

The Harris County Auditor's Office



Newsletter



April 2016



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IFAS Replacement Project Status Update

Since our last report in the September 2015 newsletter, some significant activities have occurred. Most notably, we have a new member of our ERP Project Team. Tony Padon has joined the Auditor's Office staff and is transitioning to become the new ERP Project Manager for the Auditor's Office. Tony and I will continue to work together on the project until the end of my engagement with the Auditor's Office in mid-2016.



Bill Briggs
ERP Project Manager



Tony Padon
ERP Project Manager
Auditor's Office

Tony is a CPA and also has an MBA from the University of Houston. His professional experience includes 9 years with Deloitte building an ERP Implementation practice, 8 years with Oracle managing large ERP Implementation projects in the Americas and most recently with the City of Houston. While with the City of Houston Tony managed to successfully complete the development and deployment of a large, custom application to manage all of the City's municipal court functions. We are very pleased to have him join our staff and look forward to having his experience and leadership on this important project for the County.

Regarding project activities, we continue to move forward with some important developments:

- We are in the final stages of determining the full scope of software

we expect to purchase and implement as we prepare to replace IFAS. Purchasing is presently handling the negotiations for module licensing and an annual maintenance agreement which is expected to be completed in early 2016 subject to approval by the ERP Executive Steering Committee and the Harris County Commissioners' Court.

- The Executive Advisory Committee has approved a work

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plan that takes the project through the process of selecting an implementation vendor and contracting for their services. An integral part of this work plan is preparing the Request For Proposal (RFP) to distribute to prospective Implementation vendors. Purchasing is drafting the RFP for the EAC's final review. The implementation vendor evaluation and selection process is anticipated to be completed by mid-summer of 2016.

- Once the implementation vendor has been selected a start date for the project will be determined. The County, in conjunction with the vendor, will then prepare the detailed implementation work plan and timeline complete with specific targeted milestone accomplishments and deliverable dates.
- Between now and the start of the implementation project, the functional and technical project team members will be working on several important pre-implementation initiatives including:
 - ◆ Participating in an initial round of training classes so that when the vendor implementation team starts, the Harris County team members will have a reasonable familiarity with the selected applications. This will make the application process design and configuration sessions for each module as efficient as possible.
 - ◆ Identifying all data files that will need to be converted to the new system and evaluating them to insure they are as clean and complete as needed before they are converted into the new system. It typically requires a very substantial effort to clean some of the data files in preparation for their conversion. Project timelines will be developed and technical and functional resources will be assigned to complete this important preparation work.
 - ◆ Confirming the inventory of Harris County systems that will require to/from interfaces with the new system and developing project plans to design and develop these interfaces. Depending on the complexity of the interfaces to be developed and maintained in the future - and the capability of the new ERP system to perform that same function - there could be the opportunity to replace certain 3rd party applications with functionality that is standard in the new system.
 - ◆ Assessing the current list of Harris County reports and queries in use and determining their relative priorities. This will allow us to assess the ability of the new ERP systems to produce the needed reports in a systematic

and efficient manner.

- ◆ Establishing project governance procedures with specific roles and responsibilities defined and assigned. This will ensure that decisions that are needed during the project can be made timely and efficiently and issues encountered during the ERP implementation can be escalated and solved promptly and orderly.

Social Security and Medicare Tax Information

The Social Security (SS) wage base for 2016 will be \$118,500; remains unchanged from 2015. As in prior years, there is no minimum limit to the wages subject to the Medicare tax. All covered wages are subject to the 1.45% tax. Wages paid in excess of \$200,000 in 2016 will be subject to an extra 0.9% Medicare tax that is only withheld from the employees' wages.



**Jenny Ly,
Director of Payroll**

The maximum social security tax employees and employers will each pay in 2016 is \$7,347. This also remains unchanged from 2015.

Social security beneficiaries are not receiving a cost of living increase. The SSA says this news isn't necessarily bad. When inflation stays low, the rational is that an individual's cost of living also stays the same. The government measures changes in the cost of living through the Department of Labor's Consumer Price Index (CPI). Since the CPI has not risen over the past year, there is no increase in the benefit amount people receive each month.

W-2's ONLINE:

W-2's are available to download and print from the Employee Online Website. If you have not chosen the option to go paperless, your W-2 was mailed on or before February 1, 2016. Our continued mission to "GO GREEN" utilizes the employee website to download and print the W-2. About one half of our employees have gone green and print their W-2 from the website.

DEFERRED COMPENSATION:

The limitation under elective deferrals for a 457 Plan for 2016 is \$18,000; remains unchanged from 2015. The catch-up provision for individuals age 50 or over at the end of the calendar year is \$6,000, remains unchanged from 2015.

REVIEW FORM W-4:

Remember to submit a new W-4 for 2016 if your filing status changed at any time during this year. If you claimed "exempt" from federal withholding during 2015, you must complete a new Form W-4 by February 16, 2016. Federal regulations require that the payroll department begin withholding federal income tax on the February 26, 2016 paycheck as if you are single, with zero withholding allowances if a new exempt form is not completed timely. Employees can use the Employee Information website to make changes to the W-4.

Please encourage your staff to file an updated Form W-4 for 2016. Employees can access the IRS Withholding Calculator on the IRS website at <https://www.irs.gov/Individuals/IRS-Withholding-Calculator> for help in determining how many withholding allowances to claim on their Form W-4.

