

# **AUDITOR'S REPORT**

## **COMMUNITY SERVICES DEPARTMENT DAVID TURKEL CLOSEOUT PROCEDURES AS OF OCTOBER 5, 2018**



**February 22, 2019**

**Michael Post, C.P.A., M.B.A.  
Harris County Auditor**



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

February 22, 2019

Ms. Daphne Lemelle, Executive Director  
Harris County Community Services Department  
8410 Lantern Point Drive  
Houston, TX 77054

RE: Harris County Community Services Department – David Turkel Closeout Procedures for the period ending October 5, 2018

With the change in Executive Director within Community Services Department (the Office), the Auditor's Office – Audit Services Department performed closeout procedures in accordance with the Harris County Road Law. Although you were not the officeholder during the period subject to our procedures, we are addressing this Auditor's Report to you as the current officeholder.

With the transition in the Office, we selectively tested to determine whether:

1. Petty cash in the Office reconciled to the imprest balance authorized by Commissioners Court, and the balance was accurately recorded in the County's Financial Records (IFAS).
2. Controlled and capital assets exist.
3. Bank account balances were accurately stated and account activity was accurately recorded in IFAS, bank reconciliations were timely and accurately prepared, and reconciling items were timely resolved.
4. Procurement and travel cards assigned to the Office were in the Office's possession and were used to make appropriate County purchases in accordance with County policy.

During fieldwork, it was noted that the Office does not have collections thus no procedures were required.

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise professional judgement in completing the scope procedures. As the procedures were not a detailed examination of all transactions or assets, 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 assets, and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

Ms. Daphne Lemelle, Executive Director  
Harris County Community Services Department

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Michael Post  
County Auditor

cc: District Judges  
County Judge Lina Hidalgo  
Commissioners:  
    R. Jack Cagle  
    Rodney Ellis  
    Adrian Garcia  
    Steve Radack  
Kim Ogg  
Vince Ryan  
William J. Jackson

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## OVERVIEW

The objective of this engagement was to perform procedures in accordance with the Harris County Road Law (Section 10, Chapter 17, Special Laws, Acts of the 33<sup>rd</sup> Legislature, Regular Session, 1913, as amended by Chapter 442, Acts of the 66<sup>th</sup> Legislature, 1979).

As excerpted below:

“Upon the death, resignation or retirement of any officer or employee, the Auditor shall require an accounting of all property of every kind of the County or its political subdivisions of which he has custody, possession, control or supervision...”

## RESULTS

Based on the procedures performed, in accordance with the Harris County Road Law, the Office materially complied with the County’s policies and procedures related to petty cash and bank account reconciliations, however, our procedures identified opportunities for improvement as follows:

1. Twelve of 54 (22%) capital assets tested could not be reconciled to the IFAS Fixed Asset Module due to insufficient documentation. Documentation of capital assets in IFAS should be complete and accurate pursuant to the County’s Accounting Procedure A.2-2, *Accounting for Capital Assets Excluding Real Property*.
2. One of 54 (2%) capital assets tested were not located. Physical controls over capital assets should be strengthened.
3. A former Office employee was not timely removed as an authorized signer for 7 of 8 (87%) bank accounts held by the Office. The Office should notify Financial Management within five business days when an authorized signatory leaves their department in accordance with the County’s Accounting Procedure C.5, *Opening New Bank Accounts*.
4. Five of the 6 (83%) travel cards assigned to the Office were not physically safeguarded. The Office should implement physical safeguarding controls for travel cards by storing all unassigned travel cards in a lockbox or a locked drawer with safeguarding controls over the keys that access both the office and the locked drawer in which the travel cards are stored. Additionally, the County Auditor’s Office – Systems & Procedures Department should consider updating County Accounting Procedure T.1, *Travel, Training, and Business Meetings*, to require physical safeguarding controls for all travel cards.

