

Leslie Wilks, 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

December 12, 2025

Dear Daniel Ramos, Executive Director, Office of Management and Budget:

The Harris County Auditor's Office Audit Division has completed an audit of the Financial Management Investment Procedures for the six months ended, March 31, 2025. 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 Glenn Holloway, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Michael Post
County Auditor

Attachment

Report Copies:

District Judges

County Judge Lina Hidalgo

Commissioners:

Lesley Briones

Rodney Ellis

Adrian Garcia

Tom Ramsey

County Attorney Christian Menefee

Interim County Administrator Jesse Dickerman



Internal Audit Report

Financial Management Investment Procedures

Six Months Ended March 31, 2025

December 12, 2025

Executive Summary

OVERALL CONCLUSION

Investment activities were found to be compliant with Texas Government Code Chapter 2256, the Public Funds Investment Act, and Chapter 2257, the Public Funds Collateral Act, as well as the Harris County (County) Investment Policy. However, an opportunity to improve processes related to the recording of investment balances in the County's Annual Comprehensive Financial Report (ACFR) was identified. This observation was discussed with management, and a management action plan has been developed, which will address the observation identified by March 31, 2026.

SCOPE AND OBJECTIVE

As required by Local Government Code (LGC) Section 115.003(b) and Texas Government Code Section 2257.061, the Audit Division conducted an audit of Financial Management's investment activities and collateralized funds. The scope of the engagement covered the period of October 1, 2024, to March 31, 2025. The objective of this engagement was to verify compliance with Texas Government Code Chapters 2256 and 2257, the County's Investment Policy, and Financial Management's internal procedures.

SUMMARY OF AUDIT OBSERVATION

- Misclassification of Investment Balances in the Fiscal Year (FY) 2024 ACFR.

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 risk to the County.

AUDIT OBSERVATION

OBSERVATION #1: Misclassification of Investment Balances in the FY2024 ACFR **[HIGH]**

What is the Observation: Investments totaling approximately \$75.4 million were misclassified in the FY2024 ACFR. Specifically, the amount was recorded in the “Outstanding Items/Deposits” line item instead of being included in the “Money Market Mutual Funds” category. This misclassification did not affect the total balance reported in the summary of the Cash, Cash Equivalents, and Investments Section of the ACFR.

Why it Happened: The Auditor’s Office Financial Accounting Department (Financial Accounting) used a report generated from the Tracker Investment System that did not include all individual investment balances when creating the detailed listing of investments in the ACFR. Per Financial Accounting Management, the team was unaware that the report was incomplete and that additional parameters should have been included to ensure all investment amounts were captured.

Why it Matters: The misclassification affected the accurate presentation of investment composition and liquidity within the notes of the FY2024 ACFR.

What is Expected: Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - And Management’s Discussion and Analysis - For State and Local Governments*, requires state and local governments to prepare an ACFR that presents their financial position clearly and transparently. The ACFR must be accurate, complete, and compliant with all applicable accounting and financial reporting standards to ensure reliable and useful information for stakeholders.

What Action(s) are Suggested: Financial Accounting should coordinate with the Office of Management and Budget Investments Team to ensure the correct report is generated from the Tracker Investment System for each issued ACFR going forward.

MANAGEMENT’S ACTION PLAN

Responsible Party: Brandy Shaw, Financial Accounting

The Tracker report used to obtain individual investment balances will be validated for accuracy with the Office of Management and Budget Investments Team prior to the release of each issued ACFR.

Targeted Completion Date: March 31, 2026



BACKGROUND

Financial Management is comprised of the following sections as outlined below:

- **Cash and Banking Management Section:** Oversees bank relations and ensures all funds deposited with County depositories are fully collateralized, adhering to the Investment Policy and Chapter 2257 of the Texas Government Code.
- **Investment Management Section:** Develops and implements portfolio-investment strategies in compliance with the Investment Policy and Chapter 2256 of the Texas Government Code.
- **Debt Management Section:** Manages all County debt issuance, including bonds, certificates of obligation, notes, and commercial paper.

Financial Management also serves as the investment agent for various entities, including the Harris County 9-1-1 Emergency Network, Community Supervision & Corrections Department, Harris County Juvenile Board, Harris Health System, Harris County-Houston Sports Authority, and Harris County Sports & Convention Corporation. These entities maintain and approve their own investment policies, which fall outside the scope of this engagement.

The Director of Financial Management serves as the County Investment Officer (CIO) and reports to Commissioners Court. The CIO and the County designees are responsible for the investment activities and compliance with state statutes and the Investment Policy. Investment advisory services are provided by Hilltop Securities Inc.

The Investment Policy

The County's investment and collateralization requirements are established by Texas Government Code Chapters 2256 and 2257, which are referred to as the Public Funds Investment Act and the Public Funds Collateral Act, respectively. The Public Funds Investment Act requires both a written Investment Policy and an Investment Strategy, which were reviewed during the engagement period as a unified document (the Investment Policy) adopted by Commissioners Court on September 19, 2024. The Investment Policy covers areas such as the County's investment objectives, authorized investment instruments, the system of internal controls, bid solicitation requirements, allowable maturity maximums by fund type, portfolio weighted average maturity maximums, and diversification and risk tolerance guidelines. Additionally, it includes specific investment strategies for fund groups that address each group's investment options, and it describes the priorities for suitable investments as well as collateralization requirements in accordance with the Public Funds Collateral Act. The appendices to the Investment Policy include a list of County designees authorized to approve County investment transactions and a list of approved financial institutions.

ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing.

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.

