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**MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR**

July 8, 2022

Dear Ms. Wilks Garcia, First Assistant County Auditor:

The Harris County Auditor's Office Audit Division has completed an audit of the County Auditor's Office - Accounts Payable construction invoices and retainage processes. 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 at 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Errika Perkins".

Errika Perkins
Chief Assistant County Auditor

Report Copies:

District Judges
County Judge Lina Hidalgo
Commissioners:

R. Jack Cagle
Rodney Ellis
Adrian Garcia
Tom Ramsey
Christian Menefee



INTERNAL AUDIT REPORT

**ACCOUNTS PAYABLE CONSTRUCTION INVOICES
AND RETAINAGE PROCESSES**

JULY 8, 2022

Executive Summary

OVERALL CONCLUSION

Overall, the controls related to the County Auditor's Office - Accounts Payable (AP) construction invoices and retainage processes were found to be effective. However, an opportunity for improvement was identified regarding reconciliation of the Conversion Retainages Payable account in PeopleSoft. The issue was discussed with management, and an action plan was developed that will address the issue identified by December 31, 2022.

SCOPE AND OBJECTIVE

The Audit Division evaluated the design and effectiveness of certain AP controls to determine whether construction invoices and retainage were properly authorized, processed, and recorded. The audit procedures evaluated compliance with Texas Government Code section 2251.021, Texas Local Government Code sections 113.064 and 113.065, respective supplier contracts, and County policies for the ten-month period ending, December 31, 2021.

SUMMARY OF AUDIT ISSUE

A reconciliation of the Conversion Retainages Payable account has not been performed since the County's financial system conversion from IFAS to PeopleSoft in March 2020.

The audit issue, management's action plan to address the issue, and background information regarding this audit are discussed in more detail on the following pages.

AUDIT ISSUE

ISSUE: Reconciliation of the Conversion Retainages Payable Account is not Performed [High]

What is the Issue: The Conversion Retainages Payable account, which had a balance of \$26 million as of February 2022, has not been reconciled since March 2020, the PeopleSoft implementation date.

Why it Happened: Management does not have a monitoring control in place to ensure that a monthly reconciliation of the Conversion Retainages Payable account is performed. In addition, the County Procedure assigning responsibility for required retainage reconciliations has not been updated since January 2008.

Why it Matters: Account reconciliations can identify inaccurate or incomplete accounting transactions. Therefore, a lack of reconciliations increases the risk of a financial misstatement or loss to the County.

What is Expected: Auditor's Operations Manual 11-3.1, *Month End Procedures Accounts Payable*, requires AP to complete the monthly retainage reconciliation, and submit the reconciliation to Financial Accounting for recording.

What Action(s) are Suggested: Management should assign a staff member to complete the monthly reconciliation of the Conversion Retainages Payable account. In addition, management should implement a monitoring control to identify required reconciliations that are not completed timely. Furthermore, Auditor's Operations Manual 11-3.1, and other applicable procedures should be updated to indicate who is responsible for performing the reconciliation.

MANAGEMENT'S ACTION PLAN

Responsible Party: Leslie Wilks Garcia, First Assistant County Auditor

Reconciliation of Conversion Retainages Payable

Management agrees with the issue and will assign the initial reconciliation of the Conversion Retainages Payable account to a Special Projects Accountant. Since the extent of manual processes is not known at this time, upon completion of the initial reconciliation, management will evaluate and assign the routine reconciliation and monitoring processes to the appropriate department in the Accounting Division.

Since the Conversion Retainages Payable account is related to the ERP conversion that occurred March 1, 2020, management expects the balance to decrease over time and estimates that the balance will most likely be negligible, if not dissolved, by the end of fiscal year 2025.

Due Date:

September 30, 2022

Review/Update of Reconciliation Procedure

Management will coordinate a review of the procedure addressing accountability of the retainage payable reconciliation process with the Accounts Payable, Financial Accounting and Systems & Procedures divisions within the County Auditor's Office and will update the procedure accordingly.

Due Date:

December 31, 2022



BACKGROUND

In accordance with Texas Local Government Code (LGC) section 113.064, the AP Department is responsible for auditing claims submitted for payment. These claims include payments related to construction contracts that may include retainage. Retainage is an amount of money withheld from payment to a contractor until the end of a project or a time specified in the contract. The standard retainage rate utilized by the County is 5%. Rate reductions are sometimes granted if a milestone or completion percentage of a project is met.

Retainage payable activity is recorded in two general ledger accounts within PeopleSoft. Retainage for construction contracts that started after the PeopleSoft implementation date is tracked within the Retainages Payable's account and retainage for construction contracts that were started prior to the implementation date are tracked within the Conversion Retainages Payable account. As of February 28, 2022, the total retainage payables balance was approximately \$62 million; \$36 million in the Retainages Payable account and \$26 million in the Conversion Retainages Payable account.

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.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official 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.

