

AUDITOR'S REPORT

HARRIS COUNTY FIRE MARSHAL MIKE MONTGOMERY CLOSEOUT PROCEDURES AS OF MARCH 27, 2018



February 8, 2019

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HARRIS COUNTY AUDITOR

February 8, 2019

Laurie L. Christensen, Fire Marshal
Harris County Fire Marshal's Office
7701 Wilshire Place
Houston, Texas 77040

RE: Harris County Fire Marshal Mike Montgomery Closeout Procedures as of March 27, 2018

With the change in officials within the Harris County Fire Marshal's Office (Office), the Auditor's Office - Audit Services Department performed closeout procedures in accordance with the Harris County Road Law. Although you were not the office holder during the period subject to our procedures, we are addressing this Auditor's Report to you as the current office holder.

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. Collections on hand reconciled to County receipts, financial reports generated by the Office, and validated bank deposit slips or Treasurer's receipts.
3. Controlled and capital assets existed, controlled and capital assets were recorded in accordance with County policy, and capital assets were accurately recorded in IFAS.
4. Procurement and travel cards assigned to the Office were in the Office's possession and were used to make appropriate County purchases.

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 were 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 judgment in completing the scope procedures. As the procedures were not a detailed examination of all transactions or property, 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 property and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

Laurie L. Christensen, Fire Marshal
Harris County Fire Marshal's Office

The enclosed Auditor's Report presents the significant issues and recommendations identified during our procedures. 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 33rd Legislature, Regular Session, 1913, as amended by Chapter 422, Acts of the 66th 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 purchasing and travel cards, however, our procedures identified opportunities for improvement, as follows:

1. The 2 petty cash funds approved by the Commissioners Court should be operated independently.
2. All expenses paid out of the petty cash fund should be in compliance with the purpose of the fund as required by County policies and procedures.
3. Keys to the collections safe should always be in the possession of the Collections Custodian, or an authorized back-up employee, or stored in a secure location that could not be easily accessed by unauthorized personnel.
4. Existing policies, procedures and controls should be enforced to ensure the accurate recording and classification of capital assets in IFAS. This should include a complete and accurate description of the asset (e.g., serial numbers, model numbers, addresses, makes, and location fields), so these can be easily, efficiently and timely tracked, located, controlled and depreciated.
5. Disposed assets should be removed from IFAS in a timely manner.

These matters are discussed in more detail in the following Issues and Recommendations section of this report.

ISSUES AND RECOMMENDATIONS

Petty Cash

Background

Pursuant to County Accounting Procedure D.3, *Traditional General Fund Petty Cash Accounts*:

1. “Each fund separately authorized by Commissioners Court must be operated independently in accordance with this procedure. An authorized fund in a County Department is not to be used to reimburse/replenish another authorized fund in the County Department.”
2. “The petty cash fund may not be used for travel advances.”

In addition, County Accounting Procedure T.1, *Travel, Training, and Business Meetings* states that “Travel expense reimbursements shall be recorded on County Auditor’s Form 1263, *Travel and Training Expense Claim*, and submitted to the Auditor’s Office – Accounts Payable Department (Accounts Payable) within 60 days of the end of travel.”

Issues

Two (2) Petty Cash funds approved by Commissioners Court were combined into one (1) fund by the Office, which has resulted in noncompliance with County Accounting Procedure D.3, *Traditional General Fund Petty Cash Accounts*, and could result in expenditures not in compliance with the purpose of the fund.

Additionally, a reimbursement was made out of the petty cash fund for a travel expense which is not consistent with the purpose for which the petty cash fund was created, which has resulted in noncompliance with County Accounting Procedures D.3, *Traditional General Fund Petty Cash Accounts* and T.1, *Travel, Training, and Business Meetings*.

Recommendations

1. Office Management should discontinue using the two petty cash accounts as a single account in order to comply with the County’s Accounting Procedure D.3, *Traditional General Fund Petty Cash Accounts*.
2. Office Management should ensure that all expenses paid out of the petty cash fund are in compliance with the purpose of the fund and all relevant County policies and procedures.

Management Response

1. The Fire Marshal’s Office will use the petty cash accounts as originally approved by the Commissioners Court, the petty cash custodian will use the petty cash accounts as two petty cash accounts and will issue in accordance with the approved accounts and the County’s Accounting Procedure D.3, *Traditional General Fund Petty Cash Accounts*.

