The Harris County Auditor's Office

Newsletter

August 2016

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IFAS Replacement Project Status Update

Tony Padon
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ERP

As of this first day of July 2016, the Harris County PeopleSoft ERP Implementation project has completed some key activities and some significant milestones are immediately ahead.

One very important activity completed is the purchase of the PeopleSoft modules we intend to implement to replace IFAS. Other important activities being completed right now involve acquiring all of the computer servers, operating systems and databases that the PeopleSoft software will need to run on. Those efforts are under the responsibility of Central Technology Services (CTS) and appear to be on schedule at this time.

The two key work streams currently in progress are:

1) Selecting a consulting company with PeopleSoft implementation expertise (we refer to as the System Integrator or Integrator) that will guide us through properly configuring and implementing the PeopleSoft applications to meet the numerous and diverse business needs of Harris County; especially the Auditor's office.

2) Selecting a training vendor to provide the initial PeopleSoft training to the Harris County Project Team Leaders

(and others). This is so that when the integration vendor arrives on site and begins showing our project teams how certain processes work in the PeopleSoft application, our teams will be familiar with each of the areas in the software for which they will be responsible and can be more effective at helping the Integrator configure the PeopleSoft software to suit our needs.

INSIDE THIS ISSUE:

We have received and reviewed proposals and selected vendor finalists. Further, we have asked them to present their best and final offers.

Once we have received and evaluated the best and final offers from these vendors, we expect it may take several weeks to a month to get final questions answered, complete our evaluation and scoring, and select the final vendors for the System Integrator and the Training Services.

With these vendors selected, Harris County Purchasing and Legal departments will begin final negotiations to complete and finalize contracts for their services. We expect this to be completed by sometime late this summer for the Training Vendor and sometime this fall for the Integration Vendor. Once these contracts are completed and signed, we can then set firm dates for these two vendors to be able to come on site and begin training and implementation work.

When the system Integrator Team arrives on site, we will provide them with the background information on Harris County and our existing systems, processes, and procedures and allow them a reasonable period of time to get oriented, organized, and ready to conduct the project. When they are ready, we will then begin scheduling Application Design Workshops. In these workshops, Harris County Project Team Leads and other key Harris County Process Owners, who are responsible for the functional and technical areas of the County's current operations, will meet with the Integrator PeopleSoft Subject Matter Experts (SMEs) in small groups. The small groups will begin discussing, analyzing, and mapping how Harris County's current business processes will be executed in the PeopleSoft applications. The objective of these meetings is to determine where there may be gaps or differences in how the PeopleSoft applications address the County's needs and to make a determination about how these gaps or differences from current procedures will be addressed. While we cannot determine a project schedule until we have developed a complete project plan with the selected System Integrator, we expect these meetings to take us well into the 2017 calendar year. We will be providing updates to the County throughout this process.

Department of Labor New Overtime Rule

The White House and Department of Labor have released details of the new final rule governing which workers must be paid overtime. The final rule more than doubles the amount workers must earn to qualify as exempt from the law's overtime pay requirement.

Linda Dougherty
Assistant Director
Payroll

The changes mean approximately 4 million employees will be eligible to earn overtime pay when the new final rule takes effect on December 1, 2016. In lieu of cash payment for overtime, compensatory time is permitted for Harris County. When cash payment is not made for overtime, non-exempt employees accrue compensatory time at the rate of 1.5 hours per hour worked greater than 40 hours in one workweek. Harris County exempt employees accrue compensatory time at the rate of 1 hour per hour worked greater than 40 hours in one workweek until their comp time balance reaches 240 hours. If a non-exempt employee's compensatory time balance reaches 240 hours, the employee will be paid cash for all hours worked beyond 240. Under the new rule, workers deemed exempt from FLSA must earn at least $47,476 a year ($913 a week). Under the current rule, the threshold is $23,660 a year ($455 a week) which has been in place since 2004.

The new rule provides for automatic updates to the salary threshold every three years and will be set at the 40th percentile of full-time salaried workers in the lowest income Census region. In addition to meeting the salary test, workers classified as exempt must meet the duties test for performing executive, administrative, and professional employees.

The Affordable Care Act

Under the Affordable Care Act, the federal government, state governments, insurers, employers, and individuals are given shared responsibility to reform and improve the availability, quality and affordability of health insurance coverage. Starting in 2014, the individual shared responsibility provision calls for each person to have qualifying health care coverage (known as minimum essential coverage) for each month, qualify for an exemption, or make a payment when filing their federal income tax return.

Employers with more than 250 employees are mandated to send each employee Form 1095-B. The form provides information needed to report on the individual's income tax return that the individual had qualifying health coverage for some or all months during the year.

Auditor's Intranet - New Look and Feel

Since late 2014, we, the Auditor's Office - Systems & Procedures Department, have worked diligently with Central Technology Services to transition from RoboHelp to Microsoft SharePoint as the program used to house/access our County Auditor-prescribed procedures, forms, and other online content. SharePoint has

Nick McGee
Senior Analyst III
Systems & Procedures

allowed us the capability and flexibility to significantly update the look and feel of the website. The design is modern and professional, and the various navigation and sorting features are fresh and robust.

In order to access the SharePoint area of the Auditor's Intranet website, you must first access the Auditor's Intranet. To do this directly, go to http://www.aud.hcintranet.net. To access the Auditor's Intranet from the Auditor's Internet website (http://www.harriscountytx.gov/auditor/), select *Auditor's Intranet Site* from the left navigation menu. To access the Auditor's Intranet from the County's home page (http://www.hctx.net), hover your cursor over *Government*, click on *Auditor's Office*, which is under Fiscal Services, and click on *Auditor's Intranet Site* from the left side menu on the Auditor's Internet home page.

Now that you are on the Auditor's Intranet home page, you may select the content you want to access from the left navigation menu. This menu contains a wealth of helpful information and resources, such as County Auditor-prescribed procedures and forms, the latest procedures and forms quarterly update, Auditor's Office organization charts, fiscal year-end information, internal controls documentation, etc. Selecting any of these menu items will launch you to that item or page in the new SharePoint area of the Auditor's Intranet. Once on the SharePoint site, you will immediately notice the eye-catching color scheme and user-friendly layout.

