

The Harris County
Auditor's Office



Newsletter



August 2014



Auditor's Office

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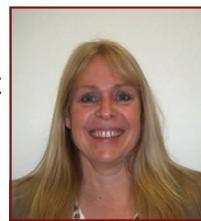
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*Harris County has Begun
the Process of Replacing
IFAS*

Did you know that IFAS is a teenager? The County's current financial system will soon be celebrating its "Sweet Sixteen". As such, it's time for a new baby. The County has determined it needs a new Tier 1 ERP System to match the size and complexity of Harris County, and a project is underway to do just that.



Gerri Reeves,
ERP Director

Two committees have been formed to address this issue. An Executive Steering Committee with five members (the County Auditor, County Purchasing Agent, County Budget Officer, ITC Executive Director, and County Treasurer) has overall responsibility for the project. A second level committee consists of leaders from the various departments (Budget Management, ITC, Purchasing, Treasury and the Auditor's Office) that meet weekly to discuss project initiatives and status.

Some of the initiatives that have

begun include:

- Documenting current processes
- Reviewing the chart of accounts

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- Cleaning up the vendor master files

When embarking on the journey to replace the financial system, the first step is to determine what the business requirements are.

For Harris County, the evaluation phase begins in the fall with a needs assessment. This will entail conducting business review workshops on current processes and documenting business and technical requirements.

The Needs Assessment has three major steps. They are:

1. Analysis of existing system & business processes

This analysis provides a high-level understanding of existing processes and identifies current process issues and potential improvement opportunities.

Key stakeholder departments have documented their current business processes in anticipation of the new system. Cross department meetings are under way to review processes and discuss potential improvements.

2. Documentation of business requirements

Leveraging the information from the analysis of existing systems and processes, the next step is to document the functional business requirements through focus group work sessions. This is where subject matter experts will review baseline requirements and identify county specific requirements. Interviews will be held with key stakeholders reviewing these requirements and to identify any additional requirements. Your department may be called upon to discuss current processes and challenges with the current system for use in the selection process.

3. Creation of a business case

The business requirements provided from current state analysis, key stakeholder interviews, and county government best practices are matched up with leading software products to validate software functionality to find the best fit for Harris County.

Your participation and input during the analysis and interview phase are crucial to the successful selection of the system.

If you have any questions regarding the needs assessment, please contact Gerri Reeves at 713-755-2624.

Harris County Receives 2014 NACo Achievement



The Harris County Auditor's Office, on behalf of Harris County, received a National Association of Counties (NACo) 2014 Achievement Award for the Auditor's Office - District Judges Portal program.



Steve Hoza,
Director of Systems & Procedures

The NACo Award Program is a non-competitive awards program which seeks to recognize innovative county government programs. Texas statute requires the County Auditor to submit financial reports to the District Judges of the county. With the economic downturn, in 2009, the Auditor's Office needed ways to streamline costs and improve efficiency in all possible areas. With budgetary constraints, the development of the Auditor's Office - District Judges Portal was not only timely but necessary. Preparing approved financial and

audit reports for binding and distribution was consuming extensive amounts of administrative labor, paper, binding, other office materials, mailing, hard copy file storage, and transportation costs. The need to reduce these costs, as well as the need to ensure the prompt delivery and immediate accessibility to issued reports, prompted the development of the Auditor's Office - District Judges Portal.

To implement the Auditor's Office - District Judges Portal, an intranet framework, utilized throughout the County for separate departmental intranets, was already in place. Therefore, this existing framework was simply expanded into an additional restricted and secure intranet site with only minor incidental costs required to develop and implement the program. The Auditor's Office - District Judges Portal, launched in May 2009, as an efficient tool to provide the District Judges with an electronic gateway to restricted and secure online access to an array of information including financial reports, the Harris County Auditor's Office annual budget request, audit reports, and other requested and helpful information prepared by the Auditor's Office, while at the same time saving costs associated with issuing hard copy documents.

The Auditor's Office - District Judges Portal program demonstrates the County's concern for and successful achievement of effective and efficient use of public resources with today's available technological environment, as well as transparency in government, by ensuring the District Judges are promptly provided information and a secure means of access to the site's content from any location at any time, 24/7/365.

Achieving Separation of Duties With Limited Resources

Do you often find your department being challenged with the ability to sustain separation of duties due to limited personnel and resources? Separation of duties (SoD) is accomplished when the steps in key processes are divided among two or more people so no one individual can act alone to subvert a process for his or her own gain or purposes. Further the lack of separation of duties is predominant in almost all occurrences of fraud. Fortunately, there are potential compensating controls, other solutions, and best practices to consider while experiencing separation of duties limitations. Let's take a look at a few of the suggested...



Deryle Simpson,
Senior Auditor

Continuously train staff of the importance to support internal controls and separation of duties

An organized training and development program provides staff with constant knowledge and experience. Consistency is extremely vital when it comes to an organization or department's procedures and policies. Placing continuous emphasis on the importance of separation of duties will relay a message of complete compliance and commitment to maintaining a strong internal control environment. Consider this, if each individual is properly aware of his/her own tasks and cross-trained on others' tasks within a process, it makes it easier to outline who is responsible and who is not responsible for performing certain duties and why. This is a basic form of cross-training. Take the cross-training concept to the next level by training staff for the purposes of rotating duties within the department. Rotation of duties is also a mechanism to subvert inappropriate activities.