# ISSUES AND RECOMMENDATIONS

## Assets

### Background

Pursuant to County Accounting Procedure A.1-1, *Property Handling Guidelines*:

1. Capital County Assets – “Category I are defined as County personal property including all weapons/firearms with a unit value of \$5,000 or more. These items are recorded as fixed assets on the General Ledger, depreciated over the useful life of the asset, and must be recorded on the County Inventory Listing (i.e., in the IFAS FA Module). These items must be tagged by Purchasing.” The Procedure further requires that the department “Ensures for all items inventoried that inventory records reflect sufficient identifying information including each item’s received date and unique identifying number, if any, such as a serial number applied by the manufacturer.”
2. Controlled County Assets – Category II are defined as County personal property with a unit value of \$500 through \$4,999.99 that has a unique identifying number applied by the manufacturer.
3. All “Inventoried property records should be kept current with new items added and deleted items removed timely (e.g., due to transfer, loss, theft, destruction) or otherwise indicated in accordance with department internal policy.”
4. Requires departments to perform annual inventory verification for County Capital Assets – Category I, Controlled County Assets – Category II, and Discretionary County Assets – Category III in accordance with the County’s Purchasing Agent Rules and Procedures Manual 11.2.1, *Inventory Responsibilities by Department*. Discrepancies should be documented, investigated, and reconciled.

Pursuant to County Accounting Procedure A.2-2, *Accounting for Capital Assets Excluding Real Property*, County departments are responsible for accessing the IFAS Fixed Asset Module for Capital County Assets – Category I and updating the serial number, make, model, type, class and location of the asset as applicable in the IFAS Fixed Asset Module.

### Issues

The following was observed during our examination of assets:

1. Twelve of 54 (22%) Office capital assets selected for testing (11 generators and 1 phone system) lacked sufficient identifying information on the asset presented to us and within IFAS to reconcile to the IFAS Fixed Asset Module. The combined purchase price for these 12 capital assets was \$1,923,101.
2. One of 54 (2%) Office capital assets selected for testing (wheelchair lift) could not be located. The purchase price for this asset was \$10,850.

## ISSUES AND RECOMMENDATIONS

### Assets (continued)

3. One of 79 (1%) Office controlled assets selected for testing (Microsoft Surface Pro Tablet) could not be located and Management informed us that the asset was lost. The purchase price for this asset was \$980.

Not recording sufficient identifying information on the asset and within the IFAS Fixed Asset Module impairs the Office's ability to properly track and monitor capital assets and could result in the inability to reconcile assets to the IFAS Fixed Asset Module, misappropriation of assets, misplaced or lost assets, misstatement of the financial statements, and/or financial loss to the County.

### Recommendations

1. The Office should perform research on the 12 capital assets that could not be reconciled to the IFAS Fixed Asset Module during our procedures due to lack of identifying information and record sufficient identifying information on the asset and within the IFAS Fixed Asset Module so these assets can be appropriately tracked and identified going forward. This should include ensuring these capital assets get tagged by the Purchasing Department and updating the following records within the IFAS Fixed Asset Module:
  - Motor Equipment Number
  - Serial Number
  - Received Date
  - Address
  - Model Number
  - TagID
2. The Office should attempt to locate the 2 missing assets (wheelchair lift and Microsoft Surface Pro Tablet), and steps should be taken to identify and address the root cause of the missing assets. If they are unable to locate the assets, the Office should determine whether County Auditor's Form 3351, *County Property Deletion/Indemnification Request Form*, should be submitted to the County's Purchasing Services Department to obtain Commissioners Court approval to remove the capital asset (wheelchair lift) from the County's Fixed Asset general ledger, and the controlled asset (Microsoft Surface Pro Tablet) from the Office inventory listing.

### Management Response

The department's fixed asset manager has conducted the recommended research on the 12 items lacking fixed asset tags, requested replacement tags from the County Purchasing agent and will be affixed upon receipt. Location and identifying information of the assets will be updated in the Fixed Assets Module.