The second feature that stands out on the new SharePoint site is the ability to sort content lists by different column headings. For example, on the Accounting Manual page (*County-Wide Forms & Procedures > Accounting Manual*), you have the luxury of sorting the procedures list by procedure number, procedure title, or date authorized. Another example of this amazing feature is on the County-Wide Forms page (*County-Wide Forms & Procedures > County Auditor Forms*). You can sort the forms list by form number, form title, form type, or date authorized.

Another great feature is the references section on the Accounting Manual page (*County-Wide Forms & Procedures > Accounting Manual*). After finding the procedure you want on the page, you can click on the double-arrow to the left of the procedure number, scroll to the top of the page, and view the associated references on the right side of the screen. These references should coincide with the items listed in the References section of the procedure you selected.

The SharePoint site is also equipped with a robust search function. Simply type your search criteria in the **Search this site** field and press Enter, and your search results will return fast and accurate. For example, if you type "travel" in the search field and press Enter, the search results will include all instances on the site where "travel" is mentioned, which includes titles of procedures and forms, filenames, and text within documents.

Another way to find what you are looking for is to use Ctrl+F, the handy keyboard shortcut. Keep in mind that, with this tool, you can only search for text on a page and not the entire site. An example of when this is extremely useful is when you know that a procedure title contains the word "travel," but you don't know the procedure number or you don't want to scroll through the list of procedures to find it. All you have to do is press **Ctrl** and then **F** (while still holding Ctrl) on the keyboard, type "travel" in the screen prompt, and press Enter. This will return all of the instances where "travel" appears on the page you are currently on.

One of the goals of the Auditor's Office is to continue to develop new and improved methods for communicating information and providing resources, and by working with Central Technology Services to convert our Auditor's Intranet content to a modern program like SharePoint, we believe that we have accomplished this goal.

Please visit and browse through our enhanced Auditor's Intranet to become familiar with all of the information and new features that may be of assistance to you and your department. We hope that your experience is more efficient, effective, and enjoyable.

Compliance Audit Unveils New and Improved FAQs Web Page—You Have Questions, We Have Answers

Is there such a place or intranet location which has all the answers to employee questions at Harris County? Does a universal source exist to find answers to County Compliance Audit related questions? Is the thought of reduced calls to ask for who can help or who has a possible answer to a question of interest sound good? An effort is made by Compliance Audit to help these matters.

Jay Siegel, CPA
Manager
Compliance Audit

Compliance Audit is in the process of completing an updated Frequently Asked Questions and Answers (FAQs) section on the Auditor's Intranet which directs employees to answers for commonly asked questions directed to Compliance Audit. Check out the new FAQs for updates to possible answers to your questions located at:

https://aud.webhc.hctx.net/lists/faqs/
complianceauditfaqs.aspx

(Harris County Auditor's Intranet, Audit Division,
Compliance Audit FAQs)

It is great to find an intranet source of many answers in a large, changing, multi-disciplined, multi-location operation. The updated Compliance Audit FAQs page is created with the mind-set of giving readers the plausible "source" or "sources" where to find your information while creating efficiencies to find answers to questions often posed to Compliance Audit.

The journey to the right person, in the right department to obtain assistance for the right answer is sometimes longer than desired to get the job done. This is often due to the size and location of operations, changes in personnel, and changes in systems and procedures in a fluid environment. To assist in this area, the Compliance Audit department is "rolling out" a new and improved FAQs (Frequently Asked Questions) tab in the Compliance Audit section of the Harris County Auditor's Intranet web page. This new FAQs web page is designed to provide auditees and those in potential need of assistance paths to answers without phone calls or minimal phone calls by use of this intranet page.

Responsive answers are one cornerstone to service and efficiency for auditees and County personnel. The development of this updated FAQs web page was based on Compliance Audit conversations, internally and with auditees, which discussed common questions and answers. Over the last several months Compliance Audit "polled" its team to develop the FAQs enhancements to better service auditees. Our auditees have been generous with their time and courtesies, and this updated FAQs web page in some way hopes to assist auditees in resolving their questions with less phone inquiry.

Benefits of a Dedicated – Current FAQs Intranet Resource

- *Trust* - Building bridges of trust for best answer sources to common questions. This helps to avoid delays and gaps in our services and your questions, which Compliance Audit carries responsibility. This also helps the user to understand that Compliance Audit is not the residual department to call when no one else has answers. There are a variety of departments with specific knowledge to assist in answering questions.
- *Time Savings* – Like other County departments and employees, Compliance Audit is busy. We are working around the County and away from our desks at certain times. Checking the FAQs page first before calling us will enhance the sources of information for County personnel who need assistance.
- *Service Passion* – Yes, service passion. Compliance Audit's end product is not only an audit report but a service. The service extension is part of the journey to the end product. We also care enough to provide resources to direct questions sorted by department and query type; which is the goal of the FAQs page.

Statutes, Procedures and Sample or Typical Requests and Thoughts on Resolution

A common request received by Compliance Audit is for copies of cash receipts. Although Compliance Audit is traditionally a keeper of selected cash receipts used for audit purposes in electronic form only, after completion of Compliance Audit work, all receipts are transferred to central storage locations and retained by Central Technology Services - Harris County Records Center.

The reason auditee, County and third party requests for copies of cash receipts often are directed to the Compliance Audit Department rests in Texas Local Government Code (LGC) §115.001 which provides audit authority of the County Auditor for examination

of books and records. Another reason is Texas Code of Criminal Procedure Chapter 103, Art. 103.011, which requires an officer to deliver the receipt book or a copy of any receipt records contained in a computer database to the County Auditor at the end of each month's business or at the end of each month electronic access to receipts records.

The prior paragraph discussed statutes and procedure sections, but the practical audit application sometimes results in sampling methods of the paper or scanned image of receipts from audits performed by the Compliance Audit Department. Thus, not all cash receipts in electronic copy form are retained by the Compliance Audit department as part of the "written audit record".

