



The Harris County Auditor's Office Newsletter

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Have You Looked at the Auditor's Webpage Lately?

The Harris County Auditor's Webpage provides a great deal of information that might surprise you. Interested in financial data? The Auditor's Monthly Financial Statements provide budget-to-actual information for departments, capital projects and grants. If you are interested in debt, there are schedules showing debt totals by type, requirements, and even monthly interest rate swap positions. If you are more interested in visual presentations, check out the colorful and informative graphs.

For the more detail minded, there are Comprehensive Annual Financial Reports (also known as CAFRs). These run around 200 pages. Besides all the financial schedules, the Statistical Section of these reports have some handy information on Harris County populations, previous unemployment rates (when the economy was much stronger), principal employers, etc. For those who want a financial overview with lots of graphs, great photos, and some little known facts (did you know Harris County was originally named Harrisburg County), the Popular Annual Financial Report is just the ticket. This document, sometimes referred to as "the CAFR light" is only 20 pages long.

What else is on the Auditor's webpage? Lots of things, including previous issues of this newsletter, an Auditor's Office organizational chart, information about on-line training courses, and descriptions of what each Auditor's Office department is responsible for. Do you want to check if there is an Auditor's Office accounting procedure covering a particular issue? The procedures are there (just select the intranet button). Copies of all those Auditor Office Forms are there, too. So, if you haven't looked at the Auditor's webpage lately, give it a gander.

By Mike Post, Chief Assistant County Auditor—Accounting Division

Accounts Payable Customer Service

The Account's Payable primary objective is to fulfill the County Auditor's statutory obligation for examining and approving claims while processing them in a timely and accurate manner and in compliance with Harris County policies and procedures. In meeting this objective, Accounts Payable

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Accounting Division

HAVE YOU LOOKED AT THE AUDITOR'S WEBPAGE LATELY?

Did you know that the Auditor's Webpage is full of financial and interesting information? See page 1.

ACCOUNTS PAYABLE CUSTOMER SERVICE

Learn how the Auditor's Office consistently provides quality customer service to County Departments and vendors. See page 1.

MONTHLY FINANCIAL REPORTS

Does the Auditor's Office issue financial reports more frequently than annually? Find out on Page 2.

GRANT ACCOUNTING REQUIRED FOR COUNTY MATCH?

What is Cash Match and In-Kind Services and why are they important. Find the answer on page 3.

COUNTY VS STATE

Why does most of the money collected by Fee Officers remitted to the State. Find out on page 3.

Audit Division

ASK RICHARD

Payroll advice and questions answered. See page 4.

"CH-CH-CH-CH-CHANGES"

Are you ready for changes? See page 5.

LEGISLATION AND THE AUDITOR'S OFFICE

The Auditor's Office has begun reviewing and monitoring Texas Legislature Bills. More details on page 5.

THE TEN COMMANDMENTS OF AUDIT SAMPLING

Find the answers on page 6.

FRAUD, WE HAVE INTERNAL CONTROLS, WHY WORRY?

If we have internal controls, why do we need to worry about Fraud? See page 7.

COUNTY AUDITOR'S OFFICE EMPLOYEES SERVICE ANNIVERSARIES

Find out which Auditor employees have reached their anniversary milestone on page 10.

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strives to provide quality customer service to all Harris County departments and vendors by courteously, efficiently and promptly responding to all inquiries.

What are we doing to ensure that we are providing quality customer service to Harris County's Departments?

Your Accounts Payable Claim Processor is responsible for assisting your department in a prompt professional manner and working with your department to resolve problems they encounter with processing your invoices. Good communication between Accounts Payable and your department is essential. Your department helps ensure timely processing of your invoices by providing us with a valid purchase order or addendum adding funds to your purchase orders. Your Accounts Payable Claim Processor is responsible for following up with your department, as needed, to request your assistance in obtaining additional information or supporting documentation, so that we can process your invoices timely. In addition, if you have any Accounts Payable questions or concerns they may be directed to Ronnie James, AP Director, 713-755-8374, Debbie Ferraro, AP Supervisor, 713-755-4601 or Pat Stokes, AP Supervisor, 713-755-1455.

If your department would like a tour of the Accounts Payable Department to observe steps in the accounts payable process, from submitting a requisition to payment of the invoice, please contact Debbie Ferraro or Pat Stokes.

What are we doing to ensure that we are providing quality customer service to Harris County's Vendors?

