

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**

December 13, 2024

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, 2024. 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 written in a cursive style with a long horizontal stroke at the end.

Michael Post
County Auditor

Attachment

Report Copies:

District Judges

County Judge Lina Hidalgo

Commissioners:

Lesley Briones

Rodney Ellis

Adrian Garcia

Tom Ramsey

Christian Menefee

Diana Ramirez



Internal Audit Report
Financial Management Investment Procedures
Six Months Ended March 31, 2024
December 13, 2024

Executive Summary

OVERALL CONCLUSION

Financial Management's overall investment activities were found to be compliant with Texas Government Code Chapters 2256 and 2257, the Public Funds Investment Act, the Public Funds Collateral Act, respectively, and the Harris County (County) Investment Policy. However, we did identify opportunities to improve controls relating to the quarterly balances submitted to Commissioners Court and access of the Tracker Investment System. The observations were discussed with management, and management action plans have been developed, which will address the observations identified by December 31, 2024.

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, 2023, to March 31, 2024. 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 OBSERVATIONS

- Incorrect balances submitted to Commissioners Court.
- Excessive user access within the Tracker Investment System.

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

AUDIT OBSERVATIONS

OBSERVATION #1: Incorrect Balances Submitted to Commissioners Court

[HIGH]

What is the Observation: Financial Management submitted the Fiscal Year 2024 2nd Quarter Investment Report to Commissioners Court with inaccurate balances for demand deposit, money market, and other accounts. The balances were overstated by approximately \$3.7 million.

The correct balances were resubmitted to Commissioners Court on August 6, 2024, as a result of this audit.

Why it Happened: An incorrect end date was inadvertently entered into the Cadence Bank account balances report query. This led to the extraction and use of incorrect balances in the investment report.

Why it Matters: Providing inaccurate investment balances to Commissioners Court could lead to County officials relying on inaccurate investment information to make financial decisions.

What is Expected: Texas Government Code Sec. 2256.023, *Internal Management Reports*, requires the investment officer to prepare and submit a written report of investment transactions to Commissioners Court no less than once per quarter. The report is required to state the beginning and ending market value for each investment type.

What Action(s) are Suggested: Strengthen controls over the generation and review of bank reports to ensure the accuracy of data used in reports submitted to Commissioners Court.

MANAGEMENT'S ACTION PLAN

Responsible Party: Amy Perez, Office of Management and Budget

An incorrect date was inadvertently entered when downloading the month-end Cadence bank account balances report due to the last day of the month falling on a weekend. The last business day of the month should have been entered to run this report, unlike another report we have to run in which we are to enter the date after the weekend or holiday.

Controls have been enhanced to ensure that the correct end date is entered when generating the bank account balances report query. After the report has been generated, confirmations will be performed to ensure that at least five of the bank accounts that have the most activity and larger balances listed on the report match the associated bank account statements. We currently perform this confirmation procedure against the bank statements but are selecting random accounts to spot check. The process on how reports are downloaded will change once Harris County is fully transitioned to JP Morgan and all accounts are closed at Cadence bank.

Due Date: December 31, 2024



OBSERVATION #2: Excessive User Access Within the Tracker Investment System [MODERATE]

What is the Observation: Two Auditor's Office Financial Accounting Department (Financial Accounting) employees were granted the Administrative role for access to the Tracker Investment System. This level of user access is typically only granted to appropriate Office of Management and Budget (OMB) personnel who serve as System Administrators.

Why it Happened: To maintain separation of duties between Financial Accounting and OMB, Financial Accounting staff are responsible for downloading the necessary files from Tracker to populate PeopleSoft/STARS each month. However, the current design limitations of the Tracker Investment System necessitate granting Administrative access to the Financial Accounting employees to perform these required duties.

Why it Matters: Granting Administrative access to non-administrative staff increases the risk of errors and financial misstatement.

What is Expected: In accordance with County Auditor's Accounting Procedure D.4-4, *Investment Transactions*, Financial Accounting staff download a report monthly from Tracker. This report is utilized to record investment activity in PeopleSoft/STARS via journal entry.

County Information Security Access Policy, Section C.1.1, *Authorized User Access Rights*, states that following the principle of least privilege, individuals must only be granted access to the systems, applications and data required to perform their respective job functions.

What Action(s) are Suggested: To mitigate risks, implement a process for periodic reviews of Tracker user activity. Document and investigate any anomalies or irregularities identified during these reviews.

MANAGEMENT'S ACTION PLAN

Responsible Party: Amy Perez, Office of Management and Budget

The Financial Accounting Department (Financial Accounting) employees require the use of running daily reports from Tracker. Tracker's only access to view/download these reports is available through the Administrative role.

Internal procedures were updated in August 2024 to request the user access file from Tracker and we will periodically review all user activity.

Due Date: December 31, 2024



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 Policy and Chapter 2257 of the Texas Government Code.
- **Investment Management Section:** Develops and implements portfolio-investment strategies in compliance with the 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 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 Policy) adopted by Commissioners Court on September 19, 2023. The 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 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 (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.