After the Compliance Department audits are completed, receipts are not retained by the Compliance Audit Department. The receipts are then sent to County authorized offsite storage locations as required by the above statutes and procedures sequenced in LGC §203.022 through 203.046. The original receipts are transferred to storage locations. However, the first place to inquire about a copy of a receipt is with the auditee not the Compliance Audit Department as they may have a receipt copy or an electronic receipt form.

In this regard, the website which discusses County records retention for reference is:

https://itc.webhc.hctx.net/records/Documents/ Forms/Policies%20%20Procedures2.aspx

Note that the above website does not apply to the County Clerk, District Clerk or the Tax Office, which have their own records retention requirements. Further, under records retention requirements, in general, receipts are held for five years before receipts are destroyed.

FAQs Site Sample Questions

The following lists several common questions which are addressed on the updated FAQs site.

Question: May I receive a copy of a receipt?

Answer: Yes. However, please consider an attempt to find a copy of the receipt within your local software or storage systems if you have the records. The search by Compliance Audit can take substantial time as after audit completion such records are located in offsite storage.

Question: Who do I talk with to find how the accounting ledger code updates and changes for receipts?

Answer: This question is better directed at the Financial Accounting Division.

Compliance Audit is Available if the FAQs Site is not the Answer "Source"

Compliance Audit's FAQs page is not a replacement to statutory and procedural duties discussed above, but an intended time saver for all in need of information. If the answer to a question is not on the FAQs site, and the belief is Compliance Audit is the "source" or has a "duty" under the statutes mentioned above, please contact Compliance Audit and we will do our best to provide answers.

In closing, a bit of history as this article concludes about FAQs and their origins. Historic news articles indicate FAQs are not a recent creation. FAQs were born from the bulkiness and the lengthy updating of mailing lists from times gone by and FAQs were believed born in Texas in the early 1980s by NASA.

If you have any questions, contact Jay Siegel at jay.siegel@aud.hctx.net or 713.274.5680.

Utilizing the Revenue Manual as Your Guide

The **Revenue Manual** is essentially a guidebook that describes various types of revenues collected by the County. It outlines why a particular type of revenue is collected and identifies the Legal Authorization that the County has to collect the revenue. The Revenue Manual can also be utilized as a tool to help your department determine your annual Revenue Estimate.

Derryle Simpson, Manager Revenue Accounting

The Revenue Manual is posted on the Auditor's Office intranet website, www.aud.hcintranet.net. It is located under Manuals and the Revenue Manual link. Searches can be performed by revenue object code or revenue title.

Broad revenue categories are detailed in the Revenue Manual to assist you. For example:

CHARGES FOR SERVICES
Fees: Patrol Services, Fire code permit, Wrecker ID, Fees of Office

FINES
Bond Forfeitures, Truancy, Criminal Fines

TAXES
Ad Valorem Taxes, Occupational taxes

INTERGOVERNMENTAL
Federal Inmates, City/Other, State-Indigent Defense

INTEREST
Interest and Interest on investments

GAIN ON SALE OF INVESTMENTS
Sale of Real Property

MISCELLANEOUS
Reimbursements, Late Charges, Recycling, Security Badges, Rent

The Revenue Manual is updated as we become aware of legislative changes and as a result of department requests – especially during the annual **Revenue Estimate** process to determine the Available Resources for the County departments.

The **Final Estimate of Available Resources (F.E.A.R.)** is also posted on the Auditor's internet website. http://www.co.harris.tx.us/auditor/ It is located under Financial Statements and Reports.

The **F.E.A.R.** is used to develop the Fiscal Year (FY) Appropriations Budget for Harris County and the Harris County Flood Control District. Estimated available resources are defined as estimated beginning cash and cash equivalents, plus estimated revenues and transfers-in for the upcoming fiscal year.

If you have questions about any of the information contained in either the Revenue Manual or the Available Resources Document, please contact Jolanda Smith at (713) 755-4832, Tammie Sonnier at (713) 755-8221, or Derryle Simpson at (713) 755-4616.

Continuous Auditing – FAQs...

Continuous Auditing (CA) is a department under the Audit Division. The following questions and answers will provide insight on the Continuous Auditing functions and objectives.

Patrick Rodriguez
Director
Continuous Auditing

1. ***What is Continuous Auditing?***
    The Institute of Internal Auditors (IIA) defines Continuous Auditing as, any method used to perform audit-related activities on a more continuous or continual basis. Our department strives to perform analyses of up to 100% of the data under review. While we use a data focused approach, we also employ the same standards used by traditional auditors to plan and execute an engagement.

2. ***How will I know when my area is selected for an audit by Continuous Auditing?***
    If your area has requested or is selected for an audit engagement, the Continuous Auditing Director will make contact (usually by telephone) within two weeks of the start of the engagement.

3. ***How do I request an audit?***
    Audits can be requested by elected and appointed officials and others. However, all audits must be approved by Barbara Schott, County Auditor. Mark Ledman, Chief Assistant County Auditor (713-274-5673), or Patrick Rodriguez, Director of Continuous Auditing (713-274-5686), may be contacted to request an audit.

4. ***How will I know when my area is selected for an audit by Continuous Auditing?***
    If your area has requested or is selected for an audit engagement, the Continuous Auditing Director will make contact (usually by telephone) within two weeks of the start of the engagement.

5. ***What can I expect from a Continuous Auditing audit?***
    The focus of Continuous Auditing is often on data analytics. In order to perform an audit on a business unit's data, Continuous Auditing must acquire an understanding of the objectives of the unit, the processes employed to approve transactions, and policies and procedures in place to carry out the business unit's objectives.

6. *May I have any of the documentation that you are creating during the personnel interviews?*
Copies of process flows that are developed by Continuous Auditing during the interview, observation, and evaluation processes may be provided upon request.