Compliance With Seized and Forfeited Funds

The Auditor's Office - Systems & Procedures Department recently revised Accounting Procedure A.3 -1, Compliance with Seized and Forfeited Funds. This article highlights some of the changes and clarifications made to this procedure.



**Steve Hoza, CPA
Director,
Systems & Procedures**

Chapter 59 of the Texas Code of Criminal Procedure (CCP) governs the forfeiture of contraband in Texas. Article 59.06 of that chapter states that all forfeited property, except as provided by Subsection (k), shall be administered by the attorney representing the state (i.e., the Harris County District Attorney), acting as the agent of the state, in accordance with accepted accounting practices and with the provisions of any local agreement entered into between the District Attorney and law enforcement agencies. Harris County law enforcement agencies (i.e., departments) include the eight Constables, County Attorney, Fire Marshal, and Sheriff.

Upon forfeiture, if a local agreement exists between the District Attorney and law enforcement agencies, all money, securities, negotiable instruments, stocks or bonds, things of value, or proceeds from the sale of those items, shall be deposited according to the terms of the agreement into one or more funds prescribed in 59.06(c). Otherwise, proceeds from forfeited property are distributed, as appropriate, to the State Treasury's general revenue fund.

Any post-judgment interest from assets deposited above or proceeds from the sale of those items that are deposited in an interest-bearing bank account under Subsection (c) shall be used for the same purpose as the principal.

Some of the permissible and prohibited uses of proceeds and property forfeited under Chapter 59 are found in the various subsections of 59.06.

The District Attorney is responsible for the disbursement of forfeited cash once a final judgment for the forfeiture case is rendered.

Two different statutes require performing audit-type procedures relative to these funds. The Budget Management Department - Financial Management facilitates the hiring of an independent external auditor to perform an annual audit of the Asset Forfeiture Reports on behalf of Commissioners Court in accordance with CCP 59.06(g). The District Attorney and each law enforcement agency are responsible for the preparation and submission of their annual Chapter 59 Asset Forfeiture Report to the State Attorney General's Office. Additionally and separately, the Auditor's Office - Audit Services Department performs procedures relative to seized and forfeited funds in accordance with Texas Local Government Code §115.0035.

Upon receiving funds via cashier's check from the District Attorney, a law enforcement department, in accordance with Texas Local Government Code §113.022, must deposit the funds on or before the next regular business day after the day they received the funds. If this deadline is not met, the law enforcement department must deposit the funds, without exception, on or before the fifth business day after the day they received the funds. Note that this timing starts when the law enforcement department receives their check from the District Attorney.

Once received, a law enforcement department wishing to use forfeited funds cannot spend them until the department: (i) has submitted a budget to Commissioners Court detailing each category of expenses for which the forfeited funds will be used, and (ii) obtains an order from Commissioners Court approving the budget. The proposed budget cannot list any details that might endanger the security of an

investigation or prosecution. See CCP 59.06(d). If the department wants the forfeited funds to be added to its current budget and available to use, the department needs to submit a supplemental revenue request in writing (email is acceptable) to the Auditor's Office - Revenue Accounting Department in accordance with Accounting Procedure A.19, Revenue Recognition Guidelines, to increase its current budget by the amount of the new funds.

Revenue Accounting will submit the supplemental revenue request to Commissioners Court for certification, and the Budget Management Department will submit the expense budget for the new funds to Commissioners Court. Upon Commissioners Court approval, Revenue Accounting will enter the supplemental revenue information into IFAS, and the Budget Management Department will enter the supplemental budget of expenditures into IFAS. If the department does not initiate and undergo the supplemental revenue process, the funds will remain in the department's cash balance and become a part of the department's available resources for the next fiscal year.

If the department intends to use forfeited funds for an increase in salary or for overtime pay, it must first obtain a Commissioners Court order. See CCP 59.06(d-1)(7). If the department wishes to increase any previously budgeted salary, expense, or allowance, it must first obtain a Commissioners Court order. See CCP 59.06(d-1)(7). If the department head is an elected official who did not timely file an application to be a candidate in an upcoming election or was not the prevailing candidate in the last election, the department must obtain a Commissioners Court order before spending any Chapter 59 monies. See CCP 59.02(d-1)(6).

County employees may access Accounting Procedure A.3-1, Compliance with Seized and Forfeited Funds, from the Auditor's Office intranet site at the link provided below.

<https://aud.webhc.hctx.net/procsforms/sitepages/accounting%20manual.aspx>

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Departments: Anticipate an Increase in Unannounced Cash Audit Visits

The Compliance Audit department of Harris County (the County) is increasing unannounced cash audits. Specifically, unannounced cash audits is a duty of the Compliance Audit team under the title of "Report Audits."



Jay Siegel, CPA
Manager,
Compliance Audit

Statutory Authority for Unannounced Cash Visits

Texas Local Government Code (LGC) §115.002 and §115.0035, among others, and in part, enables unannounced cash visits by the Harris County Auditor. Paraphrasing LGC §115.002, Examination of Books and Reports, covers careful examination and reporting on all reports about the collection of money for the county and are required to be made to the commissioners court. Also, §115.0035 focuses on examination of funds collected by the County entity or the District Attorney. Within §115.0035 accounts is defined as all public funds subject to the control of any precinct, county or district official, including the accounts of law enforcement agencies and the attorney for the state composed of money and proceeds of property seized and forfeited to those officials. Section 115.0035(b) further states, "At least once each county fiscal year, or more often if the county auditor desires, the auditor shall, without advance notice, fully examine the accounts of all precinct, county and district officials."

