energy Assistance Program..... CFDA 93.568  
Community Services Block Grant ..... CFDA 93.569

#### Recommendations:

The Council should review and improve the filing system used for clients' folders, including the system for tracking folder-retrievals and folder-refiling, to avoid misplacements or misfiling of the folders.

We also recommend for the Council to implement more in-house trainings of LIHEAP and CSBG case workers, as well as increase supervisory review of client eligibility determination documentations, to ensure that errors in the documentations are identified and corrected in a timely manner.

#### Views of Responsible Officials and Planned Corrective Actions:

*The filing system that was in place was compromised due to turnover in some management and staff positions. The new Community Services Director hired in May 2018 has taken several steps to locate, review and secure the client files. A new filing and tracking system has been implemented to ensure client files retrieved from the filing locations are returned to their filing positions in a timely manner. Periodic audit also will be conducted to ensure the process is working properly. The Community Services Director is responsible for ensuring that the periodic audit of client files are conducted.*

*The income eligibility determination errors noted in the audit were omissions by the case managers in documenting the eligibility category or making calculations. A new income determination review process has been implemented in December 2018, to ensure the income eligibility calculations are performed accurately and that relevant documents are included in the files. Periodic trainings are now being provided to case managers on income eligibility calculation and documentation. In addition, a quality assurance system has been implemented since December 2018, to include reviewing client files on a sampling basis to determine error rates. The Council uses the results to identify the staff training needs and process adjustment. The Community Services Director oversees this new system.*



# Galveston County Community Action Council, Inc.

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## MANAGEMENT'S RESPONSES TO THE CURRENT FINDINGS, AND CORRECTIVE ACTION PLANS, CONTINUATION

Item No. 2018-003: Special Tests and Provisions – Fiscal Oversight.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Head Start ..... CFDA 93.600

### Recommendation:

The Council should establish processes and controls to ensure that monthly financial statements are prepared in a timely manner and are shared with the governing body and the policy council in their monthly meetings. In addition, the Council should publish its audited annual financial statements and other required annual financial information on its website or other public domains, to make them available to the public.

### Views of Responsible Officials and Planned Corrective Actions:

*The Council has implemented procedures and controls to ensure that the Board receives financial information, including budget to actual comparison, on a monthly basis. The new CFO is responsible to ensure that monthly financial reports are completed, reviewed and included in the information package provided to the governing body and the policy council in their monthly meetings. In addition, the CFO also makes a presentation of the financial reports to the governing body at the monthly meeting and responds to questions from the members of the governing body. The governing body has been receiving the financial reports since March 2019.*

*Information required by Head Start will be published annually in the Council's website. The CFO and Head Start Director will be responsible to ensure that this information is published in a timely manner.*

# Galveston County Community Action Council, Inc.

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## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS:**

This section identifies prior audit findings and provides information on the current status of the corrective action plan previously provided by management.

### **Audit Finding Reference No.: 2017-001: Bank Reconciliations.**

	Questioned Costs
<i>Criteria:</i>  Internal controls should be in place that provide reasonable assurance that financial systems provide records for proper accountability for all funds and other assets of the Council.	
<i>Condition:</i>  Bank statements were not reconciled timely to the general ledger. Not reconciling the bank accounts on a monthly basis could result in errors or other problems occurring that might not be recognized and resolved on a timely basis. Management and the Board of Directors may be relying on inaccurate financial reports in making decisions that affect the Council.	None
<i>Recommendation:</i>  Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate internal controls over both cash receipts and cash disbursements. The Council's general ledger should be adjusted to match with the audit at November 30, 2017, and proceed forward in implementing this recommendation on a monthly basis.	
<i>Views of Responsible Officials and Planned Corrective Actions:</i>  Since year end, the Council has hired a new Finance Director with a master's degree, which has been trained on the accounting software and will be responsible for bringing bank reconciliation's up to date. During field work of the audit, the Fiscal Director was able to reconcile through February 2018.	
<i>Current Status of the Proposed Corrective Actions:</i>  The corrective action has been implemented. Bank statements are now being reconciled to the general ledger on a monthly basis and in a timely manner. This finding is considered cured.	

