

**HARRIS COUNTY AUDITOR'S OFFICE
AUDIT SERVICES DEPARTMENT
ANNUAL REPORT
MARCH 1, 2014 - FEBRUARY 28, 2015
*FISCAL YEAR 2015***



**Barbara J. Schott, CPA
Harris County Auditor**

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THE HARRIS COUNTY AUDITOR'S OFFICE

Barbara J. Schott, CPA County Auditor

The County Auditor's Office keeps the general accounting records; prepares financial reports; prescribes systems for the receipt and disbursement of the County; audits and processes accounting transactions for grants, payroll and invoices; verifies compliance with governing laws; performs statutory reviews of records maintained by other officials, and prepares annual estimates of budget revenues.

Ms. Schott joined Harris County in 2000, as First Assistant County Auditor and has 34 years of governmental accounting and auditing experience. In 2003, she assumed greater responsibilities with her appointment as County Auditor.

She is a member of the American Institute of Certified Public Accountants, Association of Local Government Auditors, Institute of Internal Auditors, Association of Certified Fraud Examiners, Government Finance Officers Association and the Texas Association of County Auditors.

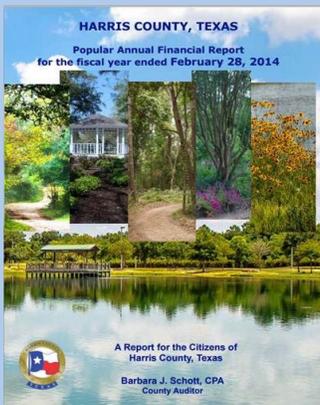


Mission Statement

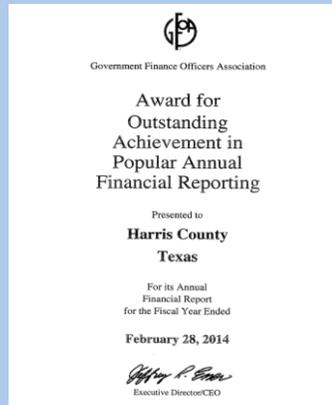
To be an independent and progressive organization recognized for professionalism in carrying out the County Auditor's statutory duties and responsibilities.

Vision

Create and maintain an environment of sound fiscal management and efficient financial operations at all levels of county government, while providing support to Commissioners Court, County Officials, Department Heads, and the public with the highest level of integrity and financial stewardship.



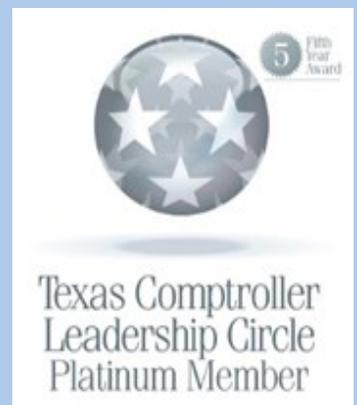
The Popular Annual Financial Report (PAFR), summarizes the financial activities of the primary government of Harris County. The PAFR condenses the 2014 Comprehensive Annual Financial Report for all Harris County funds. The information in this report is unaudited, and not in accordance with generally accepted accounting principles due to the condensed and simplified presentation and absence of notes to the financial statements.



The Government Finance Officers Association of the United States and Canada (GFOA) has given an award for Outstanding Achievement in Popular Annual Financial Reporting to Harris County, Texas for the fiscal year ended February 28, 2014. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



The National Association of Counties (NACo) Achievement Award Program is a non-competitive awards program which seeks to recognize innovative county government programs.



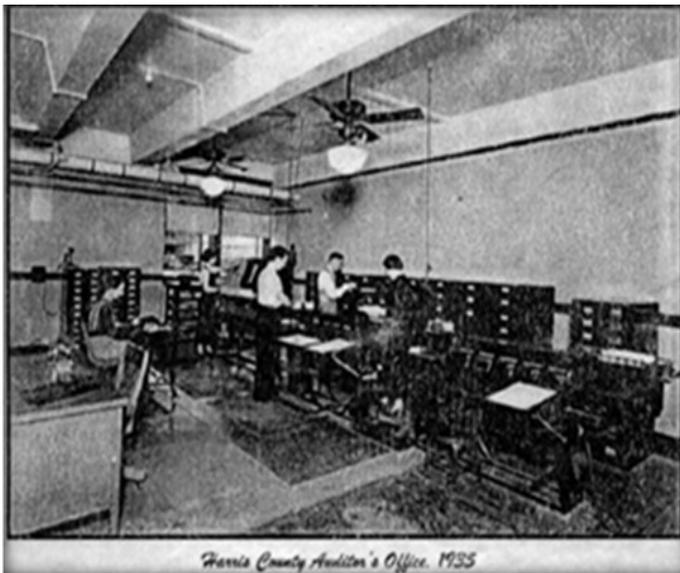
The Texas Comptroller's Leadership Circle program recognizes local governments across Texas that are striving to meet financial transparency online. This is accomplished by providing citizens with a clear consistent picture of spending and sharing financial information in a user-friendly format.

HARRIS COUNTY AUDITOR'S OFFICE AUDIT DIVISION

Mark C. Ledman, MPA, CPA, CISA, CCA, CGMA
Chief Assistant County Auditor – Audit Division

The Audit Division includes the following departments: Audit Services, Compliance Audit, Continuous Audit, and the Systems & Procedures Departments. The responsibilities of the Audit Division are to assist the County and other entities with the effective discharge of their responsibilities, including management's efforts to provide the public and concerned entities with financial accountability; minimizing exposure to contingent liabilities; safeguarding assets; and compliance with applicable policies, laws, regulations, and covenants, governing County finances.

Audit Services is established by the County Auditor to accomplish certain statutory and contractual auditing responsibilities. The County Auditor is appointed by the state district judges of Harris County, and is responsible for fulfilling these responsibilities. The Chief Assistant County Auditor – Audit Division (Chief Audit Executive) is appointed by and reports administratively and functionally to the County Auditor.



Mr. Ledman joined the Harris County Auditor's Office in 2006, as the Director of the Audit Services Department, with over 25 years of professional internal auditing experience. He was appointed Chief Assistant County Auditor for the Audit Division, in 2013.