Furthermore, an occasional job rotation is noted as a guideline within our Accounting Procedures Manual for various processes and departments. According to the Harris County Accounting Procedures Manual, *“Employees should be cross-trained in each other’s duties and rotated occasionally. This provides an additional method of checking for improprieties and also is beneficial for vacation relief.”* You can locate this guideline in the following procedures, for example:

Periodically review processes to eliminate wasteful activities and strengthen controls

In addition to reducing the risk of fraud and inappropriate activities, separation of duties can also reduce the risk of erroneous actions and manual errors. Reviewing and re-evaluating processes within your department may surprisingly expose inefficiencies and wasteful activities that are prone to errors or enable

Procedure	Procedure Title	Guideline
Harris County, Texas—Accounting Procedures Manual A.1	Cash Handling Guidelines	A. 11 – Employees should be cross-trained in each other’s duties and rotated occasionally. This provides an additional method of checking for improprieties and also is beneficial for vacation relief.
Harris County, Texas—Accounting Procedures Manual A.1 –3	Inventory Internal Controls Guidelines	A. 6 – Employees should be cross-trained in each other’s duties and rotated occasionally. This provides an additional method of checking for improprieties and also is beneficial for vacation relief.

Rotation of duties can also aide with the development and growth of individuals throughout their career. According to the U.S. Bureau of Labor Statistics (BLS), a recent Economic News Release reported, the *“Percent of employed wage and salary workers 25 years and over who had 10 years or more of tenure with their current employer by age (selected year, 2012)”* resulted:

Total	January 2012 (%)
25 to 29 years	2.5
30 to 34 years	12.5
35 to 39 years	25.2
40 to 44 years	35.1
45 to 49 years	41.6
50 to 54 years	48.4
55 to 59 years	54.1
60 to 64 years	55.1
65 years and over	55.5

Given these facts, management can plan ahead to create a rotational plan for individuals within a department, based on their career goals and the individual’s “expected” tenure. It is great to have subject matter experts; however, it is important to rotate employees for growth, development, promotion, and for minimizing improprieties.

fraudulent activities. Replacing wasteful desktop procedures with a strong set of separation of duties controls will improve the department’s overall process flow and control environment. Think of ways to revamp a tedious task in order to become more efficient and increase the ability to take on new tasks, so that, areas of responsibility can be shared appropriately.

Review current controls and evaluate whether they operate effectively and are followed by staff

Engaging all levels of departmental staff in a process and procedure assessment/review, completing questionnaires, and/or enforcing the use of a procedural checklist are just a few ways to evaluate and monitor an internal control structure. Often times, individuals are not aware that a particular task within a process is actually a control. Therefore, if an employee opts to bypass a small task, he or she could very well bypass a key control. In the same way, management override can also bypass key controls. Re-assess whether the controls established are indeed effective. Inform staff of the controls they are responsible for, and establish checks and

balances to reduce the opportunity to circumvent required activities.

Be aware of common areas that need Separation of Duties

In addition to training, periodic reviews, and self-assessments, departments can collaborate with other departments for suggestions of best practices. Departments can also collaborate to cross check each other as documents and transactions flow through a full cycle, in the form of compensating controls. For example, each report produced by Harris County Audit Services Department is reviewed by Harris County Systems & Procedures Department, prior to distribution. Systems & Procedures will cross check the report to ensure it is clear of grammatical errors, policies and procedures are correctly stated within the report, and references are statutorily correct.

Also, be aware of common areas that need separation of duties. Conduct brainstorming sessions to identify risks, control gaps, compensating controls, and potential rotation opportunities for personnel. There are various business cycles that require the existence of separation of duties, for example, Cash Receipts, Procurement, Cash Disbursements, Payroll, Inventory, Fixed Assets, Sales, Loans, Treasury and Investments, and the Financial Close Process. Separation of duties must exist in these areas in spite of the size of the organization, due to risks of fraud and manual errors. Refer to the Association of Certified Fraud Examiners website (www.acfe.com) and the Harris County, Texas Accounting Procedures Manual for assistance, as well. For example, guideline #7 in Accounting Procedure **A.1 – Cash Handling Guidelines** specifically states, “*The employees who accept payments should not be the same employees who balance receipts or deposit collections.*” Certain steps within the cash handling process require separation of duties; therefore, it is written. If you are not aware of what areas and processes require separation of duties, there is a possibility that you may not be in compliance with

procedures.

Resources:

<http://www.computerweekly.com/tip/Separation-of-duties-Small-business-best-practices>
http://en.wikipedia.org/wiki/Separation_of_duties
<http://www.artofthetart.com/importance-of-training/>
Harris County, Texas Accounting Procedures Manual
www.bls.gov
http://www.yale.edu/auditing/balancing/Separation_duties.html
<http://finance.vermont.gov/sites/finance/files/pdf/newsletters/June06.pdf>
<http://www.bdoconsulting.com/resources/thought-leaders/SegDutiesChecklist-19.pdf>

The Business of Construction

Construction is a major industry that heavily contributes to the U.S. economy and affects the lives of all U.S. citizens. According to the U.S. Department of Commerce, \$898.4 billion was spent on construction in the United States in 2013. Private company construction comprised \$627.2 billion dollars and public organizational construction (government related) comprised the other \$271.2 billion dollars. This total dollar amount was a 4.8% increase over the 2012 figures.