We have two Accounts Payable Research staff members that are assigned to handling the majority of vendor inquiries. The Research staff are responsible for promptly providing our vendors with the payment status of their invoices. They work with the vendors concerning unpaid or short-paid invoices and to request invoice copies if Accounts Payable does not have the original invoice. If an invoice is being contested, Research staff will return the invoice to the vendor with a memo stating the reason the invoice is being contested. Every

Wednesday after Commissioner's Court, the Research staff provides a spreadsheet to our High Volume Vendors showing what invoices were paid, the invoice amount(s), the check number(s) or EFT number(s) and the total amount paid. The Accounts Payable Claim Processors and Management also work very closely with our vendors to promptly respond to their inquiries and resolve any issues we may have with their invoices.

Accounts Payable's commitment is to provide quality customer service by promptly responding to all department and vendor inquiries with verified and accurate information.

By Pat Stokes, Accounts Payable Supervisor

Monthly Financial Report

Previous issues of the "Newsletter" have elaborated upon the financial information that is available in the Comprehensive Annual Financial Report (CAFR) and the Popular Annual Financial Report (PAFR) which are both available on the Auditor's web site. The good news is that there is also monthly financial information available. Financial Accounting issues a Monthly Financial Report (that is unaudited and unadjusted). This report provides a wealth of interim financial information. The monthly report is also posted on the Auditor's web page.

Several easy to read graphs, the monthly unaudited and unadjusted Financial Statements, other supplementary information, and budget status are included in the monthly report. The monthly report is intended for informational purposes only.

The graphs include trends of selected financial information and indicators in an easy to understand format. The Financial Statements have fund Financial Statements, combining, and individual fund information. The statements are reported on a budgetary basis which is not in accordance with generally accepted accounting principles. The other supplementary information contains information on debt, operating transfers, notes receivable, accounts receivable, and receipts and disbursements. The budget section contains

comparisons of actual to budget.

The Financial Accounting Department is responsible for Financial Statement reporting including the CAFR, PAFR, and Monthly Financial Report. All of these reports are available on the Auditor's web page at

<http://www.co.harris.tx.us/auditor>.

By Carol Market , Director of Financial Accounting

Grant Accounting Required for County Match

Grants are received from various federal, state and local agencies and private sources. The agencies and sources often require a cash match by the grantee. This Required Cash Match can be met by a contribution of funds or In-Kind services. Generally, the County's Required Cash Match is a set amount or a percentage of the grant award. In most cases, the match is specifically outlined in the grant contract. If a grantee does not contribute a sufficient match, support will be reduced proportionately to maintain the required matching ratios.

Costs used to satisfy a grantee's matching share or cost-participation requirement may be financed using either or both of the following:

- Allowable costs incurred by the grantee;
- The value of third-party in-kind contributions.

Required Cash Match expenditures must be budgeted and recorded in the appropriate GL Org Key's object codes identified with a ZZ at the end of the object code. During the life of the grant, Required Cash Match expenditures are accounted for by the use of operating transfers (in and out). The General Fund and/or designated fund records the transfer-out. The transfer-out must be budgeted when the grant is accepted in Commissioner's Court. The transfer-in is recorded in the applicable Grant GL Org Key.

In-Kind Match is not included in the Grant Org Key, but must be supported with adequate documentation. Volunteer labor must include a timesheet similar to the timesheet used by the County Department or on the prescribed form required by the Granting Agency. Fair Market Value should be used when assessing the value of donated goods or property. The County Department must provide the County Auditor-Grants Accounting with a copy of the supporting documentation in the Granting Agency's prescribed format.

To help ensure that the County receives maximum funding from granting agencies it is important the department receiving the grant:

- Budget the Cash Match in the Grant expenditures object codes ending in ZZ and a transfer-in for the source of funds;
- Budget the transfer-out in the General Fund or other designated source of funds;
- Supply Grants Accounting with adequate documentation for all approved In-Kind Match.

If you have any questions about this topic or any other grant related topic, please refer to the Auditor's Office intranet website,

www.aud.hcintranet.net

and refer to "Manual" and then "Accounting Manual" or contact your Grant Accountant in Grants Accounting.