With regard to the lost tablet and the wheel chair lift (which was disposed of in the sale of another asset), maintenance within the fixed asset module is being entered noting the final disposition and removal of those items from the County's fixed asset listing.

## ISSUES AND RECOMMENDATIONS

### Bank Signatory Cards

#### Background

Pursuant to the County's Accounting Procedure C.5, *Opening New Bank Accounts*, authorized signatories for bank accounts must be County employees or Officials, and when a signatory leaves the County (i.e., due to resignation, termination, lost election, retirement, etc.), that signatory must be removed as an authorized signer on all bank accounts. When an authorized signatory leaves the County, the department should request Budget Management Department – Financial Management within five business days to coordinate having the authorized signatory removed as an authorized signer on all bank accounts, and they should continuously follow up with Financial Management until it is verified that the signatory has been removed.

#### Issue

A former Office employee was not timely removed as an authorized signer for 7 of 8 bank accounts held by CSD. The employee's last day was May 25, 2018, but the Office did not request Financial Management to remove the employee as an authorized signer until July 9, 2018, 40 days late.

A delay in removing bank signatory rights could result in misappropriation of County funds and/or financial loss to the County.

#### Recommendation

The Office should notify Financial Management within five business days when an authorized signatory leaves their department in accordance with the County's Accounting Procedure C.5, *Opening New Bank Accounts*. To aid in accomplishing this, consideration should be given to creating a checklist to complete for terminated/transferred employees that includes a requirement to update any applicable signature cards at the time the employee is terminated or transferred.

#### Management Response

CSD concurs with the finding and Auditor's recommendations. CSD personnel responsible for ensuring timely updating of signatory authority have been provided reinforcement training and provided with the County's policy (C.5) in order to ensure proper signatory rights remain up-to-date.



# ISSUES AND RECOMMENDATIONS

## Travel Cards

### Background

Industry best practice requires physical safeguarding controls over all credit cards, including purchasing and travel cards, in order to aid in mitigating potential unauthorized transactions.

### Issues

The Office does not have sufficient controls in place to physically safeguard travel cards. The Office's Travel Card Custodian stores the travel cards in an unlocked desk drawer inside her office. The unlocked drawer is accessible by other employees when the custodian leaves her office at any time during the day even if she locks her office door, as the key to her office is accessible by other office personnel at all times. Five of the six (83%) travel cards assigned to the Office are stored in this unlocked drawer.

Additionally, County Accounting Procedure, T.1, *Travel, Training, and Business Meetings*, does not specifically address physically safeguarding travel cards.

Not having controls to physically safeguard travel cards and not requiring physical safeguarding controls for travel cards in the County Accounting Procedure T.1, *Travel, Training, and Business Meetings*, could lead to unauthorized travel card charges, misappropriation of funds, and financial loss to the County.

### Recommendations

#### Office

The Office should implement physical safeguarding controls for travel cards by storing all unassigned travel cards in a lockbox or a locked drawer with safeguarding controls over the keys that access both the office and the locked drawer in which the travel cards are stored. Access to the lockbox or locked drawer should be strictly limited to the Travel Card Custodian and an authorized backup.

#### County Auditor

The County Auditor's Office – Systems & Procedures Department should consider updating the County's Accounting Procedure T.1, *Travel, Training, and Business Meetings*, to require physical safeguarding controls for all travel cards.

### Management Response

#### Office

CSD concurs with the finding. As a result, the department is enacting new procedures which requires the placement of the travel cards into the department's combination safe and that removal and use of the card(s) be logged by date, time, and purpose of use and the name of the person given custody of the card while in use. Once use is completed, the custodian will return the card for re-entry into the safe and check-in logged as such.

## ISSUES AND RECOMMENDATIONS

### **Travel Cards (continued)**

#### **County Auditor**

Systems & Procedures will update the County's Accounting Procedure T.1, *Travel, Training, and Business Meetings*, to require physical safeguarding controls for all travel cards.