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*Accounting Division*

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

November 17, 2023

Dear Leslie Wilks Garcia, First Assistant County Auditor:

The Harris County (the County) Auditor's Office Audit Division has completed an audit of the County Auditor's Office Grants & Accounts Receivable Department (Accounts Receivable) customer billings process. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. They will receive 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:

Lesley Briones  
Rodney Ellis  
Adrian Garcia  
Tom Ramsey  
Christian Menefee



INTERNAL AUDIT REPORT  
**ACCOUNTS RECEIVABLE'S CUSTOMER BILLING  
AUDIT**

NOVEMBER 17, 2023

## Executive Summary

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### OVERALL CONCLUSION

The overall controls related to the Accounts Receivable's customer billing process are generally effective. However, an opportunity was identified to enhance the procedures for the past-due collections process. The issue was discussed with Accounts Receivable, and a management action plan has been developed which will address the issue identified by September 1, 2024.

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### SCOPE AND OBJECTIVE

The scope of the audit covered the period of June 1, 2022, to May 31, 2023. The objective was to evaluate the design and effectiveness of Accounts Receivable's controls over customer billings to determine whether:

- Customer billings recorded in the County's Financial System were accurate and complete.
- Revenue was timely recognized for customer billing.
- Credits to customers' accounts receivable were appropriately authorized.
- Account receivables reconciliations were timely prepared.
- Appropriate actions were completed for delinquent accounts in accordance with Accounting Procedure A.28-10, *Past Due Accounts Receivable Collections*.

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### SUMMARY OF AUDIT ISSUE

- Account Receivable's internal procedures lack certain details for past due collections.

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. The audit issue is ranked based on the likelihood and impact of the risk to the County.

## AUDIT ISSUE

### **ISSUE: - Internal Procedures Lack Certain Details for Past Due Collections** **[MODERATE]**

**What is the Issue:** During an examination of Accounts Receivable's records, we could not determine whether collection procedures for past due invoices were timely performed. In addition, Accounts Receivable's procedures for pursuing collections of past due invoices are not consistent for each County department.

**Why it Happened:** Although the County Auditor's Office has a policy governing past due collections, the policy lacks the following:

- The number of days for an invoice to be unpaid for it to be classified as delinquent and/or past due is not defined.
- The expected time for collection procedures to start is not defined after the invoice is determined to be delinquent.
- The specific departments for which Accounts Receivable is responsible for performing collection procedures are not identified.

In addition, Accounts Receivable has not developed written guidance for departments that are performing collections independent of Accounts Receivable and defined Accounts Receivable oversight duties.

**Why it Matters:** A lack of internal procedures could lead to errors, operational inefficiencies, noncompliance with Section 112.002(b), or financial loss to the County.

**What is Expected:** Per Local Government Code Section 112.002(b), "The county auditor may adopt and enforce regulations, ... that the auditor considers necessary for the speedy and proper collecting, checking, and accounting of the revenues and other funds..."

Pursuant to Accounting Procedure A.28-10, *Past Due Accounts Receivable Collections*, Accounts Receivable should complete the following:

- Make a courtesy phone call to past due customers with the exception of invoices for the collection of Local Government Code §352.016.
- Send a Notice of Delinquency along with a copy of the original invoice to customers with past due balances.
- Email the County Attorney's Office monthly an aging list for accounts being turned over for collections, along with supporting documentation needed for collection efforts.

**What Action(s) are Suggested:** Accounts Receivable Management should create written, comprehensive internal procedures surrounding the past due collections procedures to clearly define roles, responsibilities, and expectations. As well as specifically identifying the departments where the criteria are different. Additionally, Management should perform periodic reviews of these procedures to ensure they align with current processes and best practices.



## **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Dan Baumel

**Due Date:** September 1, 2024

Harris County (County) Accounting Procedure A.28, Accounts Receivable Policy Statement (the policy), outlines the combined efforts of the County Auditor's Office - Accounts Receivable Department (Accounts Receivable), County Departments, and the County Attorney's Office regarding collection activities as appropriate and in accordance with inter-/intra-entity agreements, contracts, and other applicable internal and appropriate County Accounting Procedures. Inter-/intra-entity agreements may include contract provisions that vary significantly from department to department, thus hindering Account Receivable's ability to enact consistent procedures for pursuing collections.

Accordingly, the primary responsibility for the collection of past due accounts remains with the department in which the receivable originated. The policy requires that County Departments take the appropriate action regarding delinquent accounts to include, but not limited to, assisting in resolving issues, terminating service, and providing the County Attorney's Office with the information to collect delinquent accounts.

Furthermore, Harris County has a County-Wide Accounting Procedure A.28-10, Past Due Accounts Receivable Collections, governing the Past Due Accounts Receivable Collections process, which was most recently updated February 28, 2023.

Accounts Receivable will enhance written internal procedures surrounding the past due collections procedures to define roles, responsibilities, and expectations. These will include delineating procedures for which the Accounts Receivable department is responsible, as well as identifying departments that may have different collections criteria. The procedure should be updated as necessary and reviewed on an annual basis.



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## BACKGROUND

The Accounts Receivable department is responsible for the accounting and financial reporting of grants as well as billing for grants and certain receivables of the County. Accounts Receivable directly bills for amounts owed to the County and records billings handled by other departments. This authority to do so can derive from a statute, a contract executed by the County, or from a fee schedule approved by Commissioners Court. This includes working with various County departments that perform their invoicing and collection of non-grant receivables outside of the accounting system to ensure that all receivables are timely and accurately captured and fairly stated in the County Financial Statements. Grants Accounting ensures that grant-allowed expenditures are invoiced and funds are received from granting agencies and applied to the appropriate grant. Per Management, in FY23, Accounts Receivable issued 56.5k invoices, totaling \$359M.

### Collection Processes

For amounts billed by Accounts Receivable that are not received, generally a courtesy call is made to the customer followed by a delinquent notice letter. If the invoice is still unpaid after additional 15 days, it is turned over to the County Attorney's Office for further collection efforts.

## 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.