7. *How much time do I have before I have to provide the information requested?*
During engagement planning, lead time is estimated to keep the engagement efficient. Suggested delivery dates for requested information are included in the information request transmittal email/letter. The timelines for information requests for each engagement may differ based on the needs of the engagement. The Continuous Auditing staff works with departments to obtain information with the goal of minimal disruption to the department audited.

8. *What is a Management Representation Letter and why do I need to sign one?*
A Management Representation Letter is used when Management has made assertions (representations) that generally cannot be independently verified using auditing procedures. The letter provides supporting documentation for the engagement working papers and the audit report.

9. *How does Continuous Auditing approach differ from a traditional audit approach?*
Continuous Auditing completes audit engagements in a similar manner to the traditional audit approach. The difference lies in the sustainability analysis phase completed at the end of each audit engagement. During this phase, Continuous Auditing evaluates the engagement and determines if the analytics can be executed in a routine basis (this can be daily, monthly, quarterly or annually depending on the specifications of the audit at hand). Continuous Auditing must determine if the investment placed into developing the analytics is worth the investment.

10. *Do I have to wait for the written report to know if there are any issues?*
Findings and recommendations are discussed with personnel during the course of the engagement and again in an exit conference.

11. *What kind of written communication regarding results is provided?*
A formal written report is issued for an audit engagement.

12. *How is the draft report process handled?*
Each area audited will have either an elected or appointed official. On an annual basis, the elected or appointed official determines how the draft audit report will be cleared. The options the elected or appointed official may select are:

a. The draft report may be provided to the elected or appointed official before review of their personnel.
b. The draft report may be provided to the elected or appointed official at the same time as the personnel.
c. The draft report may be provided to the elected or appointed official following the review of personnel.

The elected or appointed official can change the requested clearing process at any time during the year provided the notification is in writing.

13. *Do I have an opportunity to comment on action plans or other items regarding the audit report's findings and recommendations?*
The Continuous Auditing Department will allow management to respond to any action plans of items that appear in the final report. The response will be included in the final report.

14. *How do I provide feedback concerning an audit engagement that was recently completed?*
Please feel free to contact either Patrick Rodriguez, Director of Continuous Auditing (713-274-5686), or Mark Ledman, Chief Assistant County Auditor (713-274-5673), regarding audit engagements. Additionally, within two weeks after the audit report is issued, a client survey will be mailed. Your feedback on the survey is greatly appreciated.

Internal Control 101

Some individuals reading this article may realize that they are directly involved with internal control on a daily basis, while others may be thinking "Internal control? What does that have to do with me?" Regardless of which group you fall into, a review of the basics of internal control will be beneficial. Why? Because we are all directly involved with internal control in some way, whether we realize it or not.

Greg Johnson
Senior Auditor
Audit Services

So let's start with a basic question. What is internal control? On a personal level, everyone utilizes some form of internal control in their lives every day. Some examples include locking a home or vehicle, keeping PIN numbers separate from bank cards and reconciling bank statements. In each of these examples an action is taken in an effort to prevent a negative outcome

from occurring. So, broadly defined, internal control can be thought of as actions that are taken to ensure that desired outcomes will happen and undesirable outcomes won't happen.

Several frameworks have been developed for defining internal control and outlining the components of internal control within an organization. Arguably, the most widely used framework comes from The Committee of Sponsoring Organizations of the Treadway Commission (COSO). This organization is self-described as a "recognized thought leader in the global marketplace on the development of guidance in the areas of risk and control which enable good organizational governance and reduction of fraud." The COSO internal control framework is highly regarded by The Institute of Internal Auditors (IIA), The American Institute of Certified Public Accountants (AICPA), The Securities and Exchange Commission (SEC), and others.

The COSO framework defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance."

The components of internal control, as defined by COSO, are paraphrased below:

1) **Control Environment** – The control environment permeates all areas of the organization and is primarily established by Senior and Executive Management. This includes policies and procedures, a written code of conduct and the tone at the top.
2) **Risk Assessment** – Risk is the possibility that an event will occur and adversely affect the achievement of the objectives of the organization. Risks can be external or internal and an organization must identify them and assess the probability of their occurrence.
3) **Control Activities** – Control activities are actions taken by individuals throughout the organization to ensure that organizational objectives are met and risk is sufficiently controlled.
4) **Information and Communication** – Information and communication are a necessary component of internal control. Simply stated, if organizational objectives are to be achieved over time, it is imperative that relevant, accurate and timely information be gathered and that information must be communicated appropriately.
5) **Monitoring Activities** – Established internal control systems must be continually monitored if they are to remain effective. Monitoring should occur as part of the ongoing operations of an

organization and separate, periodic evaluations should be performed to provide an additional review of the system of controls. An organization's Internal Audit function, among others, performs separate monitoring activities. Lastly, it should be noted that monitoring occurs throughout all five components of internal control.

Taken together, the five components of internal control can be relied upon by management to provide reasonable assurance that organizational objectives are being met over time. Ultimately, the management of an organization has responsibility for the effective design and operation of a system of internal controls. A core component embodying internal control are policies and procedures, which are developed and maintained by management.

Some key points to remember are that internal control is a process. It is not limited to procedure manuals and forms; instead, it is about people and the actions they take at every level of an organization. The cost of implementing internal controls should never exceed the benefits they achieve. It should be stressed that even the most effective system of internal control can only provide reasonable assurance, not absolute assurance.

Why is internal control necessary?
Implementing a system of Internal Control is a prudent business practice because it addresses risk. As mentioned earlier, risk can best be thought of as any threat to an organization's achievement of its objectives and risks can come from sources both internal and external to the organization.

In addition, risk can be broken down into three distinct categories as follows: a) inherent risk, b) controllable risk and c) residual risk.

- **Inherent risk** is the combination of internal and external risks that threaten a particular objective. Some processes have higher inherent risk than others. For example, cash handling has higher inherent risk than having custody of less liquid assets such as inventory. Inherent risk relates to factors that because of their nature cannot be controlled by management (e.g. legislative changes, number and dollar amount of transactions processed and/or the complex nature of transactions). Lastly, inherent risk cannot be completely eliminated.
- **Controllable risk** is that portion of inherent risk which can be directly influenced by the actions of management. More specifically, it is that portion of inherent risk which can be reduced through the implementation of controls.
- **Residual risk** is that portion of inherent risk

which still exists after cost-effective internal controls have been established to address the associated inherent risk.

