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

November 6, 2020

John Blount
County Engineer
1001 Preston, 5th Fl
Houston, Texas 77002

Dear Mr. Blount:

The County Auditor's Audit Division has completed an audit of the County Engineer's Real Property Division's Imprest and Petty Cash In-Bank Accounts. The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. Please look for an email to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor at 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 to the right.

Michael Post
County Auditor

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

AUDIT REPORT
COUNTY ENGINEER REAL PROPERTY DIVISION IMPREST & PETTY CASH IN-BANK
ACCOUNTS

November 6, 2020

Executive Summary

OVERALL CONCLUSION

Based on the procedures performed for the County Engineer Real Property Division's (RPD) Imprest and Petty Cash In-Bank Accounts, all expenditures were properly authorized and in compliance with the authorized purpose of the funds. In addition, financial instruments were properly safeguarded, and interest earned was properly transferred to the general concentration bank account on a monthly basis as required by County Auditor's Accounting Procedures. However, controls related to the check access, the positive pay function, check signatures, and bank account signatories need improvement; see summary of issues below. The issues were discussed with the County Engineer's Chief Financial Officer, and a plan of remediation has been developed which will address the issues identified.

SCOPE AND OBJECTIVE

Audit Services conducted an audit of RPD's procedures to test controls over the Imprest & Petty Cash In-Bank Accounts. The objectives of this engagement were to:

- Selectively test controls over the accuracy, completeness, and authorization of the imprest and petty cash in-bank accounts.
- Evaluate controls over the safeguarding of financial instruments associated with the imprest and petty cash in-bank accounts.
- Selectively test expenditures for proper authorization, compliance with County Policy, and whether the expenditures were accurately and completely recorded in the County's Financial System.

The audit reviewed internal controls and data for the period April 1, 2019, through September 30, 2019.

SUMMARY OF AUDIT ISSUES

The following issues were identified during the engagement:

- RPD lacks appropriate segregation of duties over the check access and positive pay functions.
- RPD was not consistently obtaining required signatures on checks prior to issuance.
- Sufficient controls are not in place for processing and recording Constable Tax Sale Auction refunds.
- RPD did not have sufficient controls in place to ensure that authorized signatories who leave the County or department are removed from the bank account signatory list.

The enclosed Auditor's Report presents the audit issues, management's action plan to address the issues and background information regarding these audit areas.

AUDIT ISSUES

ISSUE #1: Improper Segregation of Duties (SOD) Over Access to Checkbook and Positive Pay Function

What is the Issue: A segregation of duties issue exists for the custodian of the \$500K imprest bank account and the \$1,000 petty cash in-bank account. The custodian has access to the checkbook and is responsible for positive pay validation in Cadence Bank, prepares reimbursement requests, and prepares monthly bank reconciliations.

It was noted that RPD does have a mitigating control in place whereby monthly bank reconciliations and reimbursement requests are reviewed and signed by the Division Manager.

What is Expected: Proper segregation of duties disperses critical functions and processes to more than one person or department. Ideally, custody of assets and the ability to authorize, initiate, record and reconcile transactions should be segregated between more than one employee. If duties cannot be properly segregated, one or more mitigating controls should be implemented to provide oversight of the employee with conflicting duties.

Appropriate controls would include a segregation of duties that would prevent an employee from having access to the checkbook and having the capability of performing the positive pay validation.

Why it Matters: Failure to properly segregate duties could result in the misappropriation of funds, financial misstatement, and financial loss to the County.

Why it Happened: RPD does not have adequate procedures in place to ensure critical processes are properly segregated.

What Action(s) are Suggested: RPD should consider assigning the responsibility of positive pay validation to a separate employee other than the custodian. If resources are limited such that the duties cannot be separated, management should implement additional monitoring controls over checkbook access and positive pay transactions.

MANAGEMENT'S ACTION PLAN

Responsible Party: County Engineer Real Property Division Executive

While there has not been any misappropriation of funds, financial misstatement, or financial loss to the County due to the distribution of duties related to our accounts, and as mentioned, there is a separate review of our bank account activity performed by the Division Manager each month, it is our intent to remove the positive pay entry from the custodian's duties, and instead place that function with a different employee as recommended.

Due Date: November 30, 2020

AUDIT ISSUES (CONT.)

