

AUDITOR'S REPORT

AUDITOR'S OFFICE COMPUTER EQUIPMENT INVENTORY FOR THE PERIOD OF MARCH 10, 2014, THROUGH APRIL 2, 2015



September 16, 2016

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BARBARA J. SCHOTT, C.P.A.
HARRIS COUNTY AUDITOR

September 16, 2016

Ms. Cheri Morgan
Executive Assistant – Auditor’s Office
1001 Preston, 8th Floor
Houston, Texas 77002

RE: Auditor’s Office Computer Equipment Inventory for the period of March 10, 2014, through April 2, 2015

At the request of the County Auditor, the Audit Services Department performed procedures relative to the County Auditor’s Office (Office) Computer Equipment Inventory. The objective of the engagement was to perform a complete 100% inventory of the computer equipment in the Office and evaluate whether internal controls were adequate to ensure proper safeguarding, tagging, and removal of surplus computer equipment.

Our procedures included the following:

- Obtained an understanding and documented the internal controls regarding the Office’s computer equipment inventory process including requisitioning, safeguarding, tagging, and transferring used or unassigned computer equipment (surplus) to the County’s Purchasing Department (Purchasing) for disposal or transfer.
- Performed a complete physical inventory of computer equipment in the Office.
- Tested inventory items for compliance with the County’s Accounting Procedure A.1-3, *Inventory Internal Control Guidelines*.
- Tested inventory items for compliance with the County’s Accounting Procedure A.1-1, *Property Handling Guidelines*, with regard to tagging assets.
- Tested surplus inventory items for compliance with the County’s Accounting Procedure I.6, *Furniture and Equipment - Surplus Property*.
- Examined Office purchase orders and/or invoices for computer equipment purchased during the audit period and traced each item purchased to the equipment’s location to determine existence.
- Determined whether unassigned computer equipment is needed for Office operations.

Ms. Cheri Morgan
Executive Assistant – Auditor’s Office

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise judgment in completing the scope objectives. As such, there is a risk that error or fraud was not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and ensuring sufficient controls are in place to detect and prevent fraud.

The enclosed Auditor’s Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
Jack Morman
Steve Radack
Gene Locke
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

The 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. This mission of the Office is “To be an independent and progressive organization recognized for professionalism in carrying out the County Auditor’s statutory duties and responsibilities.” The Office is comprised of an Executive Division, an Accounting Division, and an Audit Division.

The Executive Division is comprised of the County Auditor, the Executive Administration Department, and the Human Resources & Infrastructure Support Department. The Executive Administration Department is an operational support group within the Office. The Executive Administration Department reports to the County Auditor's Executive Assistant and provides services in the areas of: technical support, payroll, infrastructure assistance, and office reception.

Personnel within the Office are provided various types of computer equipment. Pursuant to the Purchasing Rules and Procedures Manual, each department manager or elected official has the primary responsibility for safeguarding and accounting for assets which have been assigned to their department. This responsibility includes conducting an annual departmental inventory and comparing the results to the County Inventory Listing. Any appropriate reconciling documentation is required to be submitted to Purchasing.

Purchasing records changes for all items on the County Inventory Listing. Changes to records must be requested by user departments with the appropriate County form. Each individual user department is responsible for all items assigned to its department, regardless of value.

Local Government Code §262.011(i) requires that each year: “...the County Purchasing Agent shall file with the County Auditor and each of the members of the board that appoints the County Purchasing Agent an inventory of all property on hand and belonging to the County and each subdivision, officer, and employee of the County.”

Further, Local Government Code §262.011(j) states: “...the County Purchasing Agent shall transfer County supplies, materials and equipment from a subdivision, department, officer, or employee of the County that are not needed or used to another subdivision, department, officer, or employee requiring the supplies, materials and equipment.”