Eric Pertl,
Senior Auditor

Because there are large amounts of monetary resources involved with the construction industry, there is opportunity for occupational fraud and misuse, and therefore it is very important for auditors to review construction related projects. The 2014 Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud and Abuse stated that 3.1% of all fraud and abuse cases reported to them were in the construction industry, and those cases had a median loss of \$245,000.

Construction contracts or projects have many variables such as: they can be bid out as lump sum projects or they could be bid out as unit price projects in which each item of the contract has a price; they can be completed in days or they could take months or years to complete; they could be awarded to the lowest bidder or to the most qualified bidder. Because of these variables and many others like them, auditors must understand the scope and nature of the project at hand to be able to develop relevant audit objectives and testing procedures to achieve those objectives.

In a Construction Engagement, auditors could test the construction planning, design, bidding/ procurement, physical construction activities, pay estimates, closeout procedures, or much more. It is however particularly important that auditors test the Change in Contracts for all Construction

Projects that they review. A Change in Contract is a process whereby changes in the scope of work agreed to in the original contract is modified by the client, contractor, or the project designer. As such, auditors should verify that change orders have proper work scope descriptions, proper price justification for all additional work, and proper authorization.

As of February 28, 2013, Harris County's financial records included \$446,755,435 for Construction in Progress and \$768,911,212 for Flood Control projects. Harris County construction projects are bid and awarded through the Harris County Purchasing Department in order to ensure a fair bidding process as statutorily required, and all construction pay estimates are routed through the Auditor's Office Accounts Payable Department. Audit Services performed engagements on the construction divisions of the Road and Bridge Department and the Toll Road Authority to ensure that progress approval, invoice payments, and change orders are properly performed. Audit Services has additional audit engagements planned as well in order to increase the testing of Harris County construction projects.

Sources:

1. 2014 Association of Certified Fraud Examiners Report to the Nations on Occupational Fraud and Abuse
2. U.S. Department of Commerce – U.S Census Bureau News – February 3, 2014

Maintaining Fixed Asset Records Year Round

Inventory Maintenance

Regular inventory maintenance is an important tool in keeping your inventory records accurate. Texas Local Government Code (Code) §262.011 states “on July 1 of each year, the county purchasing agent shall file with the county auditor and each of the members of the board that appoint the county purchasing agent an inventory of all the property on hand and belonging to the county and each subdivision, officer, and employee of the county. The county auditor shall carefully examine the inventory and make and accounting for all property purchased or previously inventoried and not appearing in the inventory”.



Tonya Rose,
Audit Clerk

The Auditor's Office recommends generating a quarterly fixed asset report in the County's Inventory System, Integrated Financial and Administrative Solution (IFAS). Your department should review the data entry fields to monitor the quality of information and errors, and perform periodic property inventory self-audits. Additionally, if your department is large or has a high volume of fixed assets, you should consider maintaining your inventory list even more frequently. The Compliance Audit Department of the Auditor's Office has the authority to randomly review the fixed assets inventory of selected departments and issue reports with their recommendations.

Errors commonly associated with fixed asset records:

1. **Multiple Quantities** - This is when one purchase order is used to acquire multiple quantities of a particular piece of equipment. With a quick scan of your IFAS fixed asset report you can detect a Multiple Quantities error. This can be found if the number in the quantity column of your report is larger than one. For these items, the department did not

separate the individual fixed assets purchased in IFAS. It is important to make sure that the item is, “in fact” from a multiple quantity purchase order and not an incorrect quantity or typographical error. While scanning your IFAS report for multiple quantities and typos, you can also scan it for missing serial numbers.

Information about correcting Multiple Quantities can be located in Purchasing Services Fixed Asset Manual under Split Processing Guidelines¹. The IFAS Split Processing feature is used to create multiple records for a single line item on the purchase order, where the quantity is greater than one. The Split Processing guideline will help you understand the Split Processing feature and make better decisions concerning the items you are considering splitting.

2. **Serial Numbers** - If items are not separated on the inventory listing, serial numbers cannot be reflected. This makes locating and safeguarding specific fixed asset items a much more difficult task. Missing or inaccurate serial numbers from the inventory listing makes the reconciliation process very difficult and time consuming.
3. **Miscoded Assets** - When reviewing your inventory list, you may find that the list is not complete. The best audit practice to verify your inventory list is accurate is “Sheet to Shelf” (selecting fixed asset items on your inventory list and verifying the physical fixed assets exist) and “Shelf to Sheet” (selecting physical fixed assets and verifying them to the inventory list). If fixed asset items are not on the inventory list you need to investigate to see if the item is miscoded to either an incorrect object code or department. The fixed asset module in IFAS is designed such that capital equipment (Category I, see below) purchases coded to object codes 620300 and non-capital equipment (Category II & III, see below) coded to 620500 are automatically included in the County's property and equipment records. Equipment purchases coded to object code 620800 (Equipment under \$500) are not included in the County's records. Your department is responsible for ensuring the proper account coding is used for equipment purchases. When

performing your fixed asset inventory audits, you should ensure that fixed assets are accurately recorded. You can find a list of object codes in the IFAS Community section of the Harris County Intranet site.²