When assessing risk, management must identify risks to the organization and then link these risks to established objectives of the organization and processes associated with those objectives. The results of this assessment will give management the information they need to properly categorize risks to the organization and effectively develop controls for these risks. Control activities are then developed to reduce organizational risks to a sufficient level.

Evaluating Internal Controls
As previously discussed, management is responsible for implementing an internal control structure which adequately addresses risks to organizational objectives. However, other groups, both internal and external to the organization, may assess the effectiveness of these controls. Such groups could be external auditors, internal auditors or regulatory agencies, among others.

Typically, when an evaluation is performed, it is limited to a particular process or group of processes. Interviews are performed with all individuals involved in the process (e.g. process owners and other individuals) in order to gain a thorough understanding of each component and controls are identified and categorized (e.g. importance, function, etc.). Once the process is thoroughly understood, it is documented using a narrative format, a flowchart, or both. A flowchart can be particularly useful in order to visualize when and where an activity takes place.

Next, a walkthrough should be performed. A walkthrough is a test of a single transaction processed through a system of controls with the purpose of determining whether or not the controls are functioning as described. This should be done for controls which appear to be appropriately designed and those which are not. If the walkthrough does not perform as anticipated, it may be necessary to gather further information to gain a better understanding of the system of controls and its functionality.

Once the walkthrough has been completed, a sample of transactions should be tested. This testing, in conjunction with an assessment of the design of the internal controls, can identify control deficiencies as well as controls that are operating as planned. The AICPA's Statement on Auditing Standards (SAS) No. 115 (*Communicating Internal Control Related Matters Identified in an Audit*) categorizes control deficiencies in two different ways. These are a deficiency in design and a deficiency in operation. Both of these deficiencies can result in a failure to meet organizational objectives. The SAS control deficiency definitions are as follows:

A deficiency in <u>design</u> exists when:
- A control necessary to meet the control objective is missing; or
- An existing control is not properly designed so that, even if the control operated as designed, the control objective would not be met.

A deficiency in <u>operation</u> exists when:
- A properly designed control does not operate as designed; or
- The person performing the control does not possess the necessary authority or competence to perform the control effectively.

Control deficiencies are evaluated to assess their impact on the organization. This evaluation is unique to each situation and involves different degrees of judgement. Each deficiency must be evaluated to determine whether it is a material weakness or a significant deficiency. A material weakness is generally a deficiency in a single key control or more than one non-key controls and results in a high probability that organizational objectives will not be met. A significant deficiency is less severe than material weakness and is generally a deficiency in one or more non-key controls.

The internal control assessment described above need not be limited to the purview of internal and external auditors. Assessments can be performed by department heads, process owners and others to evaluate the system of internal controls in their area. Such an examination will facilitate early detection of control deficiencies and will be beneficial if one or more of your processes are selected for an audit.

If you have any questions about this article or Internal Control, please feel free to contact Greg Johnson — Senior Auditor at Greg.Johnson@aud.hctx.net or at 713-274-5672.

Change is on the Horizon

As the County gets closer to selecting an integrator (implementation partner) for the new accounting software, Financial Accounting wanted to summarize some of the benefits of the general ledger application in PeopleSoft. These include an updated account code structure, budget adjustments, changes with journal entries, and reporting.

Cassandra Smith
Assistant Director
Financial Accounting

The current 32 digit account code structure utilized in IFAS will be restructured. We are anticipating a shorter account string with drop down menus to select the account coding. Also, PeopleSoft will allow for the repurposing of accounts and will track when the changes were made. If you have ever requested a new key, object code, or project key, then you are aware of the manual processes that we have now with IFAS. This will change with PeopleSoft; there will be a drop down menu that will allow request to be made electronically with the ability to attach support through workflow, which will reduce the amount of paperwork that gets maintained on both the requesting department and the reporting group. We are also expecting the set-up time to decrease, since the approval process will be done through workflow as well.

Budget adjustments within IFAS are processed in the Budget Management Office and then sent to Financial Accounting for posting. This a manual process with hardcopy support for every transaction. With PeopleSoft the approval process will be automated through workflow. The departments will have the capabilities of monitoring at a more detailed level if they so choose. The budget checking process will be similar at defined levels, but PeopleSoft will eliminate the need for a budget checking key.

The journal entries process will be less manual too. Departments will be able to submit journal entries electronically and attach support through workflow and the Financial Accounting staff will be able to review and submit for posting through the workflow process. The posted journal entries and support will be available electronically which will improve research time when a reconciling item occurs and there will be less need for off-site storage.

The increased productivity of posting budget adjustments and journal entries aids in more accurate and timely reporting. Whether at the department or

here in the Auditor's Office, the reporting process will be readily available. Each user will be able to set customized ad hoc reports on their work center within PeopleSoft to enable reports run most often to be available with a click of a button. Also, the information posted will be updated as it occurs, so the reports will have the most up-to-date information.

Financial Accounting is excited by the changes on the horizon with the expedited process for new and simpler account coding, enhanced budget control capabilities, availability of electronic copies of journal entries and support, user customized reporting and data analysis capabilities through the work center, and real-time updated information for reports.

Before a payment for an invoice (claim) can ever be processed, a "proper" invoice must be provided to the Accounts Payable department by the vendor. Aside from being clear, accurate and free of mathematical and quantity errors, *invoices must have certain elements in order to facilitate efficient and effective payment processing*.