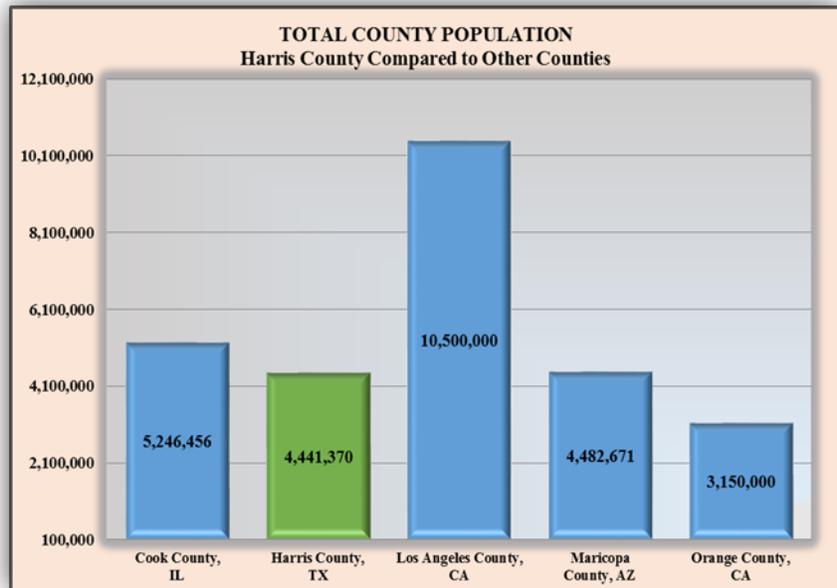
He is a member the American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants, Association of Healthcare Internal Auditors, Association of Local Government Auditors, Institute of Internal Auditors, and Information Systems Audit and Control Association.

HARRIS COUNTY COMPARED TO OTHER LARGE COUNTIES

The graphs below present information received from five large counties in the United States including Harris County. Please use your discretion when interpreting the data. The respondents vary in many areas such as diversity of types of entities, size, the degree which they outsource Internal Audit, and information systems are just a few areas that cause variability between counties. Additionally, each County Auditor may interpret their statutory responsibilities differently which could impact the selection of engagements, scope of engagements and procedures performed. Also, the type of internal audit services provided can vary between counties.

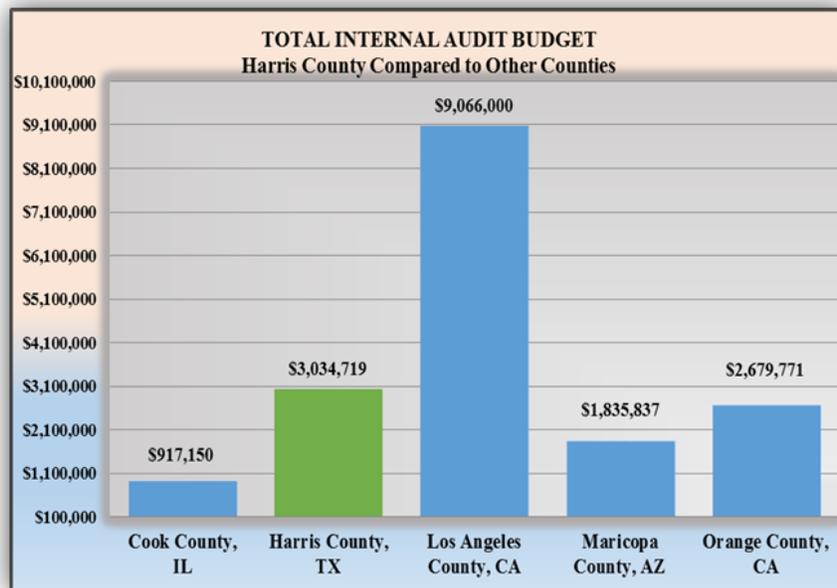
Total County Population

Harris County's population compared to other large counties in the most recent completed fiscal year.



Total Internal Audit Budget

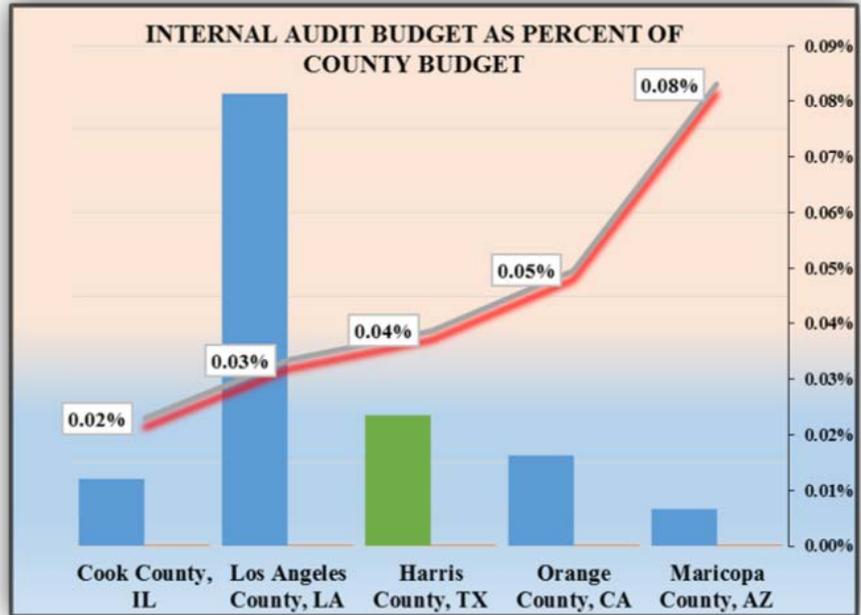
Harris County's Internal Audit budget compared to other large counties in the most recent completed fiscal year.