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS, CONT'D:

### Audit Finding Reference No.: 2017-002: Allowable Costs.

#### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Low-Income Home Energy Assistance Program.....	CFDA 93.568
Community Services Block Grant .....	CFDA 93.569
Head Start .....	CFDA 93.600

	Questioned Costs
<p><i>Criteria:</i></p> <p>Allocation is described by the Uniform Guidance Subpart A 200.4 as "A means of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives."</p>	
<p><i>Condition:</i></p> <p>During our testing, it was noted that the Council's allocation of cost was based on outdated cost objectives and cost objectives were not reflective of actual activity nor provided for an equitable relationship between all programs.</p>	None
<p><i>Recommendation:</i></p> <p>We recommend the Council implement procedures to update the cost objectives of each cost that is reflective of actual and includes all programs. This analysis should also continue on an on-going basis.</p>	
<p><u><i>Views of Responsible Officials and Planned Corrective Actions:</i></u></p> <p>The Council has updated its cost allocation plan and has reassessed cost allocation objectives, but was awaiting the State of Texas' approval of the plan. Once the State has approved the plan, the Council will implement and monitor on an on-going basis.</p>	
<p><i>Current Status of the Proposed Corrective Actions:</i></p> <p>The corrective action has been implemented. The Council is now using its updated and approved cost allocation plan. This finding is considered cured.</p>	

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS, CONT'D:

### Audit Finding Reference No.: 2017-003: Eligibility.

#### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Low-Income Home Energy Assistance Program..... CFDA 93.568

Community Services Block Grant ..... CFDA 93.569

	Questioned Costs
<p><i>Criteria/Compliance Requirement:</i></p> <p>Federal Circulars require the Council maintain records sufficient to document client eligibility and need.</p>	
<p><i>Condition:</i></p> <p>During our testing of the LiHEAP program participant files, it was noted sixteen (16) of sixty (60) files tested were determined to not have adequate supporting documentation for income eligibility. Two (2) of sixty (60) files were missing the history of utility billings. One (1) of sixty (60) were missing documentation the pledge was made within 48 hours and was missing the notice of payment provided to client. Two (2) of sixty (60) did not have signed applications.</p> <p>During our testing of the CSBG program participant files, it was noted twenty-four (24) of sixty (60) files tested were determined to not have adequate supporting documentation for income eligibility. Also, two (2) of Sixty (60) files were missing the needs assessment which documents the participants need for assistance.</p> <p>During our testing of the CSBG Disaster Relief program participant files, it was noted twenty-one (21) of sixty (60) files tested were determined to not have adequate supporting documentation for income eligibility. Twelve (12) of Sixty (60) files were missing the needs assessment which documents the participants need for assistance and one (1) of sixty (60) was awarded more than allowed by the grant. Also, five (5) of sixty (60) files were missing signed applications.</p>	None
<p><i>Recommendation:</i></p> <p>We recommend management develop, implement, and monitor policies that will ensure file completeness and integrity, such as a checklist in the front of the file to ensure all components of a file are present before the claim is submitted for reimbursement and staff obtain training the area of allowable income verification documentation.</p>	

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS, CONT'D:

### Audit Finding Reference No.: 2017-003: Eligibility, Continuation

#### Views of Responsible Officials and Planned Corrective Actions:

Since the completion of audit field work, the Council has obtained training for staff and implemented a review process that would review all files until which time management feels staff are properly handling eligibility.

#### Current Status of the Proposed Corrective Actions:

Although corrective actions are being implemented, a similar finding was reported as item 2018-002 in the current fiscal year.

### Audit Finding Reference No.: 2017-004: Reporting.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Head Start ..... CFDA 93.600

	Questioned Costs
<u>Criteria:</u>	
Grantees will maintain records sufficient to detail and support amounts reported to Grantors.	
<u>Condition:</u>	
During our testing of reports the Council was unable to provide supporting documentation.	None
<u>Recommendation:</u>	
We recommend the Council implement policies and procedures to maintain support for amounts filed, which could be as easy as attaching a general ledger or year-to-date expenditure report to report copies maintained in-house.	
<u>Views of Responsible Officials and Planned Corrective Actions:</u>	
Since the completion of audit field work, the Council has started keeping expenditure reports to support year to date amounts reported and all reports are reviewed by the executive director or his designee before signature and submission.	
<u>Current Status of the Proposed Corrective Actions:</u>	
The corrective action has been implemented. This finding is considered cured.	



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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CURRENT STATUS, CONT'D:

### Audit Finding Reference No.: 2017-005: Matching.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Head Start ..... CFDA 93.600

	Questioned Costs
<i>Criteria:</i>  Grantees will maintain records sufficient to detail and support amounts reported to Grantors as match.	
<i>Condition:</i>  During our testing of match the Council was unable to provide documentation to support amounts reported and no one is accumulating the information in a timely manner.	None
<i>Recommendation:</i>  We recommend the Council implement policies and procedures to summarize the in-kind on a monthly basis and record in the Council's accounting system as a means to track and monitor compliance with matching requirements. This policy and procedure should be in writing so in a turn-over situation, new staff will know proper policies and procedures.	
<i>Views of Responsible Officials and Planned Corrective Actions:</i>  Since the completion of audit field work, the Council has started a process of tracking and recording non-cash match required by grantors. Policies and procedures will be put into writing once procedures are implemented and determined to be working properly.	
<i>Current Status of the Proposed Corrective Actions:</i>  The corrective action has been implemented. This finding is considered cured.	