ISSUE #2: Checks Improperly Authorized Prior To Issuance (Non-Compliance)

What is the Issue: RPD processed two checks from the \$500K imprest bank account with only one authorized signature on each check. Checks from the \$500K imprest bank account require two authorized signatures.

Additionally, the County Depository accepted and processed the two checks that did not have the two authorized signatures.

What is Expected: Pursuant to County Auditor's Accounting Procedure C.9-3, *Imprest Bank Accounts - Engineering Property Purchases*, The \$500K Imprest Account requires one employee to prepare each check and two authorized Engineering signatories to officially sign each check.

Why it Matters: Failure to require checks to be signed by two authorized employees results in non-compliance with County Accounting Procedure C.9-3, *Imprest Bank Accounts - Engineering Property Purchases*, and could result in unauthorized transactions and/or financial loss to the County.

Why it Happened: RPD was not consistently ensuring that checks had two authorized signatures prior to issuing.

What Action(s) are Suggested: RPD should review checks prior to issuance to ensure proper authorized signatures were obtained.

Informational purposes only

Per discussion with the Office of Budget Management and the Treasurer's Office, the issue has been discussed with the County Depository (Bank), and arrangements have been made to pay for the additional service of requiring two authorized signatures on each check prior to processing. However, RPD should not solely rely on the Bank's control to ensure that checks have the required signatures on each check.

MANAGEMENT'S ACTION PLAN

Responsible Party: County Engineer Real Property Division Executive

We believe the issue was a procedural error for a process that isn't well defined within the procedure itself.

As such, it would be our preference that the procedure be updated to include the handling of earnest money. We would also like to see the procedures revised within the area for preparing a check for tax auction purposes to include the acquisition of both signatures prior to distribution of the check. We do not believe the acquisition of signatures should be different simply based on purpose of usage.

Due Date: May 31, 2021

AUDIT ISSUES (CONT.)

ISSUE #3: Improper Processing of Constable Tax Sale Auction Refunds

What is the Issue: Refund checks issued from Accounts Payable for the purchase of properties at the Constable Tax Sale Auctions are not consistently being deposited and recorded properly by the County's departments purchasing the properties.

- 10 of 23 (43%) refund checks totaling \$74,250 are currently outstanding and have not been recorded properly.
- An additional 5 of 23 (22%) refund checks totaling \$9,073 were deposited but have not been recorded properly.

What is Expected: Pursuant to County Auditor's Accounting Procedure C.9-3, *Imprest Bank Accounts Engineering Property Purchases*, "For constable auctions, Real Property purchases properties for current and future County projects on behalf of County departments using cashier's checks in various denominations. If the amount of the cashier's checks exceeds the purchase price, the Constable conducting the auction will initiate a refund to the customer. Since Real Property purchases properties on behalf of County departments, the customer is the County department and not Real Property. This refund amount is to be included on Form 1267 because the account needs to be replenished for the full amount of the cashier's checks provided to the Constable for the property purchase. The account will be replenished from the County department's budget, and the County department will receive the refund (initiated by the Constable) in accordance with Accounting Procedure D.2-1, *Officer Disbursement Processing*."

Note: Cash and cashier's checks are the only form of payment accepted at Constable Tax Sale Auctions.

Why it Matters: Failure to properly deposit and record refund checks results in inaccurate financial reporting. Specifically, expenditures are overstated due to the recording of overpayments in the County's Financial System (total amount paid/disbursed at Constable Tax Sale Auctions), and refund checks issued to County departments remain outstanding from the Fee Officer Disbursement Bank Account.

Why it Happened: Sufficient controls are not in place over processing and recording refunds from constable tax sale auctions.

What Action(s) are Suggested: In order to facilitate deposits of refunds by the County's departments and provide an enhanced financial control, the County Auditor's Office Accounts Payable Department should utilize ACHs rather than checks when disbursing refunds.

MANAGEMENT'S ACTION PLAN

County Auditor's Office – Accounting Division – Accounts Payable

Responsible Party: Leslie Wilks Garcia, First Assistant County Auditor

While this issue is not the result of failure by the Accounts Payable Department (AP) to follow Accounting Procedure D.2-1, *Officer Disbursement Processing*, Auditor's Office management agrees that the overall process for issuing Constable tax sale auction refunds could be improved to reduce the risk of the checks not being deposited by the receiving department. As of the date of this report, AP has changed the process by which these refund checks are issued and is now disbursing them electronically, via ACH, to

ISSUE #3: Improper Processing of Constable Tax Sale Auction Refunds (Cont.)

the receiving department. The receiving department will be notified and given a packet of supporting documentation for the transactions. It will be the responsibility of the receiving department to provide the Treasurer's Office with proper coding for the deposit transactions. To mitigate the risk of the deposit transactions not getting recorded, the Auditor's Office Accounting Division has implemented a monitoring control to verify that the deposit transaction is recorded timely in the general ledger.