HARRIS COUNTY COMPARED TO OTHER LARGE COUNTIES (CONTINUED)

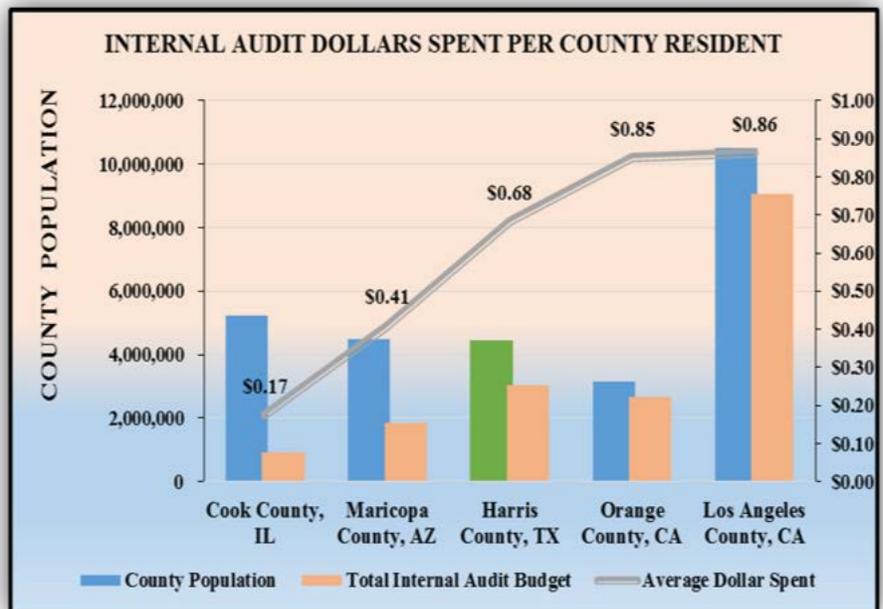
Internal Audit Budget as Percent of Total County Budget

The graph presents the Internal Audit budget as a percent of total County Budget. Harris County is 0.04% which is slightly below the average of (.044%) of other large counties. Harris County is the median for this data set in the most recent completed fiscal year.