Except for the timing of unannounced cash visits, to various locations in the County, unannounced cash visits should be no "surprise." Embedded in law, the Harris County Auditor was established in 1905 and a duty of the County Auditor is to maintain integrity and establish checks and balances to safeguard assets. Further, by law, the County Auditor maintains oversight of all financial records of all officers of the County and is required by LGC §112.006(b) to see to strict enforcement of the law governing county finances. Cash and instruments easily convertible to cash such as checks and credit card payments are such assets and key to oversight of checks and balances.

A significant reason for these unannounced cash visits rests in the easy conversion of cash in general and for "other than" County purposes. Overall, it should be no surprise nationwide theft statistics are staggering that

include cash misappropriation. These statistics provide compelling reasons for unannounced cash visits. Another reason for these unannounced cash visits is the volume of cash collected. For instance, the 2015 tax year, the Tax Assessor-Collector's Office expects to collect over \$6 billion of property tax payments. The amount of cash volume at that office and other County offices, individually and collectively, provides important bases for unannounced cash visits.



The Fraud Triangle

In fulfilling part of the county auditor statutory responsibilities, the fraud triangle needs appraisal in unannounced cash visits. Proper recording and reporting of public resources such as cash requires internal control framework elements to deter the three points of the fraud triangle.

The Compliance audit department performing unannounced cash visits, as part of an internal control framework, helps to protect Harris County assets by deterring and mitigating risks of waste, fraud or abuse which the fraud triangle embodies. The fraud triangle's three corners are titled: 1) Motivation, 2) Opportunity, and 3) Rationalization and are discussed briefly below:

Motivation - Such as a financial need, is the "motivation" for committing the fraud. Motivation examples are excessive gambling, addictions, and overwhelming financial pressures.

Rationalization - The person committing the fraud frequently rationalizes the fraud. Rationalizations may include, "I'll pay the money back", "They will never miss the funds", or "They don't pay me enough."

Opportunity - The person committing the fraud sees an internal control weakness and, believing no one will notice if funds are taken, begins the fraud with a small amount of money. If no one notices, the amount will usually grow larger.

Written and Monitored Internal Controls are Fundamental:

Fundamental to reduce the risk of waste, fraud and abuse for any department are well written and monitored internal control procedures. One definition of internal control is "A process of assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws,

regulations and policies." Unannounced cash visits are but one key internal control method to assist in ways to mitigate risks of misappropriation of cash assets. Overall, it is important to have an "ongoing" analysis and monitoring of internal controls over cash to reduce the risk of misappropriation of assets and assist in identifying who or what is responsible for the loss within a reasonable time.

Moreover, ongoing monitoring of internal controls over cash are not extraordinary measures, they are basic measures, yet important to help provide a measure of assurance that unannounced cash visits uncover no waste, fraud or abuse of County funds. However, monitoring of internal controls is not a detailed examination of all transactions; therefore, risks exist that errors, waste, fraud and abuse may not be detected. Department officials retain the responsibility for accuracy and completeness of their financial records. In this regard, one action employees and management at County locations can do is analyze written and oral procedures to see if controls are effective and operating as planned. Although not all encompassing, consider the following fundamental controls listed below when reviewing or analyzing cash procedures you are responsible for or involved with. Note selected Harris County Accounting Procedures for Cash Handling are listed to the right of the fundamental controls and selected Harris County Internal Controls Manual Citations are listed below each section.

Separation of Duties:

Separation of duties, whether written, oral or on-the-job trained, have core best practices that include, but are not limited to having different people:

Fundamental Controls - Accounting Procedures Manual – Cash Handling References

- Receive and deposit cash timely (Also see LGC §113.022) - A-1 pages 3, 4 and 5
- Record cash payments to receivable records
- Reconcile cash receipts to deposits and the books
- Bill for services
- Follow up on collection of returned checks and credit card payments
- Distribute accounts payable and other checks
- Different employees accepting payments than balance and deposit - A-1 page 3

Also relevant are Harris County Internal Controls Manual page 8 of 24, and in general.

Accountability, Authorization and Approvals:

Accountability, authorization, and approvals core best practices include:

- Don't delay in recording cash receipts as soon as possible when received - A-1 page 4
- Funds need to be secured - A-1 pages 3 and 4
- Document transfers - A-1 page 3
- Give receipts to each customer - A-1 page 3
- Post a sign to customers stating to ask for receipts in a valid County format For each County transaction in a valid County receipt form (For instance, not A handwritten note, as an example.) - A-1 page 3
- Do not share passwords
- Cashiers should not share drawers
- Different and independent employees should verify cash deposits - A-1 page 9
- Supervisors approve all voided refunded transactions - A-1 page 8
- Timely analysis of reports for overages and (shortages) cash balances - A-1 page 8
- Restrict check endorsements - A-1 page 7
- Also, relevant are Harris County Internal Controls Manual Questionnaire page 11 of 24, and in general.

Cash Handlers:

Cash handler's core best practices include:

Fundamental Controls – Accounting Procedures Manual – Cash Handling References

- Look at the physical layout for weaknesses such as the location of the safe
- Restrict access to cash to as few people as possible
- Keep cash locked in secure areas – A-1 page 3
- Only those who need to know should have passwords and keys
- Review reconciliations – balance the drawer daily – A-1 page 8

Also, relevant are Harris County Internal Controls Manual and Referencing Accounting Procedure A.1 Cash Handling Guidelines page 14 of 24, and in general.