Accounts Payable Purchase Order Invoices; the Good, the Bad & the Ugly

It is fairly common knowledge that the Accounts Payable department receives and processes over 1,100 claims per day; however what's not commonly known is that the majority of these claims pass through one person prior to landing on the desk of the processor(s) who eventually audit, input, and forward them to the various county departments via workflow for approval. This individual is our central mail processing person who is responsible for opening and distributing all correspondence received via the US mail, couriers, inter-departmental mail, faxes, and emails sent to the AP Vendor invoices email address. Wow, sounds like quite a daunting task. So when it comes to processing invoices associated with purchase orders (we will talk about RFPs next time), these invoices can be summarized into three distinct categories. Some are good, some are bad, and some are just plain ugly. Let's learn more.

Reginald Yancey
Director
Accounts Payable

"Good" invoices contain all of the elements needed in order for them to be audited, input, and paid once received by the processor. Invoices falling into this category have the elements

required that allow the mail person to easily identify the processor responsible for getting them input into IFAS. The **name of the county department**, a **valid purchase order**, and all of the other requirements are clearly displayed on the face of the invoices which allows the mail person to immediately identify and forward the invoices to the processors responsible for processing them. Once received, the processors are able to perform all required audits, input them into IFAS, and route the invoices to the departments in workflow within a minimal amount of time, thus allowing AP to adhere to the statutory requirements pursuant to Texas Government Code, Title 10, Section 2251.021. Keep in mind that this expedited flow is contingent upon sufficient funds being available on the purchase order when the claims are input into workflow. Invoices referencing purchase orders with insufficient funds are placed on the Problem PO Report and remain there until adequate funds are added or a new purchase order is established. **For a comprehensive listing of invoice elements that vendors must include on their invoices, see the Accounts Payable link shown on the Harris County Auditor's website.**

"Bad" invoices on the other hand don't contain all the elements of "Good" invoices, but do contain enough information for the county departments and processors to be identified with a tiny bit of "investigative research" on the part of the central mail person. In cases where there is no purchase order or county department shown, a department contact name may suffice in order for the central mail person to determine which county department the invoice belongs to. Typically this is done via a quick check into Outlook for the department the contact person is associated with. Once identified, invoices are forwarded to the processors and the audit and payment process can begin. Although this is not the most ideal manner in which vendors submit invoices, it does allow for the payment process to begin within a reasonable amount of time after the invoice is received in the AP department.

Lastly, we have invoices falling into the category of "Ugly". Invoices of this type are void of any purchase order numbers, department names/numbers, department contact names, and all the other distinguishing factors that would allow the central mail processing person to locate the proper department and claims processor. These invoices require more extensive research by AP department personnel and in some cases can take in excess of thirty days to be paid. "Ugly" invoices are sent to the AP research department and the vendor is contacted via phone in an attempt to obtain the necessary information such as purchase order number or the name of the person requesting the goods/services. If a valid PO for the order is not on file with the vendor and the vendor cannot provide a department contact

or signed copy of the delivery ticket, the invoice along with a letter explaining why the invoice cannot be paid is sent to the vendor. This is pursuant to Texas Government Code, Title 10, Section 2251.042(a) which states "A government entity shall notify a vendor of an error in an invoice submitted for payment by the vendor not later than the 21st day after the date the entity receives the invoice". When this occurs, the payment clock starts over once the vendor provides the information needed and re-submits the invoice for payment.

For county employees that order goods and services, the importance of referencing **a valid purchase order, department name/address, and department contact name when placing the order** cannot be overemphasized. It is equally as **important that vendors list these critical elements on the face of their invoices when submitting them to the county for payment**. These may seem like insignificant details, but the difference between a good invoice and an ugly one could be the difference between invoices getting paid timely or the receipt of goods/services being temporarily suspended until past due invoices are paid. Let's all do our part to help ensure claims are paid on time. **Always make sure county vendors have the most current purchase order on file, and frequently check the IFAS Problem PO Report for invoices that have been placed on the report due to expired PO's or PO's having insufficient funds**.

On one final note, the Harris County Auditor's Office has partnered with BSI Healthcare Services for the purpose of conducting a full review of all our vendor payment transactions. The objective of this engagement is to perform a comprehensive reconciliation of payments made to county vendors, and determine if any discrepancies in payments exist, report the findings, and assist the county in recovering any funds owed to us from vendors resulting from the duplicate payment of an invoice, the erroneous payment of taxes or freight, or open credit balances (unapplied payments) appearing on any of our vendor's statements. Aside from giving us assurance that there are minimal overpayments, this project will assist us with identifying opportunities to improve internal controls. This engagement is being

managed by Mel Trammell, Assistant Chief-Disbursements, and should be completed by the third quarter of this fiscal year.

As always please contact Accounts Payable with any questions concerning the processing of payables or BSI Healthcare Services.

Well, first off, let's hope we aren't affected by a hurricane, tropical storm, flood or disaster EVER

again. Yeah right!! Now, back to reality - remember we do live on the Texas Gulf Coast. The best thing we can do is plan and prepare for the recovery process, which begins with documenting and properly accounting for expenses related to the disaster.

It's that Time Again...
Hurricane Season
What to do with Disaster Related Expenses?

When a disaster is declared in or otherwise affects Harris County, generally all disaster-related costs, including damage mitigation, emergency assistance, and repairs and cleanup, are potentially reimbursable from local, state, and federal agencies such as Federal Emergency Management Agency (FEMA) as well as insurance recoveries. As such, all county departments that incur costs as a result of the

**Paul Wilden,
Manager II
Grants**

disaster should be tracking such costs separately from normal operating expenses, even if reimbursement is not anticipated. This will ensure that there is an accurate accounting of the County's effort related to the disaster.

When a disaster appears imminent, certain departments such as the County Auditor, Central Technology Services, Management Services (Human Resources & Risk Management and Budget Management), and the Purchasing Agent will coordinate efforts so that all county departments are able to record all associated costs to facilitate receiving the maximum reimbursement allowed. To ensure this occurs, the County Auditor's Office will email all departments disaster-specific instructions and a unique JL code to be used prior to, during, and after a disaster declaration for their use if such declaration is made. This unique JL Code should be used when recording disaster related expenses through the below different avenues:

- Purchase Order (PO) requisition code

- Request for Payment (RFP) JL key and descriptive wording instructions

- Timesheet Payroll Code D-Disaster Time Worked

(for Daily Time Entry [DTE] System entries) and a designation of the particular disaster name (e.g., D-Time Ike for hurricane Ike, D-Time Flood of April 2016 for the flood of April 2016, etc.)