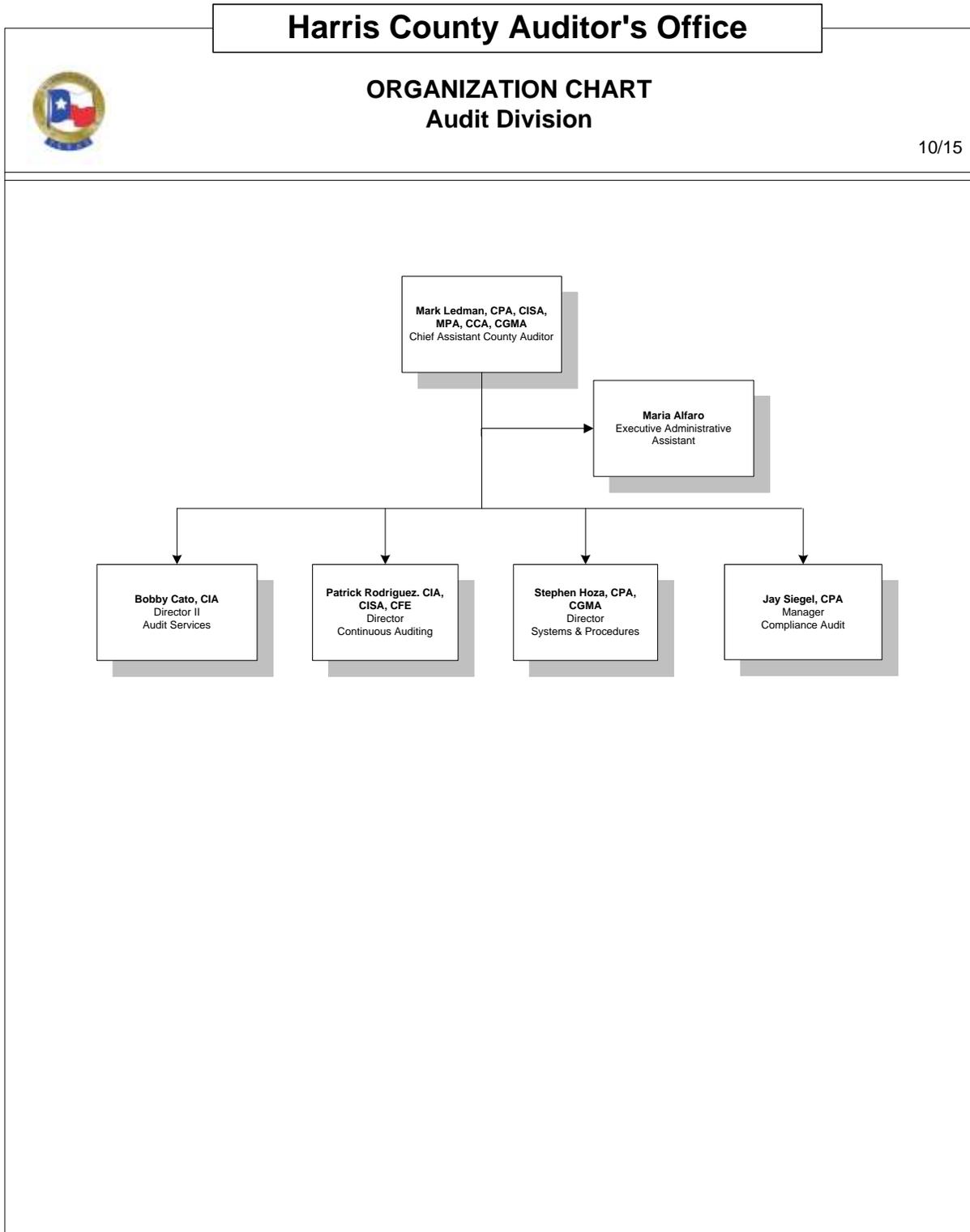


Internal Audit Dollars Spent per County Resident

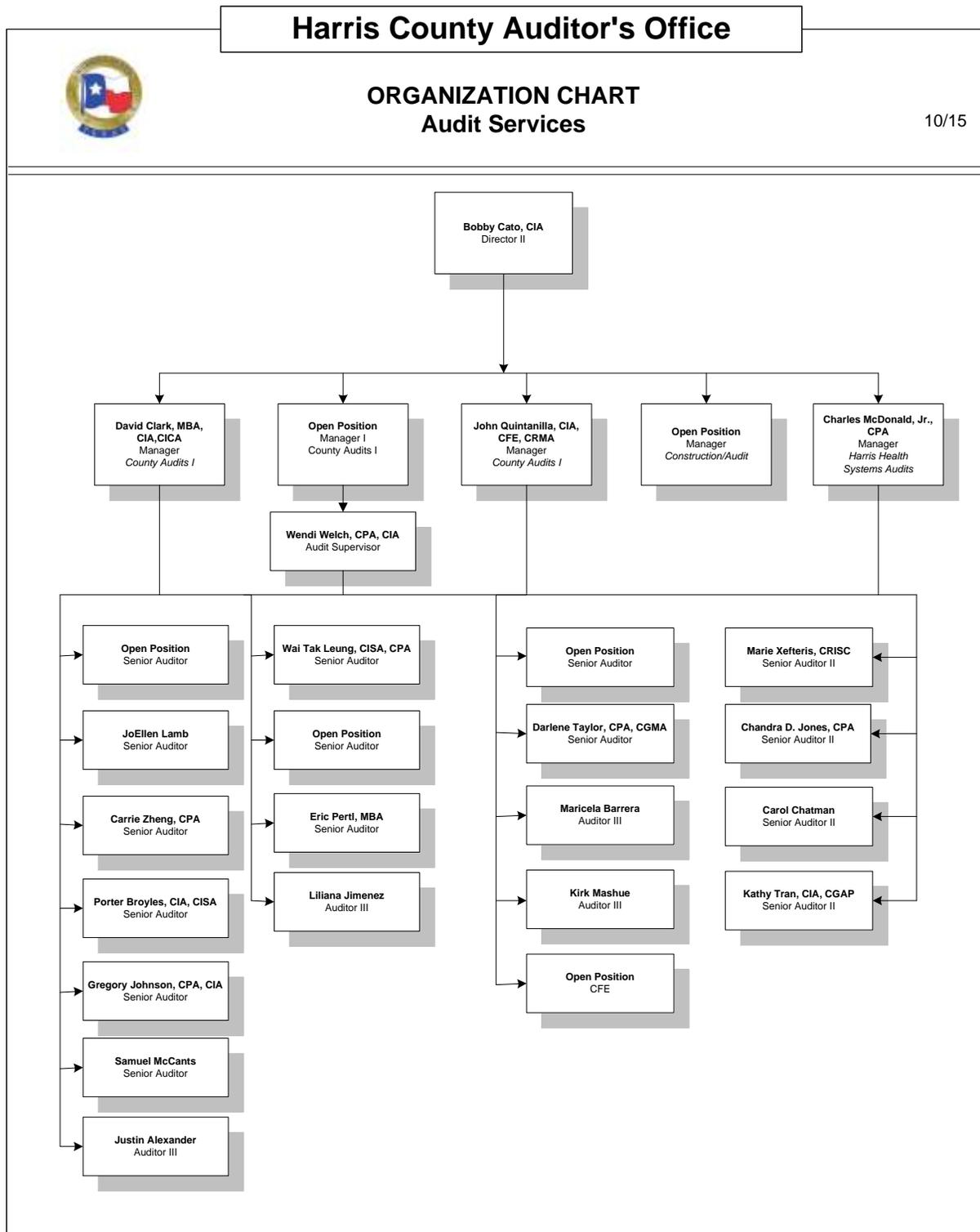
Harris County spent 68¢ per resident on Internal Audit in the most recent completed fiscal year. Which is in the median when compared to other large counties.



AUDIT DIVISION ORGANIZATION CHART



AUDIT SERVICES ORGANIZATION CHART



ABOUT THE AUDIT SERVICES DEPARTMENT

The Audit Services Department (Department) is an independent objective assurance and consulting activity designed to add value and improve the financial controls and operations, when allowed pursuant to State statutes.

The Department performs engagements relative to elected and appointed County officials, external entities, quasi-governmental organizations, financial processes, and general ledger account balances. Engagements are selected for inclusion in the annual audit plan based upon the perceived level of inherent and control risk posed to the County.

The Department is a progressive, innovative, goal-oriented department dedicated to: assisting the County and Applicable Quasi-Governmental Entities (*Harris County, Harris County Flood Control District, Harris County Hospital District {dba Harris Health System}, Harris County Toll Road Authority, Harris County Sports and Convention Corporation, Harris County Community Supervisions and Corrections, Harris County Juvenile Probation Department, Port of Houston Authority, Federal and State Grant Sub-recipients, and Other entities that may become appropriate as a result of statutory changes and/or circumstances will be incorporated*) officials, management and the various Boards, with the effective discharge of their fiscal responsibilities, utilizing innovative techniques to achieve the County Auditor's statutory and contractual audit responsibilities; providing the Department employees with the tools and resources to accomplish their responsibilities, assisting the Department employees in achieving their professional goals and providing an example to our clients and their employees.

AUDIT SERVICES' OBJECTIVES

-  To assist County management with the effective discharge of their financial responsibilities.
-  To minimize the County's exposure to loss and to safeguard public assets.
-  To ensure compliance with applicable policies, laws and regulations.

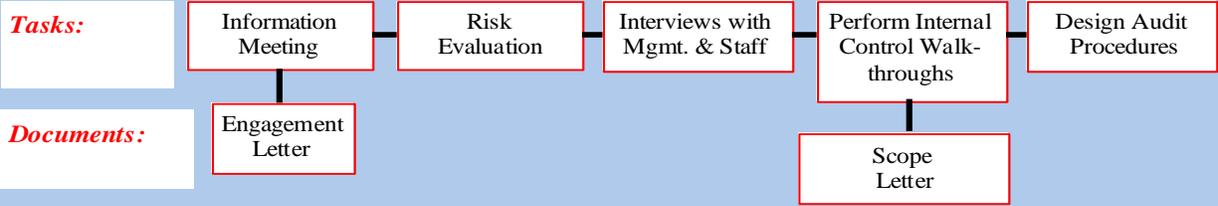
AUDIT FOCUS

- | | |
|--|---|
|  Financial and internal controls |  Critical internal controls |
|  Identify the control gaps (weaknesses) |  Test the critical controls (strengths) |
|  Work with the client to develop adequate controls to reduce risk |  Report issues, recommendations and management responses |

THE AUDIT PROCESS

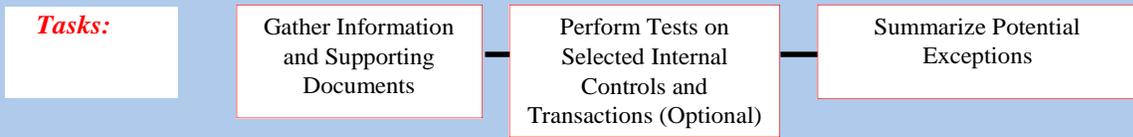
Planning Phase

Includes obtaining general information about the activities to be reviewed. During this phase, we interview key personnel to become familiar with financial activities and controls. We will also take a tour of the department or facility to become familiar with the financial processes. We may ask to observe some key functions or activities.