- **Category I - Capital County Assets**, 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 in IFAS.
- **Category II - Controlled County Assets**, County personal property with a unit value of or between \$500 and \$4,999.99 that has a unique identifying number such as a serial number. These items **are not** recorded as a fixed asset on the General Ledger but **must** be recorded on the County Inventory Listing in IFAS.³
- **Category III - Discretionary County Assets**, County personal property with a unit value of less than \$5,000 that does not have a unique identifying number such as a serial number. These items **are not recorded** as a fixed asset on the General Ledger but **may**, at the option of the User Department, be coded to and recorded on the County Inventory Listing in IFAS.³

Safeguarding Assets

Along with regular maintenance of inventory, every Department should establish written policies and procedures for handling and safeguarding their inventory. Inventory should be secured at all times when not being used or when your Department is closed. Access restrictions to inventory may include physical barriers such as storerooms, locked offices, buildings, garages, and enclosed fences. Access to inventory should be permitted only in accordance with management's authorization and established internal policies and procedures. Limits should be placed on quantities of inventory to make theft easier to detect. As per

policy⁴, all suspected criminal misconduct should be investigated and reported to the District Attorney's Office. If a theft is suspected or discovered, contact each of the following:

- County Auditor
Chief Assistant-Audit Division
(713) 274-5673
- Budget Management Department
Risk Management - Deputy Director -
Claims
(713) 274-5458
- District Attorney
Governmental Integrity Bureaus
(713) 755-8330

As discussed above, maintaining your inventory year round will improve internal controls and help make your annual inventory audit much smoother.

Additional inventory policy references are:

- I.5 Furniture & Equipment – Accounting for Deleted Property
- I.5-1 Furniture & Equipment – Disposal of Waste Items
- I.6 Furniture & Equipment – Surplus Property
- I.7 Furniture & Equipment – Recovery of Inventory

Sources

¹Purchasing Services Fixed Asset Manual
<http://www.harriscountytx.gov/CmpDocuments/98/PDF/FixedAssetTrainingManual%203.0.pdf>

²Account Code Structure-GL Object Codes
<http://www.harriscountytx.gov/CmpDocuments/74/Budget/L-Account%20Code%20Structure%20OBJECT%20CODES-FY13.pdf>

³Accounting Procedure A.1-1 Property Handling Guidelines
http://svpitcrobo/robohelp/robo/server/general/projects/Procedures/A1-1_property_handling_guidelines.pdf

⁴Accounting Procedure A.1-3 Inventory Control Guidelines
http://svpitcrobo/robohelp/robo/server/general/projects/Procedures/A1-3_InventoryInternalControlGuidelines.pdf

What Happens to all the Taxes Deducted From Your Paycheck?

Have you ever wondered what happens to the money for social security, Medicare and withholding taxes that are deducted from your paycheck? One of the main responsibilities of the Payroll Department is to submit these taxes to the IRS the day following your pay day.



Linda Dougherty,
Assistant Director of
Payroll

Payroll reconciles gross salary to net pay each payroll. We keep track of these payroll deductions in order to submit Form 941 to the IRS on a quarterly basis. Four quarters of data are posted to a spreadsheet and will reconcile to the total of all W-2's issued by Payroll by entity (Flood Control, CSCD, 911, Election & County). Our spreadsheet recaps each pay period by quarter for the year. The IRS requires that Form 941 be submitted by the end of the month following the end of a calendar quarter. There are 5 entities that generate data each quarter and each entity must be kept separately.

Form 941 recaps all the wages that are subject to federal withholding tax, social security and Medicare. With the new additional Medicare tax on high earners, this too is recorded on the 941. So the IRS knows the taxes we deducted and the payments we have made on a quarterly basis. Since our total tax liability exceeds \$100,000 each payroll, the payment is due to the IRS the next business day.

Each entity has its' own Employer Identification number. Payroll generates an internal form that computes the amount of tax due on a pay period basis and submits the form to Financial Accounting, who in turn submits to Cash Management and then to Treasury so that the monies are paid using electronic means.

What happens if the 941 deposit is made late? Of course there are penalties and interest due to the IRS. The first through the fifth day being late will

generate a 2% penalty of the total tax due. So tracking this payment through each of the departments using emails to ensure that the payment is made timely is a vital component of the responsibilities Payroll has to perform to keep Payroll in compliance with IRS regulations.

Another Grant Audit???

Why does it seem like as soon as one grant audit is finished another is beginning? There is always an audit or a site monitoring visit or a desk review being conducted by one of the granting agencies or the external auditors are here conducting the OMB A-133 Single Audit. Many times the audits are being conducted at the same time. The best way to address your audits is to review areas that have had deficiencies in the past.