Security:

Security of assets core best practices include:

- Restrict access of cash to as few people as possible – A-1 page 3

- Lock cash in a secure location like a safe, lock box or drawer – A-1 page 3
- Passwords and keys only to authorized personnel
- Change passwords, gather keys, restrict access as soon as people leave employ

Also, relevant are Harris County Internal Controls Manual page 14 of 24, and in general.

Review and Reconciliation:

Review and reconciliation core best practices include:

- Compare receipts to deposit records timely – A-1 page 8
- Record cash receipts when received (Also see LGC §113.022) – A -1 pages 3, 4 and 5
- Count and balance cash receipts daily – A-1 page 8

Also, relevant are Harris County Internal Controls Manual page 7 of 24, and in general.

Other Procedures During Unannounced Cash Visits:

Another procedure that could be performed by the Compliance department in conjunction with unannounced cash visits is an analysis of the existence of selected physical assets guided by section Harris County Accounting Procedures Manual Property Handling Guidelines. This set of guidelines establishes "minimal requirements for adequate internal controls over Property Handling." Guideline number 15 states, "Department management" completes, signs and returns to Purchasing, County Auditor's Form 3368, Inventory Completion Statement, documenting completion of the annual inventory verification and any discrepancies noted." Also, supporting this Compliance department analysis is LGC §262.011(j), where the County purchasing agent shall furnish the County auditor a list of transferred supplies, materials and equipment.

Selected physical assets are observed, verified for County asset tags and compared against the County books and records. These procedures help to determine whether fixed assets are present and accounted for properly, and analyze whether assets purchased during the current fiscal period are present. Non-existent assets or untagged assets can be tell-tale signs of incorrect asset accounting or the worst case, misappropriation.

In summation, the only thing to be surprised about unannounced cash visits is the timing. The responsibility for maintenance of internal controls by

management is a monitoring process that is ongoing and not just to be addressed when the unannounced cash visit occurs. In addition, the analysis of internal controls should be "self-assessed" by checking controls and procedures for any "gaps" in the control processes intermittently throughout the year.

If you have any questions concerning this article, Compliance Audit Department Procedures, or implementing Internal Controls contact me – Jay Siegel at Jay.Siegel@aud.hctx.net or 713-274-5680.

Continuous Audit – Go or No-Go Decisions...

Data always has a story to tell and the Continuous Audit group is the team that listens for the story and then relays the message to those that need to hear it. Continuous Audit makes heavy use of data analysis to perform any engagement. This often involves a 100% review of the in-scope transactions and detail.



Patrick Rodriguez, CIA
Director of
Continuous Auditing

You may be familiar with Continuous Audit and its' different approach to a routine audit. The two largest and longest ongoing projects to have been developed by Continuous Audit are an IFAS daily change management analysis and the review for validity of health insurance claims made to the county. Both of these projects have been ongoing for a number a years.

You may wonder how a project ever makes it to the point of becoming a candidate for Continuous Audit. A Continuous Audit project begins like any other audit project. We largely follow the same process that is used by the audit services group. We have the same phases as a normal audit. These phases are almost universal in any internal audit department. They are:

- **Planning Phase** - Includes obtaining general information about the activities to be reviewed. During this phase the audit team is working to become familiar with financial activities and controls.
- **Fieldwork Phase** - Fieldwork includes gathering, testing and evaluating information. This is where

the auditors seek out support and evidence for their work and document their activities. For continuous audit, this is where "procedures" (or ACL code) are developed that allows for the quick and efficient processing of large amounts of data.

- **Reporting Phase** – This phase is used to draft the audit report that conveys the information discovered during planning and fieldwork. There is always a draft version that is reviewed prior to the final report being issued.

Continuous Audit uses all of these phases during an engagement. However, the Continuous Audit process also includes an additional phase. The Sustainability Analysis phase. After completing fieldwork, the continuous audit team will meet to discuss the sustainability of the procedures developed. The purpose of this phase is to determine whether or not the project is a viable candidate for ongoing ("Continuous") review. In other words, does it makes sense to spend additional resources to continue developing automated scripts or routines?

To answer this question the Continuous Audit team uses a sustainability worksheet on each engagement. The worksheet allows us to assign a score to a project based upon a number of factors. We first evaluate the datasets that were used during the engagement. A dataset is simply a collection of records. For an engagement to score well in this aspect of the evaluation we look at three weighted factors for each dataset. They are:

- **Data Quality** - Data quality is an evaluation of how consistent the data is used and its reliability to tell its' unique story. Examples of data quality might be consistent standards using validation methods such as drop down boxes versus free text fields. The use of a drop down box to capture data ensures that the data is consistent across records, whereas the use of a free form text box allows users to enter their own data. Testing against or using a free form field lowers the value of the data quality score because it becomes difficult to anticipate their values. So consistency is important. Completeness is also important as it increases the reliability of the data. Completeness can be enforced using required fields in a data system. Data Quality represents 50% of the overall dataset score.
- **Data Accessibility** – Accessibility is an evaluation of how easily the data can be obtain for testing purposes. When evaluating accessibility we look at how the data is stored, the type of database being used, the ability for audit to obtain the data as independently as possible, and the method of data

acquisition. If the data is stored across multiple systems and requires us to work with another department frequently to provide data files for example, this will score lower on accessibility than a dataset that is stored in a single system that the auditors can access directly and download quickly. Data Accessibility represents 40% of the overall dataset score.