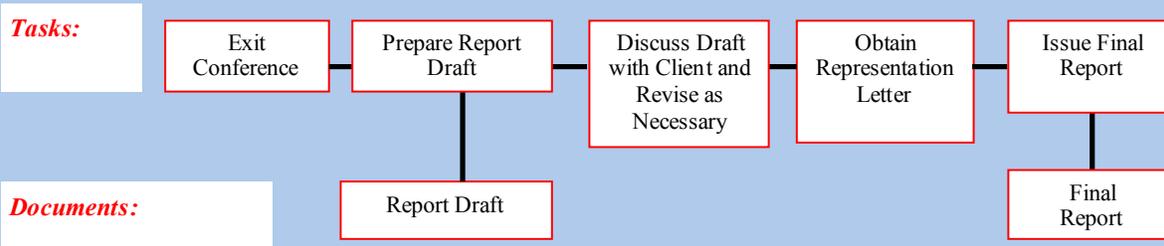
Fieldwork Phase

Fieldwork includes gathering, testing and evaluating information. Staff and Senior auditors perform the fieldwork procedures. Audit Managers and the Director review the results prior to submitting a report draft to the Chief Assistant County Auditor for approval.



Reporting Phase

Department management will receive a draft report and will have the opportunity to make comments and suggestions before the final report is issued. A final report is distributed to department management and to various County officials.



AUDIT SERVICES DEPARTMENT AUDITOR'S REPORTS ISSUED FISCAL YEAR 2015

(March 1, 2014 to February 28, 2015)

Presented in the following pages is an executive summary of the 32 Audit Reports issued during Fiscal Year 2015. The title of the report, the date the report was issued, the objective of the engagement and a brief conclusion (results) is presented for each report. The complete reports are located in the Harris County Auditor's Office District Judges Portal.

Purchasing Agent Kelly Johnson Closeout Procedures – Issued 3/7/14

- **Objective:** The objective of this engagement was to perform procedures in accordance with the Harris County Road Law that requires 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, and shall not approve the payment of any sums to such officer or employee or his estate until such accounting is made.
- **Results:** Based upon the procedures performed the Office appears to have materially complied with the provision of the Harris County Road Law, and County policies and procedures. Matters related to *Serial Numbers, Multiple Quantities*, and the *Customer Loyalty Program* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Financial Management Period Investment Procedures 2nd Quarter Fiscal Year 2014 - Issued 3/7/14

- **Objective:** In accordance with Texas Local Government Code §115.003(b) and Texas Government Code §2257.061, the Audit Services Department performed a review of investments managed by the Financial Management Section pursuant to the Investment Policy approved on February 11, 2014 (Policy), for the 2nd Quarter of Fiscal Year 2015.
- **Results:** Based on the procedures performed covering investment transactions occurring during the 2nd Quarter of Fiscal Year 2014, it was determined that Financial Management complied with the County's Investment Policy requirements for competitive bidding, maturity restrictions, authorized investment types, collateral, annual investment officer training, conflicts of interest disclosures and authorizations over new broker dealers. However, we identified two opportunities for improvement relating to the timeliness of recording an investment sales transaction, and differences in the investment balance recorded in APS2 and IFAS Information Systems. These matters can be reviewed in detail in the full report located on the District Judges Portal.

Harris Health System Nursing Controlled Substances - Issued 3/27/14

- **Objective:** The objective of the engagement was to evaluate critical internal controls for maintaining and distributing controlled substances after they are transported from the Pharmacy Department to nursing units or ancillary departments.

- **Results:** Based on our procedures, automated and manual controls are adequate for securing controlled substances after they are transported to nursing units or ancillary departments. Contingency backup procedures appear adequate if automated processes are unavailable. Matters related to *Monitoring for Diversion, Reporting Investigation Results, Verifying Waste, and Counting Controlled Substances Inventory*, among others were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Texas County and District Retirement System for the 12 Month Period Ended 12/31/13 – Issued 5/9/14

- **Objective:** The objective of the engagement was to issue a letter to TCDRS on whether the monthly retirement contribution reporting to TCDRS is complete to fulfill the County’s individual financial reporting responsibilities for the pension plan.
- **Results:** Based on the procedures performed covering the TCDRS monthly certifications for the 12 month period ended December 31, 2013, it appears that all qualified employees are enrolled and the deposit reporting for the employees is materially accurate and complete. As such, a letter confirming this was sent to TCDRS on April 4, 2014, as requested. However, one opportunity for improvement was identified while performing the audit procedures. HRRM does not perform a monthly reconciliation of the amount paid to TCDRS and the amount recorded on the TCDRS 3A Retirement Contribution Certificate (Certificate). This matter can be reviewed in detail in the full report located on the District Judges Portal.

Single Audit Desk Review Procedures for the Period Ended February 28, 2014 – Issued 5/9/14

- **Objective:** To verify that the requirements of the Single Audit Act of 1984, as amended in 1996, related to monitoring grant sub-recipients and performing Uniform Desk Reviews are properly followed by grant recipients.
- **Results:** We reviewed fourteen Single Audit Reports, provided by the sub recipients, for a total of approximately \$14.6 million of federal and state financial assistance during the six month period ended February 28, 2014. Some sub recipients (although not required as their grant funds expended were less than \$500,000) also submitted their reports to us for review. Audit reports reviewed after February 28, 2014 will be included in our next report for the six months ended August 31, 2014.

Based on the procedures performed, the grant funds that passed through the County and disclosed by the Independent CPA in the Single Audit Reports appeared to materially agree to the amounts recorded in the County’s financial records. However, two of the Single Audit Reports contained material weaknesses. One of the two reports containing material weaknesses referred to corrective action plans. The other Audit Report stated that it is common within the system of internal control of most small organizations, that the accounting function does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America.

In conclusion, all of the Single Audit Desk Reviews were deemed acceptable, and a determination to cancel any of the contracts was not required. However, site visits will be conducted as deemed necessary. Reports can be reviewed in detail in the full report located on the District Judges Portal.