By Paul Wilden, Grant Manager

County vs State

Did you know Harris County sends almost \$24 million a year to the State of Texas in the form of civil and criminal fines, fees and court costs? This is money collected by the JP Courts, District Clerk, County Clerk, Sheriff and CSCD for everything from speeding tickets to marriage licenses to law suit filing fees to criminal fines. Most of the money collected by these departments is remitted to the State. For example, \$78 of \$110 collected on a

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speeding ticket issued in May 2008 was remitted to the State. On a larger scale, a JP court collected approximately \$3 million in 2007, but only \$1.4 million was retained by Harris County. Essentially all of the difference was remitted to the State.

The Fee Accounting Section of Revenue Accounting (Fee Accounting) is responsible for calculating and remitting the quarterly payments to the State (through the County Treasurer). But Fee Accounting could not perform this task without the help of all the departments involved. Fee Accounting relies on the funds collected to be properly identified and recorded in the specific codes pertaining to specific statutes. Each code represents a statute that informs Fee Accounting of the ultimate disposition of the monies. Our Compliance Audit Department audits the monthly collections. It is these audited monthly reports that Fee Accounting utilizes to calculate and remit the quarterly payments to the State.

The good news is a portion of these remitted quarterly payments to the State is returned to Harris County in the form of judicial support, jury reimbursement, and indigent defense support, just to name a few. Plus, some of the money retained by Harris County is used directly to:

- Support the Law Library, Appellate Judicial System, Alternative Dispute Resolution Program,
- Provide courthouse security,
- Pay court reporters' salaries and
- Benefit other County programs.

By Debbie Smith, Director of Revenue Accounting

Ask Richard

Hey Richard, can I claim to be exempt from federal income taxes?

Good question and very timely for your tax planning for 2009.

Though it is possible for you to have no federal income tax withholding, it is not very likely. You can claim to be exempt from federal taxes only if both of the following conditions apply:

you ended up owing no federal taxes last year, and all the federal tax withheld from you during the year was refunded after you filed your return. Remember, just receiving a refund is not enough, you must receive a refund for all of the federal income taxes you paid, and

you don't expect to owe any federal taxes for the current year.

Also note, if your income for the year is more than \$900 and includes over \$300 of unearned income, and someone else is claiming you as a dependent, you are not exempt from federal income tax withholding.

In additions students are not automatically exempt. Students have to meet the conditions listed to claim an exemption.

It is also important to know that you have to renew your claim to an exemption each year by February 15. If you don't, we, your employer's payroll department, will start withholding federal tax from you paychecks as if you were single and had zero withholding allowances. So, be sure to submit a new W-4 form to renew your claim on time.

One last note, almost no one is exempt from social security or Medicare tax. A claim of exempt status won't affect your social security or Medicare tax withholding.

By Richard Foisner, Director of Payroll Audit

“Ch-ch-ch-ch-Changes”

“Change” has been a hot topic the last few months. But it's hardly a new concept. Change being central to the universe was Greek philosopher Heraclitus' doctrine, and that was in 500 BCE. Change, it has been said, is the only constant in science. And we all remember the David Bowie song referenced in the title of this article.

For an auditor, that might be a little too deep, but change does not occur on just the universal, national, or philosophical levels. Indeed, Harris County has seen numerous changes in the last few weeks. And it will be central to the way we do business.

If you are in one of the offices that collect fees and experienced a change in the elected or appointed department head, the Auditor's Office will be performing “close out procedures” on your office. You can make this process smoother by reviewing and following these tips. Not all of these may apply to your office, nor is this a complete list, but the more you are prepared, the easier the change will be for your universe (also known as your department.)

- Ensure all employees are using approved timesheets or time cards. They should accurately reflect time worked, lunch time taken, proper calculations, and should be signed and dated by both the employee and their supervisor.
- Make sure that your list of employees is accurate. Don't forget to timely remove employees that are leaving.
- Check your petty cash account. Do you know how much should be in the account? Make sure you timely request reimbursements. The amount of cash you have together with the outstanding reimbursement request plus receipts you have not requested reimbursements for should equal your approved balance. Do you have “IOU's” in the cash box from employees? Get those reimbursed and please remember that those are not be

allowed.

- Your change (the noun, not the verb) fund needs to be intact. The best way to do this is to count it before you begin collections for the day. Make sure you know how much is supposed to be in the change fund and that it is properly secured at night.
- Review your inventory records. Run IFAS reports showing your fixed assets and make sure you can account for all items on the list. To be complete, include on the inventory records serial numbers and locations of your assets.
- Does your department have vehicles? Just like the fixed assets, make sure the vehicle information including vehicle information number (VIN) is correct. If those vehicles have toll tags or gas cards, make sure that information is correct as well.