RESULTS

Based on the procedures performed for the Office's computer equipment including a 100% inventory, internal controls need to be improved to ensure proper safeguarding, recording of equipment, recording of serial numbers and surplus Office computer equipment. Specifically, our procedures identified that the Office does not have sufficient controls in place to ensure:

- Computer equipment is properly safeguarded,
- Completeness of computer equipment recorded in the County's Integrated Financial and Administrative Solution (IFAS) Fixed Asset Module.
- A formal policy exists to govern the removal or destruction of sensitive data from computer hard drives when processing computer surplus transfers.
- Completeness of recording Category II computer equipment serial numbers in IFAS.
- Surplus computer equipment is transferred to Purchasing when the equipment becomes obsolete or unnecessary.

These items are discussed in more detail within the following Issues and Recommendations Matrix.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Safeguarding Assets	<p>The Office purchases and maintains computer equipment for each employee in the Office. All unissued, spare, and surplus computer inventory is stored by the Office.</p> <p>Pursuant to Local Government Code §157.903, <i>Authority to Indemnify Elected and Appointed County Officers</i>, Commissioners Court may provide for indemnification of elected or appointed officials against personal liability for loss of County funds, County property, or damage to County property incurred by the officer in the performance of official duties if the loss was not the result of the officer's negligence or criminal action. The County's Accounting Procedure C.3-1, <i>Indemnification of Public Officials - Loss of Property</i>,</p>	<p>The Office does not have formal written inventory policies and procedures to ensure the Office's computer equipment is properly safeguarded at all times. Our procedures identified new and used computers, docking stations, monitors, and other miscellaneous items that were not stored in a secure area. Additionally, 2 instances of the 260 (.77%) Office computer equipment purchases made during the audit period totaling \$706 could not be located. Both items were printers. Management did inform us that two long term employees retired and new personnel is still adjusting to their new roles.</p> <p>Not having sufficient controls and/or a formal policy governing the safeguarding of computer</p>	<p>Office Management should establish a formal written computer equipment inventory policy that includes internal control guidelines for safeguarding and tracking inventory. The guidelines should address the receiving, storage and issuance of equipment, including removal of surplus items, and include specific rules for authorized access to storage facilities and the recording and tracking of computer equipment inventory. Additionally, the guidelines should address the annual physical inventory required by the County's Purchasing Rules and Procedures Manual section 11.2.1, <i>Inventory Responsibilities by Department</i>.</p> <p>Finally, if the 2 missing items cannot be found,</p>	<p>Auditor's Office Management agrees with the recommendations. As stated within the issue, two long term employees retired and it appears that some cross training did not occur. The Systems and Procedures Department is in process of revising Auditor's Operations Manual Procedures 3-3, <i>Furniture and Equipment – Inventory Controls</i> and we have completed the indemnification request form for the 2 items.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Safeguarding Assets	outlines the procedures that must be performed when requesting indemnification of lost property.	equipment could result in financial loss to the County.	Office Management should request indemnification from Commissioners Court pursuant to Accounting Procedure C.3-1, <i>Indemnification of Public Officials - Loss of Property</i> .	