- **Testing Efficiency** – Efficiency is an evaluation of the work required to prepare the data for testing. Every dataset requires some level of preparation to use, but if the dataset requires a large amount of effort to prepare it will have a lower efficiency score. This is because the more development required to prepare also increases the amount of maintenance required to sustain the testing. Testing efficiency represents only 10% of the overall score.

The above factors are evaluated for each dataset used in an engagement, so that each dataset gets its own score.

We further evaluate the project impact as a whole taking into consideration the risks to the county, potential effort savings that could be gained from building a continuous audit project, as well as consider the frequency of any continuous auditing efforts.

Once the scoring is complete the entire Continuous Audit team will meet to complete what we refer to as the "challenge session". During a challenge session the analyst who completed the scoring for each dataset will present their case and reasoning for each selection/score. The purpose of the challenge session is to reach a consensus that the scoring is accurate and fair.

After scoring is complete and agreed upon, the sustainability worksheet will assign a recommendation based upon the overall Sustainability Score. A lower score will result in a "Not Recommended". Moderate scores result in a "Project Should be Considered" and high scores result in a "Project Recommended".

While this worksheet does not bind the audit team to the recommendation, it provides a methodical and consistent approach. This method helps evaluate the potential benefits of a Continuous Audit project with the potential required investment to develop a full Continuous Audit program.

If you have any questions about the Sustainability Analysis phase or Continuous Audit in general, feel free to contact Patrick Rodriguez—Director of Continuous Audit at Patrick.Rodriguez@hctx.net or at 713-274-5686.

What to Expect When Your Department is Selected For an Audit

You just learned you are being audited by the Harris County Audit Services Department. What does this mean? Are we ready? Who is the Audit Services Department? Many questions may run through your mind when you first find out your Department is being audited. As an Audit Manager, I would like to provide some insight as to what you can expect from us during the audit.



David Clark, CIA, MBA
Audit Manager

Hopefully this will answer questions associated with an audit and provide insight that the audit process is intended to improve the organization.

The Audit Services Department performs engagements relative to elected and appointed County officials, external entities, quasi-governmental organizations, financial processes, and general ledger account balances. Our objectives are to assist County officials and management with the effective discharge of their responsibilities, minimize the County's exposure to loss, safeguard public assets and to determine compliance with applicable policies, laws and regulations. Engagements are selected for inclusion in the annual audit plan based upon the perceived level of inherent and control risk posed by the department or entity to the County. You may ask what does it mean if our department has inherent or control risks?

- ◆ Inherent Risk is defined by the Institute of Internal Auditor's as "the susceptibility of information or data to a material misstatement, assuming that there are no related mitigating controls." (e.g., cash has a higher inherent risk of misappropriation than a large capital asset such as a building). Inherent risk also relates to factors that because of their nature cannot be controlled or mitigated by management. (e.g., legislative changes, number and dollar amount of transactions processed, and/or complex nature of transactions).
- ◆ Control Risk is defined as the risk that a misstatement could occur and not be detected, corrected or prevented by the department's internal control system. (e.g. control risks may be higher in a small department where separation of duties is not possible or well defined). Control risks relate to factors that can be influenced or

controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access and separation of job responsibilities may be instituted by management in order to mitigate control risk.

Our procedures require us to follow specific steps while conducting an engagement and as an Audit Manager it is my job to complete these steps in accordance with our departmental procedures.

Initial Contact

The first thing you can expect during the audit process is a call from the Audit Director or Audit Manager assigned to the engagement. The primary focus of this call is to inform the official and/or department head that an engagement has been scheduled and to explain the purpose of the engagement. Other important topics that may be discussed during our initial contact could be any of the following:

- ◆ Identify key department or business process personnel
- ◆ Obtain or request information that is useful in planning the engagement
- ◆ Request the client to update previously developed flowcharts
- ◆ Discuss any significant or material events potentially impacting the engagement
- ◆ Identify other work performed by consultants or other auditors
- ◆ Document specific concerns the department would like included in the engagement, and
- ◆ Set up an entrance conference

Entrance Conference

Approximately one or two weeks after our initial contact we will schedule a formal entrance conference. The official and/or department head, along with key personnel, are invited to attend and all key members of the audit team are generally present. The official is listed as optional on the meeting invite. The purpose of the entrance conference is to provide the official and/or department head with the engagement letter and to walkthrough our detailed audit brochure which is customized for each engagement and explains our audit process and provides a detail of the professional experience for each audit team member assigned to the engagement. The engagement letter includes the general or specific purpose of the engagement, the time period being covered, the members of the audit team assigned to the engagement and the person the

audit procedures will be coordinated with.

Planning Phase

After the entrance conference is held, the Audit Manager continues the planning phase of the engagement. During this phase, we will begin our risk assessment by interviewing key personnel so we can become familiar with the financial processes and controls present in the department. We will also perform internal control walkthroughs and flow chart the financial processes to assess any control strengths or weaknesses that may be present. Copies of the process flows that are developed during the interview, observation and evaluation processes are provided to the department upon request. See graphic below for the Planning Phase Process Flow:



Scope Letter

After our initial completion of the risk assessment during the planning phase of the engagement (we assess risk throughout the engagement) we develop the scope letter. The purpose of the scope letter is to provide the responsible official and/or department head with written notice of the scope of the engagement. The scope of the engagement is defined as the major objectives to be performed during the fieldwork phase of the engagement and is based on our risk assessment with input from key personnel within the department. When needed or requested we will meet with the official and/or department head along with key personnel to explain each of the objectives listed on the scope letter. The goal of the meeting is to discuss the scope objectives and to give everyone the opportunity to ask questions so everyone is on the same page. In some situations, a combined engagement and scope letter is provided.