Financial Management Periodic Investment Procedures Third Quarter FY 2014 – Issued 5/9/14

- **Objective:** In accordance with Texas Local Government Code §115.003(b) and Texas Government Code §2257.061, the Audit Services Department performed a review of investments managed by the Financial Management Section pursuant to the Investment Policy approved on February 11, 2014 (Policy), for the 3rd Quarter of Fiscal Year 2015.
- **Results:** Based on the procedures performed covering investment transactions occurring during the 3rd Quarter of Fiscal Year 2014, it was determined that Financial Management complied with the County's Investment Policy requirements for maturity restrictions, authorized investment types, collateral, annual investment officer training, conflicts of interest disclosures and authorizations over new broker dealers. However, we identified one area for improvement related to the competitive bidding process which can be reviewed in detail in the full report located on the District Judges Portal.

Auditor's Office Social Security Number and Tax Identification Number Conversion Phase 2– Issued 5/9/14

- **Objective:** The objective of the engagement was to determine whether acceptance testing by the Information Technology Center (ITC) and the Harris County Auditor's Office Accounts Payable and other departments provide assurance the SSN/TIN Conversion Project is properly implemented with the new Person Entity Identification Database Number replacing the SSN/TIN.
- **Results:** Based on the procedures performed, it appears that project methodology complied with standard practices to include project planning; problem logging/error tracking and resolution; SQL code creation and peer review approval; application change testing; system stress testing documentation; and other documents created or needed, including ITC acceptance testing results showing the system was functioning as intended. Matters related to *Policy Requirements*, *SSN in Report*, *Managerial Approval*, and *Incorrect Testing Status* among others were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Interim CSCD Director Helen Harberts Closeout Procedures– Issued 6/13/14

- **Objective:** The objective of this engagement was to perform procedures in accordance with the Harris County Road Law that requires 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, and shall not approve the payment of any sums to such officer or employee or his estate until such accounting is made.
- **Results:** Based upon the procedures performed the Office appears to have materially complied with the provision of the Harris County Road Law, and County policies and procedures. Matters related to *Annual Inventory*, *Collections Theft*, *Unreceipted Funds*, *Timely Deposits*, and *Manual Receipts* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Financial Management Fourth Quarter Fiscal Year 2014 Investment Procedures– Issued 6/20/14

- **Objective:** In accordance with Local Government Code §115.003(b), the Audit Services Department performed a review of investments managed by the Financial Management Section

pursuant to the Investment Policies approved on June 25, 2013, and February 11, 2014, together (Policy), for the 4th Quarter of Fiscal Year 2014.

- **Results:** Based on the procedures performed covering investment transactions occurring during the 4th Quarter of Fiscal Year 2014, it was determined that Financial Management complied with the County's Investment Policy requirements for competitive bidding, maturity restrictions, authorized investment types, collateral, annual investment officer training, conflicts of interest disclosures, Finance Committee meeting requirements, Quarterly Investment Reports and authorizations over new broker dealers. No reportable issues were noted. The full report is located on the District Judges Portal.

Port of Houston Authority (POHA) Moveable Fixed Assets– Issued 6/24/14

- **Objective:** The objective of the engagement was to perform procedures pursuant to Vernon's Annotated Statutes and Codes, Water Auxiliary Laws Section §8235a related to the physical existence and recording of the moveable fixed assets inventory (e.g., machinery and equipment).
- **Results:** Our procedures consisted of two primary objectives: first, to obtain an understanding of the POHA's policies and procedures relating to machinery and equipment assets, and second, to selectively test the POHA's inventory listing of machinery and equipment assets by performing a physical inventory and testing transactions related to machinery and equipment assets. The procedures performed identified a number of issues during the physical inventory observations at the Barbours Cut Terminal, Bayport Terminal, Northside Turning Basin, Turning Basin Maintenance, Port Police and Fire Departments, and Information Technology locations. Matters related to *Policies and Procedures*, *Items Not Located*, *Recording of Asset Unit and Serial Numbers*, and *JDE System Functionality* among others were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Port of Houston Authority (POHA) Investment Policy Compliance– Issued 6/24/14

- **Objective:** The objective of the engagement was to determine that the POHA's investment activities and processes comply with the Investment Policy approved by the Port Commission and in effect during the engagement period and the investment policy's compliance with state statutes.
- **Results:** Based on the procedures performed covering investment transactions occurring from November 15, 2012, through February 28, 2013, the POHA complied with the Investment Policy and/or PFIA requirements. Matters related to *Certificate of Compliance for Sellers of Investments*, *Segregation of Duties*, *Investment Report Reconciliation*, and *Financial Institution Selection and Evaluation* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Facilities & Property Management LAZ Parking Agreement– Issued 7/11/14

- **Objective:** The objective of the engagement was to review contractual compliance by LAZ Parking Texas, LLC and Facilities & Property Management.
- **Results:** Based on the procedures performed covering the 23 months ended July 31, 2012, several significant issues were identified relating to internal controls and Agreement compliance affecting parking operations and the manner in which such activities are monitored, recorded, and reported. Matters related to *Netting of Revenue of Expenses*, *Unsupported Expenses*, *Parking Revenue Deposits*, and *Adequacy of Insurance Coverage* among others were identified and can be reviewed in detail in the full report located on the District Judges Portal.

District Attorney Mike Anderson Closeout Procedures– Issued 7/11/14

- **Objective:** The objective of this engagement was to perform procedures in accordance with the Harris County Road Law that requires 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, and shall not approve the payment of any sums to such officer or employee or his estate until such accounting is made.
- **Results:** Based upon the procedures performed the Office appears to have materially complied with the provision of the Harris County Road Law, and County policies and procedures. Matters related to *Petty Cash Expenditures, Items Not Located, and Multiple Quantities* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Public Infrastructure Department, Flood Control Progress Approval and Invoice Payment– Issued 8/1/14

- **Objective:** The objective of this engagement was to evaluate controls for reviewing and approving contractor invoices, and supporting documentation.
- **Results:** Based on the procedures performed during the testing of District construction projects, the controls relative to the progress review and approval processes in its current state need improvement to strengthen the control environment. Matters related to *Formal Written Policies and Procedures, Insufficient Detail to Support Progress Reported on Daily Work Reports, Lack of Information on Material Delivery Tickets, and Change in Contract - Bid Item Extended Quantities Controls* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Auditor's Office Payroll Tax Table Update– Issued 8/1/14