Recording Assets	<p>Pursuant to the County's Purchasing Rules and Procedures Manual section 11.2.1, <i>Inventory Responsibilities by Department</i>, each department is responsible for conducting an annual departmental inventory and comparing the results to the County Inventory Listing. Any reconciling items should be submitted to Purchasing.</p> <p>Pursuant to Auditor's Operations Manual Procedure 3-3, <i>Furniture and Equipment - Inventory Controls</i>, an individual at each Auditor's Office location will be designated</p>	The Office does not have sufficient controls in place to ensure the completeness of computer equipment recorded in the IFAS Fixed Asset Module. The Office completed the annual inventory of computer equipment required by the Purchasing Rules and Procedures Manual section 11.2.1, <i>Inventory Responsibilities by Department</i> , by selecting items from the IFAS Fixed Asset Module and tracing them to each assets location. However, they did not make selections from office workstations to help identify assets that are not recorded in the IFAS Fixed	<p>Office Management should correct the property and equipment records to include the missing assets, and the Office should compare a sample of computer equipment items observed in office workstations to the County's Fixed Asset Module in conjunction with their annual inventory to test the completeness of computer equipment recorded in IFAS.</p> <p>In addition, to improve internal controls, the Office should provide training to all Office inventory Agents and the Office Inventory Lead to ensure compliance</p>	<p>Auditor's Office Management agrees with the recommendations and we have started the process of correcting the property and equipment records. We have also implemented a plan to provide training to our Office Inventory Agents.</p> <p>The County Auditor's Office, Systems and Procedures Department is in process of updating the Auditor's Operations Manual Procedures 3-3, <i>Furniture and Equipment – Inventory Controls</i> to include the referenced portion of the County's Accounting Procedure I.5, <i>Furniture and Equipment – Accounting for</i></p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Recording Assets</p>	<p>as an Office inventory agent (Agent) with the lead Agent considered the Inventory Lead. Upon the receipt of inventory assets, each Agent observes the item and documents the item's date received, physical location, assigned employee, item description, and serial number on County Auditor's Form 3354A, <i>HCAO- Transfer of Assets</i> (Form 3354A). The Inventory Lead receives Form 3354A from the Agent, records the item and associated information in the department's inventory log, and verifies that the IFAS Fixed Asset Module has the correct location information.</p> <p>Pursuant to the County's Accounting Procedure I.5, <i>Furniture and Equipment - Accounting for Deleted Property</i>, computers,</p>	<p>Asset Module.</p> <p>As a result, 112 of the 479 (23%) computer equipment assets with a purchase price of \$500 to \$4,999.99 identified in our 100% physical inventory count were not recorded in the IFAS Fixed Asset Module.</p> <p>Incomplete recording of County assets impairs the Office's ability to properly account for purchases and/or detect lost or stolen items and could result in a misstatement of fixed assets in IFAS.</p> <p>In addition, it appears Office inventory Agents are not completing Form 3354A for computer equipment with a purchase price of \$500 to \$4,999.99 as required by Auditor's Operations Manual Procedure 3-3, <i>Furniture</i></p>	<p>with Auditor's Operations Manual Procedure 3-3, <i>Furniture and Equipment - Inventory Controls</i>, which outlines the responsibilities for both the Agent and the Inventory Lead.</p> <p>Finally, the Auditor's Office Systems and Procedures Department should update Auditor's Operations Manual Procedures 3-3, <i>Furniture and Equipment – Inventory Controls</i> to include the referenced portion of the County's <i>Accounting Procedure I.5, Furniture and Equipment – Accounting for Deleted Property</i>, which would require Form 3354A to be used for computer related equipment with a unit value of \$500 to \$4,999.99.</p>	<p><i>Deleted Property.</i></p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Recording Assets	computer related equipment, and any other property with a unit value (purchase price) of \$500 to \$4,999.99 with a unique identifying serial number are to be inventoried and recorded by each applicable County department in IFAS by the asset's serial number.	<i>and Equipment - Inventory Controls.</i> Although Auditor's Operations Manual Procedure 3-3, <i>Furniture and Equipment – Inventory Controls</i> references the County's Accounting Procedure I.5, <i>Furniture and Equipment – Accounting for Deleted Property</i> , which would require Form 3354A to be used for computer related equipment with a unit value of \$500 to \$4,999.99, this should be included in Auditor's Operations Manual Procedure 3-3, <i>Furniture and Equipment – Inventory Controls</i> to ensure Auditor's Office inventory agents understand Form 3354A is to be used for computer related equipment with a unit value of \$500 to \$4,999.99.		