Fieldwork Phase

After we present the scope letter to the official and/or department head, it is time for us to begin the fieldwork phase of the engagement. Fieldwork involves gathering, testing and evaluating information or data. Our staff, senior auditors, and audit managers perform the fieldwork procedures according to the audit program tailored specifically for the engagement, which is based on the engagement scope letter. Material issues or opportunities for improvement are communicated to the contact person designated by the county official as soon as possible so we can work together on a recommendation to remediate the process as soon as

possible. The Audit Manager and the Director review the results of the fieldwork phase of the engagement along with any potential issues and recommendations prior to the exit conference or submitting a draft report to the Chief Assistant County Auditor – Audit Division. Material issues are reported to the Chief by the Director immediately. See graphic below for the Fieldwork Phase Process Flow:



Exit Conference

To mitigate any confusion on any potential issues and recommendations, we hold an exit conference with the official and/or department head along with any key personnel involved in the engagement. During the exit conference we will explain each issue and recommendation previously discussed during the fieldwork phase of the engagement if applicable to determine whether Management agrees with any potential issue and recommendation and understands the risk(s) that each issue poses. We will also identify any corrective actions that have already taken place and explain the report clearing process. Management will have the opportunity to make comments or suggestions during the exit conference.

Reporting Phase

The reporting phase of the engagement is where the official and/or department head will receive a draft report summarizing the issues and recommendations noted during the fieldwork phase of the engagement and discussed during the exit conference. There will be no surprises on the report as we will have discussed each of the issues and recommendations listed in the draft report with you during the fieldwork phase of the engagement and the exit conference, if applicable. Management will be given an opportunity to respond to the issues and recommendations (if applicable) before the final report is issued within two weeks of providing the draft report to the official or department head. See graphic below for the Reporting Phase Process Flow:



Client Survey

After the final report is issued, our executive assistant independently mails out a client survey letter for each engagement. The purpose of the survey letter is to obtain client comments regarding the engagement and any personnel assigned to the engagement. We use these comments to improve future engagements.

Conclusion

You may ask yourself. Why wait for an audit? What internal controls can I put in place to fit the specific operations in my department? A good start would be to determine whether your internal control environment includes determinations that transactions are valid, accurate, complete, properly authorized, properly valued, properly classified, properly dated and attributed to the correct reporting period, properly posted, properly summarized, recorded at the proper time, in compliance with the law or policy, physical safeguards are adequate, proper security is in place, exception handling is timely and appropriate, separation of duties is maintained, and programs are managed in accordance with sound business practice. You can also review the Internal Controls Manual on the County Auditor's Intranet Site. Doing all of this would go a long way towards a successful audit. If you have any questions regarding this article on internal auditing at Harris County I would be happy to discuss them with you. I can be reached by telephone at 713 -274-5679 or by email at David.Clark@aud.hctx.net .

Spring Cleaning

As another fiscal year comes to an end and the implementation of the county's new ERP system gets ever so much closer, now is the time to take care of those payables house-keeping issues that may have been plaguing your department for the past few weeks or maybe even months. For Harris County Comprehensive Annual Financial Report (CAFR) reporting purposes, it is extremely important that expenditures be accurately reflected in the fiscal year for which they relate. Not only is it important to submit vendor invoices to Accounts Payable timely, it is equally as important to regularly review the problem PO Report and ensure these invoices make it completely through the approval cycle and aren't "trapped" in IFAS for extended periods of time.



Reginald Yancey, CPA
Director,
Accounts Payable

In addition to vendor invoices, employee mileage claims, employee travel claims, and petty cash reimbursement requests should also be submitted to Accounts Payable in a timely manner. Mileage, travel, and petty cash reimbursement requests are three types of claims that have a tendency to get overlooked when it comes to timely submission,

however like outside vendor invoices, they too have an impact on the county's financial reports. Submitting these types of claims infrequently can also result in expenditures not being captured in the period for which they were incurred.

Below are some helpful tips that if followed will assist you in breezing through your year-end clean-up process and ensure that Harris County's financial records for 2016 are accurately stated.

1. Review the Problem PO Report – Invoices by Department

The "Problem P.O. Report". (**AP_PROB_POS PO's with Problems – Invoices by Department**) identifies most of the invoices that have been submitted to the Auditor's Office that have not been processed in a timely manner.

Some of the reasons invoices appear on this report are as follows:

- 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

Take the steps necessary to resolve issues timely and ensure payments are made to vendors Pursuant to Texas Government Code, Title 10, §2251.021 by working with the Purchasing Department's buyer to resolve Purchase Order issues and with the Budget Office if additional budget is required.

2. Review Invoices in the Pending Approval Queue

To maximize vendor payments and minimize the number invoices carrying over into the next fiscal year, use CDD report AP_Invoices in Approval Process to identify invoices awaiting to be approved.

3. Review the Invoice Processing Schedule

The schedule of the Accounts Payable processing deadlines is also available on the Harris County Auditor's Office intranet website located at www.co.harris.tx.us/auditor. The Invoice Processing schedule is an important tool and will assist you in ensuring invoices are processed by required payment due dates, and in planning your submittal of claims to adjust for the weeks when Commissioners Court does not meet. You may also plan and discuss submissions of claims with your Accounts Payable Claims Processor.