Do you have employees that have PINs to obtain gas for your vehicles? If so, make sure that only current employees have the PINs and that they are not being shared.

One thing about all of these tips. None of them actually represents a change. You should be doing all of these things on a continuous basis. Sometimes the old ways work just fine.

By Wayne Comeaux, Manager of Compliance Audit

Legislation and the Auditor's Office

The Harris County Auditor's Office - Systems & Procedures Department (Systems & Procedures) reviews and monitors House and Senate Bills introduced into the Texas Legislature each session for potential impact to the County and/or County Auditor's Office. Regular legislative sessions occur every two years. Bills are reviewed for items such as new/increased fees, fines, audit responsibilities, etc. The Texas Legislature will convene for the 81st Regular Session on January 13, 2009, but pre-filing actually began on November 10, 2008. To learn more about the legislative process, please visit

<http://www.tlc.state.tx.us/gtli/legproc/process.html>

Systems & Procedures subscribes to the Texas Legislative Service's system (Telicon), which provides copies or online access to each individual bill filed and online access to the status of each bill. Also, as part of the Telicon package, Systems & Procedures receives:

- Access to a tracking report
- Calendar information
- NIGHTWriter services
- Search capabilities
- Meeting notifications
- Progress of bills
- Public meeting notices
- Executive appointments

Systems & Procedures also receives notification of Texas Attorney General Opinions and Request for Opinions from the Texas Attorney General directly from the Texas Attorney General's Office. When needed, Systems & Procedures obtains copies of Texas Attorney General Opinions online. These are the ones that are believed to affect the County and/or the County Auditor's Office.

By Nick McGee, Senior Analyst

The Ten Commandments of Audit Sampling

In the last newsletter we discussed a high level view of sampling from an internal audit perspective. The main points of the column were to introduce sampling concepts of non-statistical and statistical sampling, the Institute of Internal Auditing Standards regarding performance of work, business process risk assessment and other high level sampling information. Picking up from where we left off, we are going to continue our discussion with respect to audit sampling.

You will note in this column I have used reference materials that relate to American Institute of Certified Public Accountant (AICPA) standards and also some materials that relate to Institute of

Internal Auditing (IIA) standards. Both sources of professional guidance are helpful to understanding this area.

The objective of tests of controls is to provide evidence about the operating effectiveness of controls. The auditor performs tests of controls to support his or her assessed level of control risk. Audit sampling for tests of controls is generally appropriate when application of the control leaves documentary evidence of performance.

What is Audit Sampling? According to AICPA professional standards, Audit Sampling is "the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class."

The auditor using non-statistical sampling for tests of controls uses his or her professional judgment to consider the factors (among others):

Defining the population: Items constituting the account balance or class of transactions of interest.

Defining the period covered by the test: This period is the period that is stated in the scope letter that is sent to the elected/appointed official that is signed by the County Auditor.

The auditor also should consider the following risks (excerpted from the AICPA Audit Sampling Audit Guide) when drawing a conclusion on an account balance or transaction. Audit risk is the uncertainty inherent in performing audit procedures. The auditor must obtain evidence to draw a conclusion based on "reasonable assurance", please note the AICPA standards do not require the auditor to obtain "absolute assurance", "sampling risk is the risk that the auditor's conclusion based on a sample might be different from the conclusion he or she would reach if the test were applied in the same way to the entire population." Non-sampling risk is the risk that includes all the aspects of audit risk that are not due to sampling. An auditor could test all transactions and still fail to detect the ineffectiveness of a control. Statistical sampling explicitly measures the sampling risk associated with the sampling procedure by providing an explicit level of sampling risk about the sampling result.

Lawrence Sawyer (Sawyer) is often called the father of internal auditing. Sawyer, in his book titled, "Internal Auditing" indicates some general thoughts on sampling which he calls the "Ten Commandments of Audit Sampling", which are as follows:

1. Know the principles of scientific sampling but use them only when they best fit the audit objective.
2. Know the population and base audit opinions only on the population sampled.
3. Let every item in the population have an equal chance of being selected.
4. Do not let personal bias effect the sample.
5. Do not permit patterns in the population to effect the randomness of the sample.
6. Do not draw conclusions about the entire population from the purposeful or directed "judgment" sample, even though it does have its place.
7. Base estimates of maximum error rates on what is reasonable in the real world; try to determine at what point alarms will automatically go off.
8. Stratify where ever it would appear to reduce variability in the sample.
9. Do not set needlessly high reliability goals (confidence level and precision). Control, supervision, feedback, self correcting devices and management awareness and survey results should all be considered to reduce the extent of the audit test.

