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MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

October 29, 2021

Dear Mr. Dopslauf and Ms. Wilks Garcia:

The Harris County Auditor's Office Audit Division has completed the annual Unrecorded Capital Assets audit. The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. Please anticipate an email request to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. Please contact Bobby Cato, Director of Audit Services, or me if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Errika Perkins".

Errika Perkins
Chief Assistant County Auditor

Report Copies:

Mike Post
District Judges
County Judge Lina Hidalgo
Commissioners:
R. Jack Cagle
Rodney Ellis
Adrian Garcia
Tom Ramsey
Christian Menefee
David Berry

AUDIT REPORT
UNRECORDED CAPITAL ASSETS
OCTOBER 29, 2021

Executive Summary

OVERALL CONCLUSION

The Purchasing Agent submitted an inventory of capital assets to the County Auditor by the July 1, 2021 deadline, as required by Local Government Code (LGC) §262.011. In addition, disposed capital assets were removed from the County inventory through the proper approval process. However, controls surrounding the recording of purchased capital assets need improvement. Management has already implemented action plans to address the issue identified.

SCOPE AND OBJECTIVE

Pursuant to Local Government Code §262.011, the objectives of this engagement were to:

- Evaluate completeness of the inventory listing submitted to the County Auditor on July 1, 2021.
- Determine whether capital assets are properly disposed and added.

The procedures performed covered the 12-month scope period of July 1, 2020 to June 30, 2021.

SUMMARY OF AUDIT ISSUE

One expenditure was identified as an unrecorded capital asset within the County's financial records.

The audit issue, management's action plan to address the issue, and background information regarding this audit are discussed in more detail on the following pages. The audit issue is ranked based on the likelihood and impact of the risk to Harris County.

AUDIT ISSUE

ISSUE: Unrecorded Capital Assets [MODERATE]

What is the Issue: One of 13 (7%) expenditures selected for testing was identified as an unrecorded capital asset within the County's financial records. The identified unrecorded capital asset is a tactical security robot that was purchased by the Sheriff's Office for \$177,000. The sample of 13 expenditures reviewed by Audit Services was a subset of 351 expenditures identified as potentially unrecorded capital assets in the County's inventory and financial records. The remaining 338 expenditures have been submitted to the Auditor's Financial Accounting department for further review.

Subsequent to the audit procedures performed, the tactical robot has been tagged by the Purchasing Office and recorded as a capital asset by the Auditor's Office Financial Accounting team.

Why it Happened: The Sheriff's Office did not select the 'Inspection Needed' option within the PeopleSoft Purchasing Module when submitting the requisition for the robot, and the Auditor's Office did not identify this error during the review of the requested purchase. This option is required to be selected in order for a capital asset to be identified by the Purchasing Office for tagging and subsequently recorded as a capital asset by the Auditor's Office.

In addition, there is currently no automated monitoring control or report query within PeopleSoft that can identify capital assets that are purchased and improperly recorded within the PeopleSoft Purchasing Module.

Why it Matters: Improperly recording capital assets results in noncompliance with County Accounting Procedure A.1-1, *Property Handling Guidelines*, and results in financial misstatement within the County's financial records.

What is Expected: Pursuant to County Accounting Procedure A.1-1, *Property Handling Guidelines*, capital assets are County personal property with a unit value of \$5,000 or more. These items are recorded as a fixed asset on the General Ledger, depreciated over the useful life of the asset, and must be recorded on the County Inventory Listing. These items also must be tagged by the Purchasing Office.

What Action(s) are Suggested: The Auditor's Office should review the remaining 338 expenditures identified as potentially unrecorded capital assets and determine whether they are accurately recorded within the County's financial system.

In addition, the Auditor's Office Financial Accounting Department should implement a monitoring control whereby all County expenditures over \$5,000 are reviewed each month to ensure that they are properly recorded in the County's financial records.

MANAGEMENT'S ACTION PLAN

Responsible Party: Brandy Shaw, Auditor's Office Director of Financial Accounting

Management agrees with the issue. As of the date of this report, Financial Accounting has reviewed all of the 338 expenditures identified by the Audit Division as potentially unrecorded capital assets, and determined that six (6) items required reclassification and eleven (11) items require further research to determine proper classification. All others were properly classified. Furthermore, a monitoring control has been implemented whereby Financial Accounting reviews all County expenditures over \$5,000 each month to help ensure that they are properly recorded in the County's financial records.

Due Date: Implemented

BACKGROUND

In accordance with LGC §262.011, the County Purchasing Agent is an independent officer of the County and is responsible for the procurement of goods and services that are essential to the operations of Harris County. In order to minimize unnecessary purchases, the Purchasing Agent is responsible for maintaining an inventory of County property. The Purchasing Agent will store, transfer, and/or dispose of county property as needed. The Purchasing Agent is required to file an inventory of all property on hand and belonging to the County on July 1st of each year.

In order to ensure the accuracy and completeness of the County's asset inventory, certain responsibilities are shared by County departments and offices. The appointed or elected official for each department has the primary responsibility for safeguarding and accounting for departmental assets. As such, each department is required to conduct an annual inventory and to submit an "Inventory Completion Statement" to the Purchasing Office by May 1st of each year. In addition, the County Auditor is required to "carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory" (LGC § 262.011(i)).

For purposes of the annual inventory and fulfilling statutory requirements, Harris County defines "property on hand" as personal property and further classifies capital assets as follows:

Capital County Assets	<ul style="list-style-type: none">▪ County Personal Property with a unit value of \$5,000 or more.▪ Tagged by the Purchasing Services.▪ Capitalized on the County's General Ledger. <p>Examples: rolling equipment, some generators, pumps, and mainframe computer equipment.</p>
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ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing ("Standards"). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The work performed required our staff to exercise professional judgment in completing the engagement's scope. As the engagement's scope did not include a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.