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Sensitive Data	Pursuant to Accounting Procedure I.6, <i>Furniture and Equipment - Surplus Property</i> , when processing surplus transfers, the submitting department should ensure that all sensitive, confidential, and otherwise appropriate information and/or data are completely removed from a computer prior to the transfer. If this results in damaging the hard drive, it should be noted in the description record of the IFAS Fixed Asset Module.	The Office does not have a formal policy in place to ensure proper removal or destruction of sensitive data from computer hard drives when processing computer surplus transfers. Office personnel informed us that a process is in place to destroy hard drives. However, a formal policy has not been developed. Not having a policy governing the destruction of sensitive data could result in financial loss by exposing sensitive data to unauthorized third parties.	Office Management should develop a formal policy for removing and/or destroying sensitive data from surplus computers before transferring the surplus computers to Purchasing.	Auditor's Office Management agrees with the recommendation. The Systems and Procedures Department is in process of revising Auditor's Operations Manual Procedures 3-3, <i>Furniture and Equipment – Inventory Controls</i> to include policies for removing and/or destroying sensitive data from surplus computers before they are transferred to Purchasing.
Asset Tracking	Pursuant to the County's Accounting Procedure A.1-1, <i>Property Handling Guidelines</i> , Controlled County Assets – Category II (defined as County personal property with a unit value of \$500 through \$4,999.99 that have a unique identifying number	The Office does not have sufficient controls in place to ensure all serial numbers are recorded in IFAS for Category II computer equipment items. Based on procedures performed over Category II computer equipment, serial numbers were not recorded for 159	Office Management should correct the property and equipment records to include the missing serial numbers. In addition, to improve internal controls, the Office should develop a formal procedure requiring periodic review of the property and equipment	Auditor's Office Management agrees with the recommendations and has started the process of updating our property and equipment records to include the missing serial numbers. The Systems and Procedures Department is in process of revising Auditor's

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Asset Tracking	applied by the manufacturer) are required to be recorded in the IFAS Fixed Asset Module. Additionally, the County department must ensure the inventory records reflect sufficient identifying information that includes unique identifying serial numbers.	of the 479 (33%) Category II computer equipment items in IFAS. Incomplete recording of serial numbers impairs the Office's ability to properly account for assets and/or detect lost or stolen items and could result in a misstatement of fixed assets in IFAS.	records to ensure that all serial numbers are recorded. This review could be performed in conjunction with the annual inventory required by Local Government Code 262.011(i).	Operations Manual Procedures 3-3, <i>Furniture and Equipment – Inventory Controls</i> to include requiring a review of our property and equipment records to ensure all serial numbers are recorded in conjunction with our annual inventory required by Local Government Code 262.011(i).
Surplus Assets	Pursuant to Accounting Procedure I.6, <i>Furniture and Equipment - Surplus Property</i> , during the course of each year, property may be replaced, break, become obsolete or unnecessary, or be otherwise deemed unusable by the department. Regardless of the initial cost of an item, if the department determines that an item is surplus, the item is to be transferred to Purchasing, another department, or another section within the	The Office does not have sufficient controls in place to ensure that surplus computer equipment is transferred to Purchasing when the equipment becomes obsolete or unnecessary. Although transfers totaling 250 items were made during the audit period, our procedures identified 124 additional items for potential surplus. Not transferring surplus items could result in an inefficient allocation of	Office Management should perform research to determine whether the identified items are officially surplus items, and if required, process them for transfer in accordance with Accounting Procedure I.6, <i>Furniture and Equipment - Surplus Property</i> . In addition, to improve internal controls, the Office should develop a formal procedure requiring a periodic review of the	Auditor's Office Management agrees with the recommendations. It is our understanding that most of these items were old equipment items replaced by newer models. Some of these items have already been sent to Purchasing for surplus and our Inventory Lead will continue to evaluate these items and determine their proper disposition.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Surplus Assets</p>	<p>department.</p> <p>Pursuant to Local Government Code §262.011(j), <i>Purchasing Agents</i>, the County Purchasing Agent, with Commissioners Court approval, shall transfer County supplies, materials, and equipment from a subdivision, department, officer, or employee of the County that are not needed or used to another subdivision, department, officer, or employee requiring the supplies, materials, and equipment.</p> <p>In addition, Commissioners Court has designated the County Purchasing Agent as their representative to dispose of County-owned salvage or surplus property.</p>	<p>County assets.</p>	<p>Office equipment to ensure that all obsolete and/or unnecessary inventory items are transferred out of the Office in accordance with Accounting Procedure I.6, <i>Furniture and Equipment - Surplus Property</i>. This review can be performed in conjunction with the annual inventory required by Purchasing and should include asking Office personnel if they have any inventory items they would like to submit for surplus.</p>	