- Journal Entries (JE) to record or reclassify disaster related expenses

Each department should charge any Flood disaster related expenditure to their departmental budgetary accounts (non-grants) in conjunction with using the special JL code. If necessary, JL object code DEF00000 can be used in combination with the unique JL code. In addition to using the JL code, please incorporate the wording to identity the disaster (example "Flood of April 2016") on Purchase Orders, RFP's and invoice documents. All purchases must be well documented, containing the purpose for the expenditure as well as where the goods were delivered.

When coding time related to a disaster, you will use payroll code "D". Payroll Code "D" is to be used for recording work time that is directly related to the disaster. Some examples include: emergency management operations, directing evacuation traffic, debris removal, etc. The Grants Allocation timesheet (County Auditor's Form 1084B-3) must be used for coding disaster time.

Grant funds should not be expended for disaster costs unless it is currently authorized by the provisions of the grant agreement or approval has been received from the grantor agency to expend the grant funds in this manner. If the grant agreement is amended or modified to authorize funding of disaster costs, Commissioners Court or the appropriate board approval (such as the Juvenile Probation Board) should be obtained.

If any of the events listed above have occurred or you believe the County has incurred disaster costs related to the recent floods that were not coded to the unique JL key, please contact Paul Wilden at paul.wilden@aud.hctx.net or 713-755-3584.

Awards and Honors

The Harris County Auditor's Office – Audit Division, on behalf of Harris County, received a National Association of Counties (NACo) 2016 Achievement Award for the Auditor's Office – Compliance Audit Tax Audit Automation program. The NACo Award Program is a non-competitive awards program which seeks to recognize innovative county government programs.

On an annual basis, The Harris County Tax Office collects over $6 billion in property taxes. These taxes are collected from approximately 1.5 million tax accounts for over seventy different taxing jurisdictions. Annually, the Harris County Tax Office collects the taxes and distributes them to the various taxing entities (utilities, school districts, hospitals districts, etc.). Starting with the fiscal year 2015, Quarter 2 (June-August 2014), the Auditor's Office developed an automated process to review 100% of property tax receipts for certain attributes and calculations. This analysis conducts a number of tests on property tax payments to check for:

1) Reconciliation between payments recorded on the tax system and various bank statements.
2) Duplicate payments.
3) Accurate assignment of penalty, interest and attorney fees.
4) Timely deposits.

A more comprehensive article regarding the Tax Audit Automation program was published in the March 2015 Newsletter on page 2.

The Auditor's Office – Compliance Audit Tax Audit Automation program demonstrates the effective and efficient use of technological resources, as well as, utilization of state of the art auditing techniques, by significantly increasing audit coverage (up to 100% for certain attributes) and reduces the time for the audit engagement.

Mark Ledman
Chief
Audit Division

Jay Siegel, CPA
Manager
Compliance Audit

NACo 2016
ACHIEVEMENT
AWARD
Winner

Porter Broyles
Senior Audit Analyst
Continuous Audit
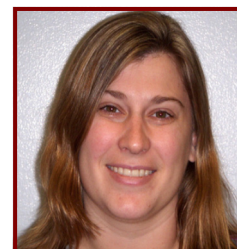
Wendi Welch,
Auditor Supervisor
Audit Services

CONGRATULATIONS!!!

Awards and Honors

Congratulations to the Human Resources Department, Merle Ray, Anita Ferrell, Carmella Sanford and Carolyn Phillips! The Department was the distinguished recipient of the 2016 Leadership Excellence Award for outstanding achievements in leadership development and programs. This award recognizes organizations for excellence in leadership development though a formal Corporate University program. Our very own HC Auditor's University was recognized for leadership excellence for Best Corporate University, (inclusive of government). Please join us in congratulating these individuals for their efforts and achievement.

LEADERSHIP EXCELLENCE
2016 AWARDS

Presented to
Harris County Auditor's Office

Honouring
HC Auditors University

In recognition of leadership excellence for
Best Corporate University

February, 2016
Date

President

CONGRATULATIONS!!!

Awards and Honors

**Carol Market
Director
Financial Accounting**

**Cassandra Smith
Assistant Director
Financial Accounting**

Congratulations to the Accounting Department, Carol Market, Cassie Smith and all of those individuals whom participated in the efforts to receive the awards below! The County was the recipient of three prestigious national awards from the Government Finance Officers Association.

Two of the three awards were Certificates of Achievement for Excellence in Financial Reporting. The GFOA established this award program to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The goal of the program is not to access the financial health of participating governments, but rather to ensure that users of their financial statements have the information they need to do so themselves.

The third award was for Outstanding Achievement in Popular Annual Financial Reporting. The GFOA established this award program to encourage and assist state and local governments to extract information from their comprehensive annual financial report to produce high quality popular annual financial reports specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance and then to recognize individual governments that are successful in achieving that goal.
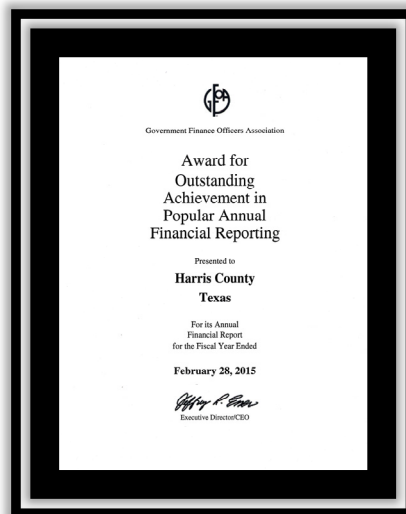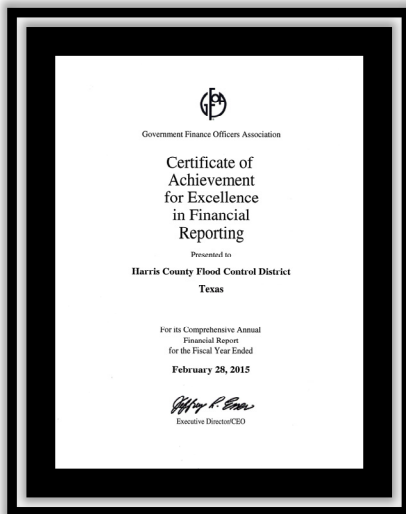
CONGRATULATIONS!!!