- **Objective:** The objective of the engagement was to determine whether the controls of this project are adequate, and that acceptance testing by the Information Technology Center (ITC) and the Auditor's Office payroll provides assurance that the payroll Tax Table Update project is properly implemented.
- **Results:** Based on our procedures, the test plan, the test results, and the controls related to the implementation procedures of this project appeared to be adequate; however, as the accounting procedures related to program changes were not followed for this project, controls related to this area require improvement. Matters related to *Compliance with IFAS Change Control Policy* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Auditor's Office Payroll Overtime Calculation – Issued 8/1/14

- **Objective:** The objective of the engagement was to determine whether the controls of this project were adequate, and that acceptance testing by the Information Technology Center (ITC) and the Auditor's Office payroll provided assurance that the Payroll Overtime Calculation Project was properly implemented.
- **Results:** Based on our procedures the test plan, the test results, and the controls related to implementation procedures of this project appeared to be adequate; however, as the accounting procedures related to program changes were not followed for this project, controls related to this area require improvement. Matters related to *Compliance with IFAS Change Control Policy* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Purchasing Department Unrecorded Capital Assets– Issued 8/15/14

- **Objective:** The objective of the engagement was to comply with Local Government Code (LGC) §262.011 (i) which requires an examination of the inventory and an accounting for all property purchased or previously inventoried and not appearing in the inventory.
- **Results:** Based on the procedures performed over compliance with Local Government Code (LGC) §262.011 (i), items previously listed on the 2012 Fixed Asset Identification CD that no longer appear on the 2013 Fixed Asset Identification CD were appropriately removed. However, it appears controls surrounding the creation of the Fixed Asset Identification CD (FAID CD) and relative transmittal letter need improvement. Matters related to *Purchasing Services Inventories*, *Annual Inventory Listing*, and *Purchase Order Detail* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Cypress Creek Fine Art Association Agreement – Issued 8/15/14

- **Objective:** The objective of the engagement was to evaluate controls for collecting and recording quarterly payments from the Association, and to evaluate the compliance with the requirements of the Agreement.
- **Results:** Based on the procedures performed during testing, the controls over the management of the Agreement, and the timely receipt and recording of the Association’s quarterly payments need improvement to strengthen the control environment. Matters related to the *Association's Sworn Statement*, *Quarterly Payments and Interest*, *Association's Expenditures*, and *Insurance Coverage* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Harris County Public Health & Environmental Services Food Safety Program– Issued 9/11/14

- **Objective:** As required by Chapter 437 of the Health and Safety Code we enclosed the Harris County Public Health & Environmental Services Food Safety Program’s Statement of Revenue, Expenditures, and Changes in Fund Balance (Statement) for the year ended February 28, 2014.
- **Results:** Financial information was provided to Food Establishments Group MC 1987, Texas Department of State Health Services before January 15, 2014, as required by Section §437.013(a). The full report is located on the District Judges Portal.

Information Technology Center (ITC) Annual Disaster Recovery Exercise– Issued 10/3/14

- **Objective:** The objective of the engagement was to evaluate whether the ITC DR Plan was properly executed to restore the County’s financial accounting system’s (FAS System) operating system, applications, and databases, as well as users’ connectivity testing associated with the general ledger, cash receipts, accounts payable, payroll, and fixed assets.
- **Results:** Based upon the procedures performed, the ITC Team appears to have successfully restored the majority of the FAS System’s operating system and databases; loaded the security, configuration, and transaction files; and established connectivity between the County and the Facility, although some of the steps performed by IBM could not be verified. Matters related to *Test Result Failures*, *Recovery Verification Documentation*, *System Backup Date Discrepancy*, and the *Testing Scenario* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

**Single Audit Desk Review Procedures for the Six Month Period Ended August 31, 2014–
Issued 10/10/14**

- **Objective:** To verify that the requirements of the Single Audit Act of 1984, as amended in 1996, related to monitoring grant sub-recipients and performing Uniform Desk Reviews are properly followed by grant recipients.
- **Results:** We reviewed nine Single Audit Reports, provided by the sub recipients, for a total of approximately \$22 million of federal financial assistance during the six month period ended August 31, 2014. Some sub recipients (although not required as their grant funds expended were less than \$500,000) also submitted their reports to us for review. Audit reports reviewed after August 31, 2014 will be included in our next report for the six months ended February 28, 2015.

Based on the procedures performed, the grant funds that passed through the County and disclosed by the Independent CPA in the Single Audit Reports appeared to materially agree to the amounts recorded in the County's financial records. The financial Statement & Single Audit reports reviewed were acceptable, and appear to have been prepared in accordance with Office of Management and Budget Circular A-133. No reportable issues were noted. Two of the Single Audit Reports contained material weaknesses or a noncompliance issue. One of the sub recipients did not employ an individual with the expertise to prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Reliance on the auditors to perform these functions is considered a material weakness. One of the sub recipients did not comply with requirements regarding eligibility that are applicable to its program. Improper fee adjustments were given and appropriate documentation was not maintained for all adjustments given.

In conclusion, all of the Single Audit Desk Reviews were deemed acceptable, and a determination to cancel any of the contracts was not required. Site visits will be conducted as deemed necessary. The full report is located on the District Judges Portal.

Review of Emergency Services Districts Annual Financial Reports– Issued 10/10/14

- **Objective:** The objective of the engagement was to review the Districts' compliance with Texas Health & Safety Code §775.082 as applicable.
- **Results:** Based upon the procedures performed, the Emergency Service Districts (partially located in Harris County) materially complied Texas Health & Safety Code §775.082 for the 12 month period ended September 30, 2014. No reportable issues were noted. The full report is located on the District Judges Portal.

**Financial Management First Quarter Fiscal Year 2015 Investment Procedures– Issued
10/24/14**

- **Objective:** In accordance with Texas Local Government Code §115.003(b) and Texas Government Code §2257.061, the Audit Services Department performed a review of investments managed by the Financial Management Section pursuant to the Investment Policy approved on February 11, 2014 (Policy), for the 1st Quarter of Fiscal Year 2015.
- **Results:** Based on the procedures performed covering investment transactions occurring during the 1st Quarter of Fiscal Year 2015, it was determined that Financial Management complied with the County's Investment Policy requirements for competitive bidding, maturity restrictions, authorized investment types, collateral, annual investment officer training, conflicts of interest disclosures, Finance Committee meeting requirements, Quarterly Investment Reports and

authorizations over new broker dealers. However, we identified one area for improvement relating to Certificates of Compliance for Approved Sellers of Investments which can be reviewed in detail in the full report located on the District Judges Portal.