Department approval of invoices must be completed no later than 4:30 P.M. on the Friday before the scheduled Commissioners Court date. Insufficient purchase order balances, incorrect purchase order numbers, and other invoice issues have an adverse impact on the timeliness of getting invoices paid so it is imperative that purchase order balances be monitored and amended if necessary in time to meet court date deadlines. Questions can be directed to either of the following Auditor's Office employees: Reginald Yancey at 713-755-1455, Shannen Williams, AP Supervisor, at (713) 755-6070, or Jacqueline Roney at 713-755-4458.

4. Electronic Funds Transfer Settlement Schedule

The Accounts Payable electronic funds transfer settlement schedule for payments made via EFT (electronic funds transfer) to vendors and county employees is available on the Harris County Auditor's Office intranet website located at www.harriscountytexas.gov/auditor. This schedule provides the dates funds should be available in vendor and employee accounts. Should you have any questions, please contact Reginald Yancey at (713) 755-1455, Shannen Williams at (713) 755-6070 or Jacqueline Roney at (713) 755-4458.

5. Review Encumbered Purchase Orders

Use CDD report **En-Open Encumbrance Summary by PO** to identify purchase orders that should be canceled in order to close the encumbrance. Only those purchase orders in which there are no unpaid invoices or you do not expect to expend the encumbered funds should be canceled. Your department may close encumbered purchase orders by preparing and forwarding a memo or email to the Purchasing Department at pocancel@pur.hctx.net. Please attach a listing of the purchase orders you are requesting to be closed with your email. You may contact Reginald Yancey, AP Director, at (713) 755-1455, Shannen Williams, AP Supervisor, at (713) 755-6070, Jacqueline Roney, AP Supervisor, at (713) 755-4458 or Pat Martin, Purchasing, at (713) 274-4423 for assistance.

6. Gather and submit all pending claims for employee mileage, employee travel, and petty cash reimbursements.

Mileage Claims - Ideally these claims should be submitted to Accounts Payable on a monthly basis (submitting them more frequently than monthly can sometimes place an excessive burden on

Accounts Payable processing personnel) on County Auditor's Form 1241, Automobile Expense Claim. If an employee chooses to submit a claim on a less frequent basis, each claim should cover a period of no more than three months and all mileage reimbursements during the covered period must be included on the same claim. [See County Auditor's procedure I. 1-2 for exceptions to the three month rule]. Claims for expenses incurred in a prior fiscal year will be accepted and routinely processed up to 90 days after fiscal year end. However, any claims received subsequent to this 90-day period must be approved by the Department Head and have a reasonable explanation documenting why the request was not submitted within the 90-day processing period.

**new rate \$0.54 per mile effective 1/1/16*

Travel Claims – Within five business days after the completion of travel, the County Auditor's Form 1263, Travel Expense Claim, is to be completed and forwarded to Accounts Payable. Note that prior Commissioners Court approval is required for the payment/reimbursement of meals/food.

A couple of key points to remember when it comes to travel expense claims:

Parking expenses are only reimbursable if incurred in conjunction with County business and must be supported by a parking receipt when submitted to Accounts Payable for reimbursement.

◆ **Meals** are reimbursed based upon actual charges for out of County, overnight travel that are reasonable for the city being visited. A detailed itemized receipt must be obtained and submitted for any meal reimbursement exceeding \$10.00. In addition, charges for meals appearing on a hotel bill should not be included as part of the hotel room charge. The meal charge(s) must be subtracted from the hotel bill and processed as a separate item for reimbursement.

Petty Cash - Reimbursement requests are to be submitted to Accounts Payable at least quarterly (throughout the year) and at the end of each fiscal year on the appropriate County Auditor's reimbursement request form.

For comprehensive information concerning employee mileage, employee travel, and petty cash reimbursements, please see County Auditor's procedures I.1-2, T.1, and D.3.

E-Invoicing: The Next Step

The County is getting a new ERP system and the Accounts Receivable Department (AR), like everyone else, wants to utilize this technology to its fullest advantage to provide the most user friendly, customer service-centric, efficient, and low-cost method of invoicing and collecting for County provided services. Did I mention quicker turn-around of customer payments?!!



Ron Foster,
Manager
Accounts Receivable

Electronic invoicing, often referred to as e-invoicing, is just what it sounds like - - the exchange of an invoice document between the County and a customer in an electronic format. This definition ranges between the simplest forms of e-invoicing, scanned invoices sent as a .pdf via electronic mail (e-mail) to actually interfacing with the customer's Account Payable (AP) system. Another method entails the use of a supplier managed web portal in which a customer logs on with a secure password to see and pay open invoices, review statements and payment history -- all without generating, mailing or touching a piece of paper. Now that is progress!! This is not new to the AR industry; the Europeans seemed to have adopted this years ago, but it is relatively new to the County. Just three years ago, AR in conjunction with ITC set up an automated and electronic billing of ITC's Regional Radio Services.