County Auditor's Office Employees Service Anniversaries

Congratulations to the following employees who have reached their anniversary milestone with Harris County this year. Each employee's length of County Service and the month that the milestone was reached is shown below.

January	Length of Service	April	Length of Service	July	Length of Service
Wendee McCain	25	Brenda Tucker	13	Leslie Pope	32
Maggie Cauley	19	Mark Ledman	10	Tammie Sonnier	26
Sheli Ruis	17	Darlene Taylor	10	Michael O'Barr	16
Timothy Leonard	16	Patricia Moreno	9	Tom Ngo	15
Vicki Cash	16	Lisa Godfrey	8	Wai Leung	9
JoEllen Lamb	15	Velia Frias	7	Eric Pertl	9
Carol Market	13	Shannen Williams	6	Lin Zhong	8
Jose Mendoza	13	Kimberlyn Olison	4	Sharonda Cato	4
Tijuana Smith	11	Angela Billard	4	Maricela Barrera	3
Marie Cary	8	Jolanda Smith	3	Anna Davila	3
Wendi Welch	7	Reginald Yancey	2	Yolanda Gentry	3
Vivian Li	2	Joan Wu	2	Sonia Johnson	3
Kamarion Sowell	2	Tanzania Leassear	2	Raquel Vasquez	3
Cheri Morgan	2	Destinee Lester	2	Cheran Charlemagne-Marcial	3
		Dedra Jones	2	Chandra Jones	2
February		Dora Sanchez	2	Gregory Johnson	2
		Tanisha Castillo	2	Samuel McCants	2
Yolanda Anderson	30	Felicia Okatta	2	Ganel Sykes	2
Filomeno Viloria	15	Jenny Ly	1	Mariano Galvan-Hernandez	2
Clarese Brown	12	Carolyn Phillips	1	Paul Witt	2
Ronald Foster	11	Hement Patel	1	Liliana Jimenez	1
Sylvia Mercy	9				
Mellanie Tostado	7	**May**			
Robert Jones	7				
Ada Rodriguez	6	Gwendolyn Foy	17		
Vashti Collins	4	Nicholas McGee	13		
Jeffrey Boso	1	Sophana Ven	11		
		Tanya Williams	9		
March		Peter Cripps	8		
		La'Sha Kelly	4		
Patricia Mata	16	Ingrid St. Cyr	4		
Cynthia Smith	12	Davina Hewitt	3		
Yesenia Cantu	8	Ruth Omorodion	2		
Charles McDonald	8	John Quintanilla	1		
Michelle Ramsey	3				
Derryle Simpson	3	**June**			
Akedriona Fontenot	3				
Justin Alexander	3	Mary Jo Zalesky	37		
Damodar Tripathee	3	Donna Godair	26		
Penney Kazee-Davis	2	Cassandra Smith	12		
Kirk Mashue	2	Cassandra Gonzales	2		
Valerie Pena	2	Rachel Goff	4		
Danielle Leon	2	Janice Butera	3		
Carol Chatman	2	Arlen Alanis	2		
Marie Xefteris	2	Merle Ray	2		
Michelle Simpson	1	Reena Pun	2		
		Argentina Vazquez	2		
		Francis Garcia	2		

County Auditor's Office Employees Service Anniversaries

Congratulations to the following employees who have reached their anniversary milestone with Harris County this year. Each employee's length of County Service and the month that the milestone was reached is shown below.

August	Length of Service	October (cont.)	Length of Service
Trina Cheney	32	Edgar Serano, Jr.	7
Stephen Hoza	27	Bobby Cato	5
Christopher Casas	20	Felipe Alvarado	4
Michael Post	20	Simone Mergerson	4
Barbara Schott	16	Ashley Richmond	3
Betty Lew	10	Tony Padon	1
David Tish	10	Shannon Norman	1
Linda Dougherty	6		
Angela Connor	5	**November**	
Yang Liu	5		
Maria Alfaro	2	Wanda Dewald-Green	27
Robert Hayner	1	Connie Kirkpatrick	20
Heather Wrightington	1	June Davis	15
Aisha Adams	1	Paul Wilden	16
Cristal Vazquez	1	Jennifer Pham	12
		David Clark	8
September		Terra Thompson	7
		Jacqueline Roney	5
Lula Bookman	31	Melvin Trammell	3
Nadine Schaefer	27	Craig McFarlin	1
Synithia Jacquet	24	Luis Turcios	1
Kimberly Lewis	20	Terrence Drew	1
Jacqueline Ards	15	Thao-Tien Nguyen	1
Toya Edwards	16	Loretta Santillan	1
Martha Abdullahad	13	Tenishia Williams	1
Anita Williams	7		
Edna LaGrone	5	**December**	
Veronica Kanode	3	Joan Lora	26
John Rowan	2	Susan Wheeler	15
Carmella Sanford	2	Sonja Lewis	6
Sherrie McClenon	2		
Nadine Wright	2	Angie Moore	3
Cary Rodriguez	1	Richard Pena	3
Jay Siegel	1	Sondra Dawson	2
Amy Yarbrough	1	Ernesto Garcia	2
		Steven Mathews	1
October			
Erma Warner	17		
Angelica Vasquez	14		
Connie Sanders	13		
Windfred Iles	11		
Paul Broyles	8		

Congratulations to each of you! Thank you for your continued service!

Barbara J. Schott, C.P.A.
Harris County Auditor
1001 Preston, Suite 800
Houston, Texas 77002