Paul Wilden,
Grants
Accounting
Manager

Audits, monitoring visits, or desk reviews conducted by the granting agency or external auditors have disclosed some common deficiencies in the administration of grants. Among the most common are:

- Personnel costs charged to grant projects were not supported by adequate documentation. For example, personnel activity reports should be maintained that show the actual activity of each employee, whose compensation was charged, in whole or in part, to a grant project.
- Reported grant project costs did not agree with the accounting records; i.e., the financial status reports were not prepared directly from the general ledger or subsidiary ledgers or from worksheets reconciled to the accounts.
- In-kind contributions of goods and services charged to the grant projects were not

supported by documentation adequate for establishing valuations of the contributions.

- No documented basis was provided to support the amount allocated to the grant project for indirect (common) costs which benefitted all projects and activities of the organization.
- Independent audits required by OMB Circular A-133 were not performed or did not meet the standards for audits of federal grants.
- Grantees' financial management systems lacked adequate internal controls. For example, proper segregation of duties to safeguard resources or procedures for comparing actual outlays with the budget.
- Grantees failed to spend advances of federal funds in a timely manner.

During FY14, there was over \$110,000,000 of personnel grant expenditures here at Harris County, so naturally the external auditors will focus much of their time and attention on documentation related to these personnel expenditures. The Office of Budget Management (OMB) defines the cost principals and how federal grant expenditures must be documented. State grants are regulated by the Uniform Grants Management Standards (UGMS) which has adopted the same principals as the OMB Circular A-87.

OMB Circular A-87 Attachment B (8)(h) states:

Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

- (3) Where employees are expected to work

solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. A single cost objective is defined as "one function, organizational subdivision, contract, grant or other activity for which cost data are needed and for which costs are incurred."

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:

- (a) More than one federal award,
- (b) A federal award and a non-federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is

compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Due to the regulation cited above, we are required to provide time and effort documentation for any employee which is paid from more than one source. This time and effort documentation must be reflective of actual hours worked. This can be accomplished by following Harris County Auditor Procedure O.1-3- *Preparation of Capital Project/ Grant/Disaster Allocation Time Sheet*.

Semi-annual certifications may be used in lieu of time and effort documentation only in cases where the employee is conducting work under one cost

objective and is funded from only one source. These semi-annual certifications, as authorized by OMB Circular A-87, must be signed by the employee and supervisor or just the supervisor if they have first hand knowledge of the information contained in the certification. These documents should be kept in the department's personnel files or in other conspicuous locations to aid in the audit and review of grants payroll information.

Harris County's Financial Statement Presentation in the Comprehensive Annual Financial Report (CAFR)

Both Government Wide Financial Statements which are presented on an accrual basis of accounting and Fund Statements which for Governmental Funds are presented on a modified accrual basis of accounting are included in the CAFR. A reconciliation to convert the Governmental Fund presentation to Government Wide Financial Statements is also included in the CAFR. The accounts of the County are organized and operated on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories in Harris County's Financial Statements: Governmental, Proprietary, and Fiduciary. The General Fund is considered to be the major Governmental Fund of the County and the Toll Road Authority is considered to be the major Proprietary Fund of the County for CAFR presentation.



Carol Market,
Director of Financial
Accounting

Government-wide Statements

Government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially

accountable.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of Activities demonstrates the degree to which the direct expenses of the County's programs are offset by those programs' revenues. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues include those generated from administration of justice, parks, county administration, health and human services, flood control, tax administration, and roads and bridges. Taxes and other items not included among program revenues are reported instead as general revenues. Miscellaneous general revenues contain non-program specific contributions including capital asset contributions.

Fiduciary funds are excluded from the government-wide presentation of the financial statements.

Fund Statements

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers property taxes and other revenues as

available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on governmental long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Grant and entitlement revenues are also susceptible to accrual. These funds are accounted for on a spending "*financial flow*" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "*available spendable resources*." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "*available spendable resources*" during a period.

All proprietary funds, including the enterprise and internal service funds, and fiduciary funds, including agency funds, are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when they are incurred. Claims incurred but not reported are included in payables and expenses. These funds are accounted for using an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included in the funds' statement of net position. The agency funds are custodial in nature and involve no measurement of results of operations.

The accounts of the County are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. The major funds of the County are noted within each category.

GOVERNMENTAL FUNDS: Used to account for all or most of a government's general activity.

General Fund - used to account for the general operations of the County, limited-tax permanent improvement debt service of the County, public improvement contingencies, the mobility program, and "internal special revenue funds" not meeting the special revenue fund definition of GAAP.

PROPRIETARY FUNDS: Enterprise funds are used to account for operations that are financed in a manner similar to those in the private sector, where the determination of net income is appropriate for sound financial administration.

Toll Road Authority - used to account for the acquisition, operation, and maintenance of County toll roads. These facilities are financed primarily through user charges.

FIDUCIARY FUNDS: Used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The County reports nineteen agency funds as fiduciary funds. Agency funds are used to account for assets held by the County as an agent on behalf of various third parties outside the primary government.

