

AUDITOR'S REPORT

PURCHASING DEPARTMENT UNRECORDED CAPITAL ASSETS



March 18, 2016

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March 18, 2016

DeWight Dopslauf, C.P.M., CPPO
Purchasing Agent
1001 Preston, Suite 670
Houston, Texas 77002

RE: Purchasing Department Unrecorded Capital Assets for the 12 months ended July 1, 2014,
and 12 months ended July 1, 2015

The purpose of this letter is to present the results of the Continuous Auditing Unrecorded Capital Assets engagement. The objective of the engagement was to comply with Local Government Code (L.G.C.) §262.011(i), which requires an examination of inventory and an accounting of all property purchased or previously inventoried and not appearing in the inventory. Our procedures included the following:

- Determining whether the Purchasing Agent submitted an inventory of all property on hand with the County Auditor by July 1, 2014, and again on July 1, 2015.
- Examining the inventory submitted by the Purchasing Agent to determine whether items previously listed and no longer on the inventory were appropriately removed.
- Selectively examining purchases made during the 12 months ended July 1, 2014, and the 12 months ended July 1, 2015, to determine if capital purchases were appropriately accounted for.

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 was 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 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. The work performed required our staff to exercise judgement in completing the scope objectives. As the procedures were not a detailed accounting of all County inventory, there is a risk that error or misstatement was not detected during this engagement. The County Department officials retain the responsibility for the accuracy and completeness of their Department's inventory and ensuring sufficient controls are in place to safeguard the County's assets.

Mr. DeWight Dopslauf, C.P.M., CPPO
Purchasing Agent

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

In accordance with L.G.C. §262.011(a), the County Purchasing Agent is appointed by a Board comprised of three State District Judges and two members of the Commissioners Court. The Harris County Purchasing Agent (Purchasing Agent) is an independent officer of the County and is the only official entitled to make purchases for the County. The Purchasing Office is responsible for the procurement of goods and services that are essential to the operations of Harris County. The duties of the Purchasing Office include, but are not limited to the following broad categories:

- a. Advertised Bids and Requests for Proposals: This category includes the supervision of the competitive bid process for purchases of goods and services above \$50,000. The County Purchasing Act (Texas Local Government Code Sec. 262.021) requires a proposed purchase, exceeding \$50,000, to be published at least once a week in a newspaper of general circulation, with the first day of publication beginning at least 14 days before the date of bid opening. The Purchasing Office oversees the bid process and presents bid proposals to the Commissioners Court for approval.
- b. Unadvertised purchases (Informal Quotations): This category includes the purchases of goods and services for \$50,000 or less (i.e., that do not require publication in a newspaper) and purchases made through a federal or state agency. The Purchasing Office will assign unadvertised purchases to a buyer, by commodity, and the end user department may include price quotes to evaluate the required products or services.
- c. Contract Administration: This category includes the management of purchase commitments, which includes the initial procurement, renewal, termination of an existing contract, changes in contract, or amendments to existing contracts.
- d. County Inventory Management: This category includes the storage, transfer, and/or disposal of county property, including recycling.

In addition to the duties listed above, the L.G.C. §262.011 specifies the Purchasing Agent is to supervise the competitive bid processes and ensure purchases are delivered to the proper County officer or department. The statute indicates the Purchasing Agent will maintain an inventory of County property and, to prevent unnecessary purchases, the Agent will transfer surplus County property between departments, providing the County Auditor a list of transferred items.

Purchasing Services, a division of the Purchasing Office, is responsible for County inventory records, transfers, sales, and disposition of County surplus, salvage, and abandoned/unclaimed property [L.G.C. §267.011(j); §263,151 et seq., as amended; and Texas Code of Criminal Procedure §18.17, as amended]. Purchasing Services records changes for all items on the County Inventory Listing. Each individual County department is responsible for all items assigned to the department, regardless of value. When requested, Purchasing Services will assist any department in conducting an inventory. Pursuant to the Purchasing Manual, approved by Commissioners Court, Purchasing Services will schedule periodic inventories and spot checks of departments, on a random schedule, to verify the accuracy of their inventory records.

The following is a list of inventory responsibilities, by department:

All Departments: Each department manager or elected official has the primary responsibility for safeguarding and accounting for assets which have been assigned to their department. As such, each department is responsible for conducting an annual departmental inventory and comparing the results to the County inventory listing. Reconciling documentation from the inventory should be submitted to Purchasing Services.

Purchasing Agent: The L.G.C. §262.011(i) requires the Purchasing Agent to file an inventory of all property on hand and belonging to the County with the County Auditor and each of the board that appoints the County Purchasing Agent, on July 1st of each year. In addition, L.G.C. §262.011(j) entitles the Purchasing Agent to transfer County supplies, materials and equipment from a department where they are not needed to another department requiring the items.

Auditor's Office: The L.G.C. § 262.011(i) provides the County Auditor “shall carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory.”

An inventory detail listing containing the current departmental inventory of record is available in the County financial system for each department manager and elected or appointed official. By May 1 of each year, every department and elected or appointed office is required to submit an Inventory Completion Statement (County Auditor's Form 3368) to Purchasing Services. Once this form is turned in, the department or office inventory is considered current and acceptable for filing with the County Auditor and each of the members of the board that appoints the County Purchasing Agent, as required by L.G.C. §262.011(i). In the event that a department or office submits an Inventory Completion Statement (County Auditor's Form 3368) later than May 1, they will be considered delinquent and reported by Purchasing Services to the Purchasing Office and the County Auditor for communication to Commissioners Court, as necessary.

For purposes of the annual inventory and fulfilling statutory requirements, Harris County defines “property on hand” as personal property and further classifies capital county assets as follows:

| | |
|-----------------------|---|
| Capital County Assets | <ul style="list-style-type: none">▪ County Personal Property with a unit value of \$5,000 or more.▪ Tagged by Purchasing Services.▪ Capitalized on the County’s General Ledger. <p>Examples: rolling equipment, some generators, pumps, and mainframe computer equipment.</p> |
|-----------------------|---|

RESULTS

The procedures performed to comply with L.G.C. §262.011(i) indicated that for each year under review, the County Purchasing Agent was compliant with the requirement to file by the July 1st deadline. Furthermore, any capital assets purchased or previously inventoried that no longer appeared in the most recent inventory report were appropriately removed. However, an examination of purchases identified four items that qualified as capital assets but were not recorded on the Fixed Asset Identification Report submitted on July 1, 2015. (See Appendix A for details of these items.) The Auditor's Office - Financial Accounting Department has reviewed the identified items and capitalized the items to the Fixed Assets Module in January 2016.

Appendix A – Missing Items from the July 1, 2015, Report

| Fixed Asset ID | Description | Purchase Amount | Continuous Auditing Notes |
|-----------------|-----------------------------|-----------------|---|
| P218796-001-001 | Switch, Cisco Catalyst 3850 | \$11,340 | Continuous Auditing reviewed the four fixed assets listed on the Purchase Order Line Item Details Report (report listing purchase orders items made during the period of July 1, 2013, to May 31, 2015). These items are qualified to be capital assets according to the Accounting Procedure A.2–1–Attachment C – Capital Asset/Infrastructure Policy Matrix. However, they were not recorded in the Fixed Asset Module as capital assets. These items were corrected in January 2016. |
| P218796-001-002 | Switch, Cisco Catalyst 3850 | \$11,340 | |
| P218796-001-003 | Switch, Cisco Catalyst 3850 | \$11,340 | |
| P218796-001-004 | Switch, Cisco Catalyst 3850 | \$11,340 | |