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

January 21, 2022

Dear Loyd Smith, Interim County Engineer Harris County Engineering Department:

The Harris County Auditor's Office Audit Division has completed a Closeout Audit of the Harris County Engineering Department (County Engineer). 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 anticipate an email request 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, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post
County Auditor

Report Copies:

District Judges
County Judge Lina Hidalgo
Commissioners:
 R. Jack Cagle
 Rodney Ellis
 Adrian Garcia
 Tom Ramsey
Christian Menefee
David Berry

AUDIT REPORT
COUNTY ENGINEER JOHN BLOUNT CLOSEOUT
JANUARY 21, 2022

Executive Summary

OVERALL CONCLUSION

Based on the procedures performed in accordance with the Harris County Road Law, assets existed, and bank account reconciliations were completed timely and accurately. However, we did identify opportunities for improving controls for bank account signatory cards. This issue was discussed with Financial Management and a management action plan has been developed, which will address the issue identified by April 30, 2022.

SCOPE AND OBJECTIVE

Pursuant to the Harris County Road Law, Section 10, the objectives of this engagement were to determine whether:

- A sample of the department's capital assets and any assets assigned to the former executive leader existed.
- Certain procurement and travel card expenditures complied with County policy.
- Physical and system(s) access for the former executive leader was appropriately disabled.
- Petty cash, change funds, and imprest bank accounts reconciled to the imprest balances authorized by Commissioners Court.
- Certain bank reconciliations were completed timely and accurately.
- Bank account signatory rights for the former executive leader were appropriately removed.

The procedures performed covered the 6-month period ended September 24, 2021.

SUMMARY OF AUDIT ISSUES

Two former County employees were still authorized signers on a County Engineer department bank account.

The audit issues, management's action plan to address the issues, 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 Harris County.

AUDIT ISSUE

ISSUE: Bank Account Signer not Timely Removed [LOW]

What is the Issue: Two former County employees, one from the County Engineer and one from Financial Management, were still authorized signers on a County Engineer department bank account.

Why it Happened: Cadence bank requirements for the removal and addition of bank signatories is not well defined in the current Financial Management policy.

Why it Matters: Not timely removing former employees as authorized signers for bank accounts could result in unauthorized transactions, misappropriation of funds, and/or financial loss to the County.

What is Expected: Financial Management should have policies that specifically outline the Cadence bank communication and documentation requirements to complete requests to add and remove bank signatories.

What Action(s) are Suggested: Financial Management followed up with Cadence Bank during the audit to remove both former employees' access. However, Financial Management should update their current policy to specifically outline Cadence bank's required communication and documentation needed to add and remove bank signatories.

MANAGEMENT'S ACTION PLAN

Responsible Party: Amy Perez, Director of Financial Management

Financial Management concurs that our policies should include more specific information regarding documentation requirements and bank communication. We had an initial conversation with Cadence on January 10th, 2022, to get clarification on these items as well as discussions to make the overall signature card updating process more efficient. Cadence is discussing internally and will follow up with us with the information we need to update our policy.

Internal emails do suggest that Financial Management did make the request to the bank to remove these signers. However, since the Financial Management employee that said she would remove them is no longer employed at Harris County we do not have proof that the email was sent. We will add to our policy that we will follow up with the bank to make sure the signature card has been updated as requested. Additional updates to our policy will include recent updates pursuant to the County Accounting Procedure C.9, *Imprest Bank Accounts*, departments are responsible for ensuring signatories are removed as authorized signers on all accounts when they leave the County and responsible for following up with Financial Management to ensure the employee was removed.

We agree that this is a low risk issue, as we have a mitigating control in place on this account at the bank. A three signature requirement was added to this account in 2020. Therefore, it is unlikely that a former employee would be able to commit fraud without collusion from 2 other listed signers.

Due Date: April 30, 2022

BACKGROUND

Closeout audits are primarily performed to provide a newly elected or appointed official reasonable assurance that capital assets exist, and cash is accounted for pursuant to the Harris County Road Law.

The Harris County Road Law was originally passed in 1913 as a Special Law by the 33rd Legislature pursuant to Texas Constitution Article VIII. Section 10, Chapter 17 states that “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...”

Pursuant to a County Attorney Opinion dated July 12, 2016, “the Harris County Auditor has the duty and the power to conduct a separation audit for every officer or employee of Harris County who terminates employment by death, resignation or retirement to account for all Harris County property within the employee’s custody, possession, control or supervision. It is within the discretion of the Auditor as to the scope of the detail and documentation necessary in each case.”

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 work performed required our staff to exercise professional judgment in completing the engagement’s scope. 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.