Due Date: Management Action Plan has been implemented as of the date of this report.

AUDIT ISSUES (CONT.)

ISSUE #4: Retired County Employee Not Removed From Bank Account Signatory List

What is the Issue: The \$1,000 Petty Cash In-Bank Account did not have an updated Bank Account Signature Card on file to reflect the signature rights of current County employees.

As a result, there was one individual appearing on the signatory card who had not been removed upon separation from the County on January 31, 2018. Based on procedures performed, it was confirmed that no activity was initiated by this individual subsequent to separation from RPD.

What is Expected: Pursuant to the County's Accounting Procedure C.9-1 *Imprest Bank Accounts – Traditional General Fund Petty Cash Accounts*, authorized signatures for bank accounts must be County employees or Officials. When an authorized signer leaves the County, that signature must be removed as an authorized signer on all bank accounts. The department, in which the authorized signer works, must contact the Financial Management Department to update signature authorization rights.

Why it Matters: Failure to remove former employees from the authorized bank account signatory list results in noncompliance with County Accounting Procedure C.5, *Opening New Bank Accounts*, and could result in unauthorized transactions and/or financial loss to the County.

Why it Happened: RPD has an "Employee Exit Procedures and Processes" document in place and utilizes County Auditor's Form 3412, *Employee Termination Summary*, when employees leave the RPD/County. Item #19 on the checklist states, "If the employee is a bank signatory on any County bank account, notify the appropriate department personnel to initiate updating the bank signatory list accordingly." However, Form 3412 was revised on November 28, 2018, to include this item, which was subsequent to the exception noted (January 31, 2018 – date of employee separation).

What Action(s) are Suggested: RPD should perform a review of all applicable bank accounts to ensure all authorized signers are current County employees. Furthermore, going forward, RPD Management should complete the current version of County Auditor's Form 3412 whenever an employee leaves.

It was noted that RPD had the former employee removed from the bank account signature card on April 9, 2020.

MANAGEMENT'S ACTION PLAN

Responsible Party: County Engineer Real Property Division Dept. Executive

Our office has performed a review of all applicable bank accounts to ensure all authorized signers are current County employees. Additionally as mentioned, we do utilize the current version of County Auditor's Form 3412 when an employee leaves. Given that this form includes a checklist of items to consider and complete, including the removal of an employee who is an authorized signer on a bank account, we do not anticipate this issue will occur again.

Due Date: Already in practice

BACKGROUND

Imprest bank accounts are accounts with a fixed balance that are generally authorized by Commissioners Court and are maintained by the approved County departments. When the balance falls below the authorized amount due to usage of the funds for the authorized County business purpose, the account is replenished to the authorized amount. The imprest bank accounts are to never exceed the authorized amount.

On June 24, 2014, Commissioners Court approved the creation of the first of two imprest bank accounts to be funded for the purpose of RPD to purchase properties from County Constable Tax Sale Auctions for current and future County projects. This first imprest bank account was established with a balance of \$200,000.

On February 28, 2017, Commissioners Court approved to increase the balance of the first account from \$200,000 to \$500,000.

On June 26, 2018, Commissioners Court approved the creation of the second imprest checking account with a balance of \$15,000,000 allowing the RPD the flexibility to bid on more and/or higher valued properties at various Tax Sale Auctions for the County.

In addition to the imprest bank accounts used for purchasing properties, RPD also has a \$1,000 petty cash in-bank account. Petty cash in-bank accounts are categorized as imprest bank accounts but with lower fixed balances. Generally, petty cash in-bank accounts are utilized for miscellaneous purchases (\$200 or less) and must follow the purchasing guidelines within County Auditor's Accounting Procedure C.9-1, *Imprest Bank Accounts - Traditional General Fund Petty Cash Accounts*.

ACCOUNTABILITY

The work performed required our staff to exercise professional judgment in completing the scope procedures. As the procedures were not 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.