Both Government Wide Financial Statements and Fund Financial Statements are included in the CAFR. These two Financial Statement presentations differ in their basis of accounting and measurement focus. Resources are allocated to and accounted for in individual funds which are separate fiscal and accounting entities with a self-balancing set of accounts. The County has three categories of funds, Governmental, Proprietary, and Fiduciary.

Payment of Accounts Payable Invoices in a Timely Manner

It is the responsibility of the Accounts Payable claims processors and user departments to ensure payments to vendors are made in a timely manner. This can be a challenge considering payments must first be approved by Commissioners Court, as required by state statutes, before checks and direct deposits can be released to vendors.



Mel Trammell,
Assistant Chief—
Disbursements

The role of County departments in the payment process is critical. Each County Department is responsible for approving invoices in a timely manner, either electronically through IFAS or manually via a County Auditor's Form 1268, Request for Payment. Such approval acknowledges and certifies that the expenditure is a correct and legally authorized County expenditure, the goods and/or services were received, and the account coding is correct.

Late payment of the County's bills may result in the following undesirable outcomes:

- Vendors are less likely to desire doing business with the County.
- Vendors may increase prices.
- The entire County may be cut off from doing business with a vendor due to late payment by one department.
- Interest may accrue for the past due amount.
- The image of the county may be negatively impacted.

Pursuant to Texas Government Code, Title 10, §2251.021, "[...] a payment by a governmental

entity under a contract executed on or after September 1, 1987, is overdue on the 31st day after the later of:

- 1) The date the governmental entity receives the goods under the contract;
- 2) The date the performance of the service under the contract is completed; or
- 3) The date the governmental entity receives an invoice for the goods or service."

Pursuant to Texas Government Code, Title 10, §2251.042(a), "A governmental entity shall notify a vendor of an error in an invoice submitted for payment by the vendor not later than the 21st day after the date the entity receives the invoice."

Pursuant to Texas Government Code, Title 10, §2251.002, the chapter "[...] does not apply to a payment made by a governmental entity [...] if [...]:

- 1) there is a bona fide dispute between the political subdivision and a vendor, contractor, subcontractor, or supplier about the goods delivered or the service performed that causes the payment to be late;
- 2) there is a bona fide dispute between a vendor and a subcontractor or between a subcontractor and its supplier about the goods delivered or the service performed that causes the payment to be late;
- 3) the terms of a federal contract, grant, regulation, or statute prevent the governmental entity from making a timely payment with federal funds; or
- 4) the invoice is not mailed to the person to whom it is addressed in strict accordance with any instruction on the purchase order relating to the payment."

Therefore, invoices relating to purchase orders sent by the vendor directly to the County Department are not subject to the 30-day payment provision until they are received by the Harris

County Auditor's Office - Accounts Payable Department . In addition, incomplete and inaccurate invoices must be disputed within 21 days of Accounts Payable's receipt of the invoice.

One the most important steps departments must take to ensure invoices are paid timely is to quickly resolve issues listed on their "Problem P.O. Report".

(AP_PROB_POS PO's with Problems – Invoices by Department)

This report identifies most of the invoices that have been submitted to the Auditor's Office that have not been processed in a timely manner. As of this date, this report listed 390 invoices totaling \$891,679.28, of these 207 invoices totaling \$627,842.44 had invoice dates that were more than 30 days prior to the report run date.

Invoices appear on this report for the following reasons:

- The expense on the invoice does not match the Purchase Order (the PO lists a car and the invoice is for a truck)
- There is no Purchase Order
- The invoice exceeds the Purchase Order by more than \$25

Departments should work with the Purchasing Department's buyer to resolve Purchase Order issues and with the Budget Office if additional budget is required.

Another important step departments must take to ensure invoices are paid timely is to quickly review and approve invoices awaiting their approval in IFAS.

AP_IN_DEPT_APRV (AP: Invoices in Approval Process)

User departments should not approve an invoice for payment if the goods or services are not satisfactorily received, or if the invoice is in error. The Accounts Payable claims processor must be promptly notified of any invoice that is in dispute. The Purchasing Department's buyer must also be

made aware of an unsatisfactory receipt, product, or service issue with a vendor.

Appropriate precaution should be taken to ensure that only valid invoices are paid. Accounts Payable Standards for a Valid & Accurate Invoice Include:

- Invoice must be original and have a number
- Invoice information must be legible
- Vendor's name & remittance address must be on the invoice
- Invoice must be dated
- Purchase Order number or Harris County Department must appear on the invoice
- Vendor's name on invoice must match vendor's name on purchase order

Because resolving "Problem P.O.s and addressing invoices awaiting approval in IFAS are extremely critical to ensuring invoices are paid timely, in the near future department heads will begin receiving from the Harris County Auditor at least monthly a list of any invoices on their Problem PO Report or any invoices waiting their approval in IFAS for more than 30 days.

To ensure invoices are paid timely, departments should also provide vendors with a current P.O. number at the time of order and instruct vendors to submit invoices directly to the Auditor's Office – Accounts Payable.