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

Inherent Risk:	Control Risk:		Overall Risk:
<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low	Prior to Procedures	After Procedures	<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low
	Needed Improvement	Needs Improvement	
Type of Procedures: Audit			
Purpose: To perform a complete 100% inventory of the computer equipment in the Office and evaluate whether internal controls were adequate to ensure proper safeguarding, tagging and surplus of computer equipment.			
Priority Rating:	Audit Recommendations: County Auditor's Office		
1	Office Management should establish a formal written computer equipment inventory policy that includes internal control guidelines for safeguarding and tracking inventory. The guidelines should address the receiving, storage and issuance of equipment, including removal of surplus items, and include specific rules for authorized access to storage facilities and the recording and tracking of computer equipment inventory. Additionally, the guidelines should address the annual physical inventory required by the County's Purchasing Rules and Procedures Manual section 11.2.1, <i>Inventory Responsibilities by Department</i> . Finally, if the 2 missing items cannot be found, Office Management should request indemnification from Commissioners Court pursuant to Accounting Procedure C.3-1, <i>Indemnification of Public Officials - Loss of Property</i> .		
1	Office Management should correct the property and equipment records to include the missing assets, and the Office should compare a sample of computer equipment items observed in office workstations to the County's Fixed Asset Module in conjunction with their annual inventory to test the completeness of computer equipment recorded in IFAS.		

	<p>In addition, to improve internal controls, the Office should provide training to all Office inventory Agents and the Office Inventory Lead to ensure compliance with Auditor’s Operations Manual Procedure 3-3, <i>Furniture and Equipment - Inventory Controls</i>, which outlines the responsibilities for both the Agent and the Inventory Lead.</p> <p>Finally, the Auditor’s Office Systems and Procedures Department should update Auditor’s Operations Manual Procedures 3-3, <i>Furniture and Equipment – Inventory Controls</i> to include the referenced portion of the County’s <i>Accounting Procedure I.5, Furniture and Equipment – Accounting for Deleted Property</i>, which would require Form 3354A to be used for computer related equipment with a unit value of \$500 to \$4,999.99.</p>
1	Office Management should develop a formal policy for removing and/or destroying sensitive data from surplus computers before transferring the surplus computers to Purchasing.
1	Office Management should correct the property and equipment records to include the missing serial numbers. In addition, to improve internal controls, the Office should develop a formal procedure requiring periodic review of the property and equipment records to ensure that all serial numbers are recorded. This review could be performed in conjunction with the annual inventory required by Local Government Code 262.011(i).
1	<p>Office Management should perform research to determine whether the identified items are officially surplus items, and if required, process them for transfer in accordance with Accounting Procedure I.6, <i>Furniture and Equipment - Surplus Property</i>.</p> <p>In addition, to improve internal controls, the Office should develop a formal procedure requiring a periodic review of the Office equipment to ensure that all obsolete and/or unnecessary inventory items are transferred out of the Office in accordance with Accounting Procedure I.6, <i>Furniture and Equipment - Surplus Property</i>. This review can be performed in conjunction with the annual inventory required by Purchasing and should include asking Office personnel if they have any inventory items they would like to submit for surplus.</p>

Priority Rating	<ol style="list-style-type: none"> 1. Implement immediately (30 – 90 days) – Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. Work towards implementing (6 – 18 months) – Less serious internal control deficiencies, or recommendations that cannot be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. Implement in the future (two – three years) – Recommendations that should be implemented, but that cannot be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).
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