Harris Health System Research Controls– Issued 10/30/14

- **Objective:** The objective of the engagement was to selectively evaluate critical controls for grant and research projects.
- **Results:** Based on procedures performed, Harris Health has developed and is following policies and procedures for review and approval of research studies before they are allowed to access Harris Health facilities, staff, patients, or information. Matters related to *Approving Research Studies, Reimbursing Indirect Costs, Identifying Indirect Cost Payments, and Remitting Payments to Cash Management among others* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Harris Health System Grant Controls– Issued 10/30/14

- **Objective:** The objective of the engagement was to selectively evaluate critical controls for grants and research projects.
- **Results:** Based on the procedures performed and transactions selectively tested, controls for disbursement of grant payments appear to be adequate. In addition, controls for ensuring compliance with grant agreements also appear to be adequate. Recently issued reports reviewed by Audit Services for audits of state and federal grants by other government or independent auditors did not identify significant issues. Matters related to *Accounting For Grants, Supporting Contractor Billings, and Documenting Private Grants* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

County Attorney's Office Toll Road Discretionary Fund– Issued 10/31/14

- **Objective:** The objective of the engagement was to evaluate whether the key internal controls relating to fees authorized under Texas Transportation Code §284.2032 were adequate and that the fees are properly collected, disbursed, safeguarded, recorded, and reported.
- **Results:** Based on the procedures performed, during Fiscal Year 2014, the County Attorney's Office complied with the Texas Transportation Code §284.2032 statute requirements as funds from the Toll Road Discretionary Fund were only used to defray the salaries and expenses of the County Attorney's Office but were not used to defray the County Attorney's own salary. Matters relating to *Payments to Consultants and Employee Parking* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Harris Health System Kronos Time and Attendance System - Post Implementation for the Four Months Ended February 28, 2014– Issued 12/4/14

- **Objective:** The objective of the engagement was to evaluate critical automated and manual controls relative to the Harris Health System Kronos Time and Attendance System.
- **Results:** Based on procedures performed, critical automated and manual controls appear adequate for granting user access to Kronos allocating employee hours recorded in Kronos to the correct pay classifications, or pay codes (i.e. regular pay, overtime, shift differential, etc.), reporting, reviewing, and approving employee hours in Kronos, and transmitting employee pay hours from Kronos to the PeopleSoft Payroll Module, which computes employee pay. Matters related to *Delegating*

Timecard Approval, Monitoring of Date and Time Stamp Location, and Recording Terminations Timely among others were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Harris Health System Epic Financial Modules Access Controls for the Three Months Ended March 31, 2014– Issued 12/4/14

- **Objective:** The objective of the engagement was to evaluate critical controls for providing the appropriate level of user access to Epic financial modules, changing user access when necessary, and terminating user access that is no longer required.
- **Results:** Based on our procedures, current Epic financial module user role security templates and user assignments appear appropriate and controls for the development of new templates and changing existing templates appear adequate. Matters related to *Assigning User Templates, Changing Epic User Security Settings, Terminating Contractors Access, and Verifying Current Access* were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Financial Management Investment Procedures - Second Quarter Fiscal Year 2015– Issued 12/19/14

- **Objective:** In accordance with Texas Local Government Code §115.003(b) and Texas Government Code §2257.061, the Audit Services Department performed a review of investments managed by the Financial Management Section pursuant to the Investment Policy approved on February 11, 2014 (Policy), for the 2nd Quarter of Fiscal Year 2015.
- **Results:** Based on the procedures performed covering investment transactions occurring during the 2nd Quarter of Fiscal Year 2015, it was determined that Financial Management complied with the County's Investment Policy requirements for competitive bidding, maturity restrictions, authorized investment types, collateral, annual investment officer training, conflicts of interest disclosures, Finance Committee meeting requirements, Quarterly Investment Reports and authorizations over new broker dealers. No reportable issues were noted. The full report is located on the District Judges Portal.

Engineering On-Premise Signs - Fiscal Years 2013 and 2014 – Issued 12/19/14

- **Objective:** The objective of the engagement was to determine whether the cost of the Program exceeded the related permit fees collected as required by Texas Transportation Code §394.063(f).
- **Results:** Based upon the procedures performed, the Permit Office appears to have complied with the provisions of the Texas Transportation Code §394.063(f) as the cost of the Program exceeded the fees collected for both Fiscal Years 2013 and 2014. No reportable issues were noted. The full report is located on the District Judges Portal.

Harris Health System Medical Equipment Acquisition Controls for the 12 Month Period Ended April 30, 2014 – Issued 01/29/15

- **Objective:** The objective of the engagement was to evaluate critical operational and financial controls for acquiring medical equipment.
- **Results:** Based on procedures performed, critical operational and financial controls reviewed for acquiring medical equipment are adequate. Matters related to *Documenting Hospital or Clinic Administrator Approval, Using Available Resources, Documenting Meetings, and Documenting*

Committee Approval were identified and can be reviewed in detail in the full report located on the District Judges Portal.

Harris Health System AMS Invoice Monitoring and RVU Analysis Follow-Up as of March 31, 2013– Issued 01/29/15

- **Objective:** The objective of the engagement was to evaluate Management’s progress implementing recommendations to improve critical controls identified and reported in the Auditor’s Report for Harris County Hospital District AMS Budget and RVU Analysis, dated May 31, 2012 (AMS Engagement).
- **Results:** Based on procedures performed, the status of implementing material recommendations that were reported in the AMS Engagement have been completed with the exception of amending the provisions of the Agreement that link HCCS payments with professional fees collected by Baylor and University of Texas. Matters related to *AMS Report - Professional Service Fee Collections, Documenting Changes to the Agreement, Reporting Errors to Senior Management, and Computing Incentive Pay* were identified and can be reviewed in detail in the full report located on the District Judges Portal.



**HARRIS COUNTY AUDITOR'S OFFICE
AUDIT SERVICES DEPARTMENT
ANNUAL AUDIT REPORT
Fiscal Year 2015**

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