There is much time, effort, and cost involved in a paper-based invoicing process. A quick inventory of what tasks pertain to paper invoicing follows: print the invoice (using paper and toner) walk to printer, put in envelope, add postage, deliver to mailbox, at which time the USPS must then collect and mail. There is a built-in delay based on the amount of time that is required for the postal service to deliver the invoice to the customer and for the customer's check to reach the Treasurer's Office. That doesn't include the time the customer spends receiving, sorting and processing our payment. The best case scenario of a successful e-invoicing implementation for all concerned is one that presents data from the County in a format that can be directly uploaded into the customer's system without requiring any manual data entry from the County's personnel. This also results in a much higher acceptance rate by our customers. Some other benefits from the customer's perspective, which will serve to more readily persuade them to accept our electronic invoices, include:

- **Reduced costs:** Elimination of internal sorting, delivering, and manual data entry of paper invoices by the customer.

- **Increased accuracy:** Electronic capture of invoices enables straight-through processing of data into the customer's system without relying on error prone, manual re-keying of data.
- **Increased productivity:** As a result of increased accuracy, the amount of re-work required due to invoice errors is reduced.
- **Faster processing and payment cycles:** Automation of the invoice capture, routing, and approval processes. This leads to on-time payment, avoiding late payment fees, and delivers the opportunity to capture contractually negotiated discounts, if applicable.

Benefits from the County's perspective:

- **Faster payments:** E-invoicing eliminates the delays that result from mailing, routing, sorting and re-keying paper invoices. Treasury does, however, currently offer electronic payment via ACH or the customer's online banking process.
- **Reduced costs:** Delivery costs of participating customer's invoices can be reduced by as much as 80%, due to savings in postage materials, processing, and storage.
- **Fewer rejected invoices:** Eliminates manually re-keying the data, reducing the potential for data entry errors.
- **Increased productivity:** You know that your customers have received their invoices and precisely when they were received. No more *"It must have been lost in the mail."*
- **Enhanced account reconciliation and Treasury receipting processes:** Customers will often consolidate a number of invoices to allow for a single bank transfer which sometimes leads to the AR Department having to call the customer to find out how to assign the payment. Customers can send an electronic remittance advice with the payment, providing detailed accounting of invoices paid as well as credits taken or adjustments made.

Although there will be hurdles that include technology constraints, start-up costs, acceptance by customers (estimated to be 25% to 70% on average the first year and then up to 70% to 90% on average after the first year or two) and education of employees, AR believes that the benefits easily outweigh the efforts and will exponentially save on material and labor costs.

One estimate suggests that the mailing of a single paper invoice costs \$5, and with a fully integrated e-invoicing system, this cost to deliver a single invoice could be reduced to 0.08 cents. GXS, an internationally recognized business to business ecommerce consulting service, makes the following observations regarding the savings of going to electronic invoicing:

Invoice processing cost	Reduced by 30% to 90%
Processing cycle time	Reduced by 65%
Accounts payable labor	Reduced by 25% to 40%
On-time payment percentage	Increased by 15% to 59%

The Accounts Receivable Department is very excited about the new ERP system, as I'm sure you are too! Save the trees!

Awards and Honors

Congratulations to the Human Resources Department, Merle Ray, Anita Ferrell, Carmella Sanford and Carolyn Phillips! The Department was the distinguished recipient of the 2016 Leadership Excellence Award for outstanding achievements in leadership development and programs. This award recognizes organizations for excellence in leadership development through a formal Corporate University program. Our very own HC Auditor's University was recognized for leadership excellence for Best Corporate University. Please join us in congratulating these individuals for their efforts and achievement.



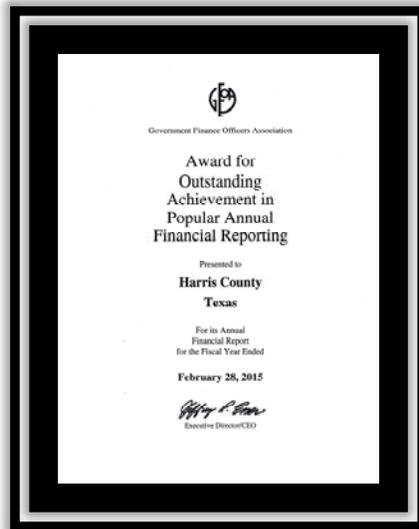
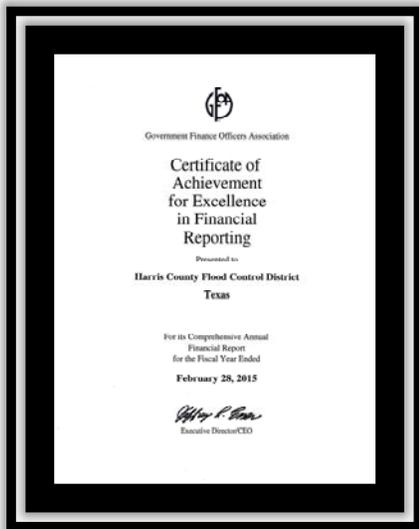
CONGRATULATIONS!!!

Awards and Honors

Congratulations to the Accounting Department, Carol Market, Cassie Smith and all of those individuals whom participated in the efforts to receive the awards below! The County was the recipient of three prestigious national awards from the Government Finance Officers Association.

Two of the three awards were Certificates of Achievement for Excellence in Financial Reporting. The GFOA established this award program to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The goal of the program is not to assess the financial health of participating governments, but rather to ensure that users of their financial statements have the information they need to do so themselves.

The third award was for Outstanding Achievement in Popular Annual Financial Reporting. The GFOA established this award program to encourage and assist state and local governments to extract information from their comprehensive annual financial report to produce high quality popular annual financial reports specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance and then to recognize individual governments that are successful in achieving that goal.



CONGRATULATIONS!!!



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