ISSUES AND RECOMMENDATIONS

Petty Cash (Continued)

2. The Harris County Fire Marshal's Office now has a current approved court letter for expenses paid appropriately from petty cash in scope with County policies and procedures.

ISSUES AND RECOMMENDATIONS

Physical Controls Over Collections

Background

County Accounting Procedure A.1, *Cash Handling Guidelines* states that "Petty cash funds, change funds, bank account check stock and checkbooks, blank receipts, collections, etc., left in the office overnight should be secured in a safe or other locked storage place when the office is closed. Access to the safe combination and/or keys should be limited to as few staff members as possible."

The Office collects funds at two (2) locations, Wilshire and Atascocita. Collected funds are stored in safe boxes at these locations until they are picked up to be deposited in the bank.

Issue

Proper controls are not in place to safeguard collections at the Wilshire location as keys to the safe are stored randomly on site and are accessible to unauthorized employees other than the Collections Custodian.

Not having controls in place to safeguard collections could lead to misappropriation of collected funds and is not in compliance with County Procedure A.1, *Cash Handling Guidelines*.

Recommendation

Office Management should ensure that keys to the collections safe are always in the possession of the Collections Custodian, an authorized back-up employee, or stored in a secured location not accessible by unauthorized personnel.

Management Response

Based on the Auditor's findings and recommendations, HCFMO has taken the following steps to ensure proper management of keys to the collection safe. 7701 Wilshire Place Office: The Collections clerk keeps their collection safe key on their person at all times while the back-up key remains locked in the Accounts Receivable Office location. 2318 Atascocita Road Office (no issue identified during Audit): Clerk uses lock-box for additional key, but the custodian clerk has an individualized code for their individualized safe with key that they keep on them.

ISSUES AND RECOMMENDATIONS

Fixed Assets

Background

Pursuant to County Accounting Procedure A.1.1, *Property Handling Guidelines*:

1. 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.
2. Capital County Assets - Category I - County personal property including all weapons/firearms with a unit value of \$5,000 or more must be recorded as a fixed asset 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 also must be tagged by the Purchasing Department.

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 Capital assets for the Office:

1. 3 of 84 (4%) capital assets selected were no longer in use and were not disposed of or removed from IFAS.
2. 17 of 313 (5%) capital assets tested had inconsistent serial numbers, model numbers, addresses, makes, or location fields recorded in IFAS. Additionally, there were 16 of 3,539 (<1%) assets in IFAS that were recorded in bundles of quantity purchased instead of each asset individually.
3. 2 assets sampled that met the criteria to be capitalized (i.e., greater than or equaling \$5,000.00) were not appropriately categorized as Capital Assets.

These asset issues could result in misappropriation of assets, misplaced or lost assets, misstatement of the financial statements, financial loss to the County, and could impair the Office's ability to properly track assets.

Recommendations

Office Management should consider implementing the following recommendations:

1. Send completed County Auditor's Form 3351, *County Property Deletion/Indemnification Request Form*, to the Purchasing Department in a timely manner for the removal of assets no longer in use that need to be deleted from the Office's inventory.

ISSUES AND RECOMMENDATIONS

Fixed Assets (Continued)

2. Periodically perform an inventory of all property and equipment for the Office and update the IFAS fixed assets module with sufficient information for effective tracking and accounting of County property and equipment to comply with the County's Accounting procedures.
3. Categorize the two misclassified assets as capital assets in IFAS. Further, Office Management, in collaboration with the Purchasing Department, should ensure that all assets (existing and new) are appropriately classified in IFAS for recording, tracking and depreciation purposes.
4. Office Management, with guidance from Purchasing Services, should ensure assets are recorded individually with the corresponding serial number, model, make, and location, if applicable, and record the missing information in the IFAS Fixed Asset Module as needed. This could be done in conjunction with the annual inventory required by the County's Purchasing Rules and Procedures Manual section 11.2.1, *Inventory Responsibilities by Department*. If one of the identifying information fields is not applicable, a notation should be added to that field that states "not applicable" for clarity.

Management Response

1. HCFMO has implemented a quarterly asset removal program including completion of the County Auditor's Form 3351 and drop off of items at the Lockwood surplus location.
2. HCFMO conducts this annually and will continue.
3. HCFMO is working with Purchasing to fix these two items.
4. HCFMO will work more diligently to ensure that items are correctly logged in IFAS, regardless of who makes the entry.