

Leslie Wilks Garcia, M.Jur., CPA, CFE
First Assistant County Auditor



Glenn Holloway, CPA, CIA, CFE
Chief Assistant County Auditor – Audit Division

Sharon Brantley Smith, MBA, CIA, CFE
Chief Assistant County Auditor – Harris Health

**MICHAEL POST, CPA, CIA
HARRIS COUNTY AUDITOR**

November 22, 2024

Dear Ms. McInnis, Interim Purchasing Agent, and Ms. Wilks Garcia, First Assistant County Auditor:

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

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Cassie Davis, Director of Compliance Audit, 713-274-1886.

Sincerely,

A handwritten signature in blue ink, appearing to read "Glenn Holloway", is written over a light blue horizontal line.

Glenn Holloway
Chief Assistant County Auditor
Audit Division

Attachment

Report Copies:

District Judges
County Judge Lina Hidalgo

Commissioners:

Lesley Briones

Rodney Ellis

Adrian Garcia

Tom Ramsey

Christian Menefee

Diana Ramirez

Mike Post



INTERNAL AUDIT REPORT
UNRECORDED CAPITAL ASSETS
NOVEMBER 22, 2024

Executive Summary

OVERALL CONCLUSION

The Harris County (County) Purchasing Agent submitted an inventory of capital assets to the County Auditor by the July 1, 2024, deadline, as required by Local Government Code (LGC) §262.011. In addition, disposed capital assets were removed from the County's inventory through the proper approval process, and transferred capital assets were properly supported and compliant with County policies. However, an opportunity to improve internal controls related to the recording of purchased capital assets was identified. This observation was discussed with management, and a management action plan has been developed and implemented to address the observation.

SCOPE AND OBJECTIVE

As required by LGC §262.011, the Audit Division conducted the Unrecorded Capital Assets Audit. The scope of the engagement covered the period of July 1, 2023, to June 30, 2024. The objectives of the engagement were to:

- Evaluate completeness of the inventory listing submitted to the County Auditor.
- Determine whether capital assets were properly disposed, added, and transferred.

SUMMARY OF AUDIT OBSERVATION

- Controls for recording capital assets need improvement.

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

AUDIT OBSERVATION

OBSERVATION #1: Controls for Recording Capital Assets Need Improvement **[HIGH]**

What is the Observation: Property purchased for \$4,033,555 for the Riverside Hospital expansion project was not recorded as a capital asset within the County's financial records (PeopleSoft/STARS).

Subsequent to the performance of the audit procedures, the Auditor's Office Financial Accounting Department (Financial Accounting) recorded the property as a capital asset in PeopleSoft/STARS.

Why it Happened: Per discussion with Financial Accounting Management, the department that purchased the property coded it to an expense account in PeopleSoft/STARS that was not included in Financial Accounting's monthly review for capital asset additions. As a result, it was not identified and recorded by Financial Accounting.

Per Financial Accounting Management, the expense account was added to the monthly checklist for reviews going forward.

Why it Matters: Improperly recording capital assets results in noncompliance with Governmental Accounting Standards Board Statement 34 (GASB 34) and County Auditor's Accounting Procedure A.2-1, *Capital Asset Policy Statement*, and it results in financial misstatement within the County's financial records.

What is Expected: GASB 34 requires all current and long-term assets and liabilities, such as capital assets and general obligation debt, to be reported within the balance sheet of the government-wide financial statements. In addition, County Auditor's Accounting Procedure A.2-1, *Capital Asset Policy Statement*, requires all land purchases that exceed one dollar to be capitalized.

What Action(s) are Suggested: Enhance the monitoring controls in Financial Accounting to include additional accounts that may contain property purchases in the monthly reviews to ensure purchases are properly recorded in PeopleSoft/STARS.

MANAGEMENT'S ACTION PLAN

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

We agree that the asset noted in testing was not recorded as a capital asset timely. This error was due to the department utilizing an account code not associated with land purchases. This particular expense was paid on a Request for Payment (RFP) and did not go through the requisition process. The Fixed Asset team reviews all items that go through the requisition process, but any payment made on an RFP bypasses this account code review. Account coding errors on an RFP can only be caught through our detective controls of performing reviews on particular accounts to which land is typically coded. The account this asset was coded to was not included in the normal review process. We have since added this account code to the review process.

Targeted Completion Date: Implemented



BACKGROUND

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

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

ACCOUNTABILITY

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

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