Adherence to the Accounts Payable Invoice Processing Schedule for processing invoices will also help to ensure invoices are paid timely. Generally the deadlines for submitting invoices and requests for payments is the Monday prior to the week of the Commissioners Court meeting and the deadline for approving invoices in workflow (IFAS) is the Friday prior to the Commissioners Court meeting. The Invoice Processing Schedule (Settlement Schedule) may

be accessed on the following Harris County Auditor's Website:

http://www.harriscountytexas.gov/cmpdocuments/66/miscdocs/internet_elec_funds_settlement_schedule.pdf

If you need any assistance from the Harris County Auditor's Office, please contact your Accounts Payable Claims Processor or Accounts Payable management:

Reginald Yancey 713-755-1455, Accounts Payable Manager

Jacqueline Roney 713-755-4458, Accounts Payable Supervisor

Christopher Casas 713-755-4121), Accounts Payable Supervisor

Continuous Auditing: Moving Forward

The Continuous Auditing Department approach is changing. Historically, the department focused on developing analytics with a preventive controls framework in mind. In other words, tests were designed to ensure that controls were in place to prevent issues from developing. While we will continue to perform and develop this type of test, the Continuous Auditing department will embark on a more responsive audit driven approach.



Porter Broyles,
Senior Auditor

To this end, certain members of Audit Services have been tasked to form a think tank to help identify opportunities to incorporate data analytics in all Audit Services engagements. The goal of this think tank will be to enable Audit Services to provide higher impact audits and analytics on entire populations of transactions. This group may

assist in performing specific tests on an engagement. They may also attempt to quantify and qualify potential issues. In other words, if an auditor identifies an outlier/exception, that auditor may contact the Continuous Audit staff to determine if similar exceptions exist on the system and the potential exposure from the issue.

This means that new Continuous Auditing tests may be rolled out in a more incremental manner as compared to a comprehensive finalized project. If an issue is identified in how a specific transaction is processed, Continuous Auditing may develop a recurring test for that specific type of transaction immediately. Previously, identified issues were noted for follow-up when a comprehensive audit module could be developed and approved.

To support the emphasis placed on this data driven audit approach, comprehensive hands-on training was provided to audit services staff.

Currently, the following analyses are performed by Continuous Auditing:

A Baseline Analysis

Everyday employees of the County Auditor's Office utilize the IFAS system to process various financial transactions. They rely upon the system to process entries the same way every time. Management expects the system to perform certain checks and processes to generate the correct output. The staff and management, however, do not monitor how the system is configured on a daily basis. It is assumed that the system is only changed when properly approved by the appropriate level of management.

Well, to help provide the County Auditor with assurance that IFAS functionality only changes after managerial approval; Continuous Auditing has identified 53 key data tables (i.e. collections of related information) that affect the operations, system security, or financial records. Changes to these tables are audited on a daily basis to ensure that changes that may have critical impact are approved by the appropriate level of management.

The Health Insurance Claims Analysis

Harris County's health insurance is self-funded, but administered by Aetna Insurance. Local Government Code §113.064 requires that the County Auditor review and approve all claims before payment is made. The Health Insurance Analysis evaluates 100% of the claims submitted by Aetna for reimbursement. If Continuous Auditing cannot verify coverage, then those claims are turned over to Human Resources: Risk Management (HRRM) for further investigation and possible refund to the County. Every month, Continuous Auditing analyzes between 70,000 and 80,000 claims to ensure that they belong to valid policy holders.

The Cash Receipt Batch Security Report

Numerous locations around the County receive cash payments (cash, check, charge, etc.). The receipt of a cash payment is entered into the Cash Receipt system via batches. Two critical functions related to cash receipts are the ability to distribute (e.g. record) and update existing batches. Having access to perform either of these functions can be used to override normal controls and should be closely monitored as the recording of cash payments poses risks not present with other types of financial transactions. To help identify individuals who have these control overrides, a monthly report is produced by Continuous Auditing and distributed to Audit Services and Compliance Audit management. This report is then utilized to assess control risks when planning an audit engagement.

Cash Controls

It is important to have strong cash controls in place to minimize the County's exposure to loss and to safeguard public assets. This article will outline some of the minimal requirements needed for establishing adequate internal controls for processing cash, and cash equivalents (checks, credit cards, money orders, etc.).



Bobby Cato,
Compliance Audit
Manager

A good place to start is with procedures located on the Harris County intranet and any internal procedures you may have. The procedures relevant for this topic at Harris County are the *Cash Handling Guidelines, Procedure A.1*.

<http://svpitcrobo/robohelp/robo/server/general/projects/Procedures/A-1-CashHandlingGuidelines.pdf>

When evaluating your cash controls don't forget about physical security. Adequate physical security should be provided for people handling cash such as closed rooms, locked doors, etc. Additionally, individual locking cash drawers and individual user Id's and passwords for appropriate computer accounting/receipting systems should be provided for each employee with the responsibility for handling cash.

Let's talk about receipts, all receipt forms must be County Auditor approved, and should be pre-numbered or numbered by a computer system with adequate safeguards regarding the numbering process. Maintaining the integrity of the numerical sequence is an important control that should be monitored to ensure that all services provided are documented with a receipt and the receipt totals match the daily cash and cash equivalent totals. This reconciliation helps ensure all transactions are recorded. Additionally, if a computer-generated receipting system exists, a manual back up receipting

system should be made available to allow for computer system downtime or other situations when a computer system receipt cannot be produced and a payment is received. Another item to consider is that funds received should be immediately receipted in the appropriate receipting system at the time of collection in order to provide timely accountability and proof of payment. When the occasion occurs and a receipt needs to be voided, the processing and/or approval of voided receipts should be limited to supervisors. The supervisor should account for the original and all copies of any voided receipts. As a supervisor responsible for the area, you should pay particular attention to excessive voids or refunds as that may be a symptom of training needs or other kinds of issues that could be more serious. If you would like some additional information in this area please do not hesitate to call me at 713-755-6538. You should also have signs posted advising the customer to obtain a receipt for payment and a sample receipt should be posted on the sign to inform the customer what they should receive as a receipt.

There is an additional specific control necessary for checks and money orders. All checks and money orders received should be restrictively endorsed "For Deposit Only" with the appropriate organization name, organization number and location number immediately upon receipt.

Generally, for all funds received the clerk should close the cash drawer at least daily and reconcile the cash balance against receipts issued. Any overages or shortages should be reported to their supervisor in accordance with internal procedures. Usually, overages should be recorded as appropriate and deposited with other collections, and shortages should be investigated and replenished. For lost or stolen cash, indemnification may be requested by the officer in accordance with Accounting Procedure C.3, *Indemnification of Public Officials – Lost or Stolen Cash*.

[http://svpitcrobo/robohelp/robo/server/general/projects/Procedures/C3 Indemnification of Public Officials-Lost or Stolen Cash.pdf](http://svpitcrobo/robohelp/robo/server/general/projects/Procedures/C3%20Indemnification%20of%20Public%20Officials-Lost%20or%20Stolen%20Cash.pdf)

Timeliness of deposits is a control you need to

ensure is complied with as well. In accordance with Texas Local Government Code (LGC) 113.022, a county officer who receives funds shall deposit the funds with the county treasurer on or before the next regular business day after the date on which the funds are received. If this deadline is not met, the officer must deposit the funds, without exception, on or before the fifth business day after the day on which the funds are received. In addition, consideration needs to be given to who prepares the daily deposit. Any employees who accept payments should not be the same employees who balance receipts or prepare deposit collections.

This article is intended to increase awareness of cash controls and document controls you should have in place or are following because they are required by Harris County procedures or Texas Local Government Code. As stated earlier, I would be available to answer any other questions regarding cash handling or this article.

County Auditor's Office Employees Service Anniversaries

Congratulations to the following employees who have reached their anniversary milestone with Harris County this year. Each employee's length of County Service and the month that the milestone was reached is shown below.

January	<u>Length of Service</u>	April	<u>Length of Service</u>	July	<u>Length of Service</u>
Curt Weller	32	Brenda Tucker	11	Leslie Pope	30
Wendee McCain	23	Mark Ledman	8	Tammie Sonnier	24
Maggie Cauley	17	Darlene Taylor	8	Michael O'Barr	14
Sheli Ruis	15	Pat Moreno	7	Tom Ngo	13
Timothy Leonard	14	Lisa Godfrey	6	Ollie Willis	11
Vicki Cash	14	Greg Lueb	6	Cynthia Acosta	8
JoEllen Lamb	13	Velia Frias	5	Wai Leung	7
Carol Market	11	Shennen Williams	4	Eric Pertl	7
Jose Mendoza	11	Elizabeth Garcia	3	Lin Zhong	6
Tijuana Smith	9	Jonathan Drury	2	Luis Cedeno	2
Marie Cary	6	Angela Billard	2	Sharonda Cato	2
Wendi Welsh	5	Jolanda Smith	1	Jason Vance	2
Courtney Weaver	1	Tram Tran	1	Maricela Barrera	1
		Kimberly Olison	1	Cheran Marcial	1
February		May		Anna Davila	1
Yolanda Anderson	28	Gwendolyn Foy	15	Yolanda Gentry	1
Anna Spalding	14	Rosa Trevino	14	Sonia Johnson	1
Filomeno Vilorio	13	Nicholas McGee	11	Raquel Vasquez	1
Clarice Brown	10	Sophana Ven	9		
Courtney Leigh	10	Tanya Williams	7	August	
Ronald Foster	9	Peter Cripps	6	Trina Cheney	30
Sylvia Mercy	7	La'Sha Kelly	2	Stephen Hoza	25
Mellanie Tostado	5	Davina DeWitt	1	Christopher Casas	18
Robert Jones	5	Anthony Li	1	Michael Post	18
Ada Rodriguez	4			Barbara Schott	14
Vashti Collins	2			Betty Lew	8
		June		David Tish	8
March		Mary Jo Zalesky	35	Linda Dougherty	4
Patricia Mata	14	Harland Maisel	28	Yang Liu	3
Cynthia Smith	10	Donna Godair	24	Firouzah Bahrami	2
Calvin Clark	9	Cassandra Smith	10		
Charles McDonald	6	Janice Butera	1		
Justin Alexander	1				
Derryle Simpson	1				
Akedriona Fontenot	1				
Michelle Ramsey	1				
Damodar Tripathee	1				

Congratulations to each of YOU!!!



Barbara J. Schott, C.P.A.
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