Do not stop with statistical results; know why the variances occurred.

It should be noted that additional procedures beyond sampling may be used to corroborate conclusions an auditor may make with respect to conclusion as to the effectiveness of a control by using sampling. There are some situations where sampling is not a procedure that should be used. For example, sampling is not normally an audit procedure that is used to draw a conclusion regarding adequate separation of duties. Separation of duties is the concept auditors use to describe whether there are adequate checks and balances in a process. Auditors are very concerned about the control weakness that may

be present as a result of this situation. Perhaps in a future column we can discuss the separation of duties area in more detail. The point I am making here is, there are some audit procedures that are performed without sampling.

As you may understand from the information presented, sampling serves an important purpose in the review and analysis of a control. The Audit Services Department requires the manager or director to establish the sampling methodology used. I also learned this past summer at the National Governmental AICPA Conference from one of the presenters that spoke on sampling, that managers and partners at their CPA firm also set the sampling methodology.

By Mark Ledman, MPA, CISA, Director of Audit Services

Fraud, We Have Internal Controls, Why Worry?

Internal controls provide reasonable assurance regarding the achievement of the County's objectives and the reliability of its financial activity. In designing internal controls, cost benefit constraints as well as statutory and regulatory requirements are considered. Because of these factors, no system of internal control can provide absolute assurance regarding these objectives and financial reliability.

Along with managements' responsibility for the establishment and maintenance of the internal control structure is a responsibility to deter fraud. In order to do so, one needs to understand what fraud is and how to recognize it. From the County's business perspective, fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/ or the perpetrator achieving a gain. A victim may be the County, an employee, the public, a vendor, or a customer. To understand how a fraud may take place it is important to understand a basic concept known as the fraud triangle.

- Assets sold below market value;
- Downsizing in a strong market;
- Continuous rollover of debt;
- Large number of year end transactions;
- Excessive employee turnover rate;
- Unusual fluctuations in cash balances or overdrafts;
- Compensation out of proportion with job responsibilities;
- Service contracts that result in no product or service or without deliverables;
- Missing original documents.

Behavior changes related red flags:

- Co-workers borrowing from other co-workers;
- Debt collectors or creditors showing up at the workplace;
- Gambling losses beyond ones ability to stand;
- Drinking, drug, or other personal habits;
- Easily agitated at reasonable questioning;
- Unreasonable responses to questions;
- Refusing vacations, sick leave, comp time, or promotions for fear of detection;
- Bragging about new purchases;
- Carrying unusually large amounts of cash;
- Rewriting records under the excuse of neatness.

Cash and Accounts Receivable related red flags:

- High volume of voids, discounts and returns;
- Unauthorized bank accounts;
- Unexpected activity in a dormant banking accounts;
- Complaints from customers receiving non-payment notices;
- Bank deposits and general ledger posting discrepancies;
- Unusual number of expense items, supplies, or reimbursement to the employee;
- Employee checks in petty cash for the employee in charge of petty cash;
- Large number or unjustified cash transactions;
- High volume of write-offs of accounts;
- Bank account reconciliations not performed timely.

Payroll related red flags:

- Inconsistent overtime hours;
- Overtime charged during non peak periods;
- Overtime charged for employees not normally receiving overtime wages;
- Payroll budget variations;
- Employees with duplicate Social Security numbers, names, and addresses;
- Employees with no or minimal payroll deductions.

Purchasing and Inventory related red flags:

- Increased complaints about products or service;
- Increased inventory with no sales increases;
- Unusual inventory shrinkage;
- No physical security over assets or inventory;
- Charges or purchases without shipping documents;
- Payments to vendors not on an approved vendor list;
- New vendors with high volumes of purchases;
- Purchases bypassing the normal procedures;
- Vendors without physical addresses;
- Matching vendor and employee addresses;
- Slow inventory turnover or excessive inventory;
- Vendor payments held for pick up by procurement personnel rather than being mailed.

If one suspects or discovers that fraud has occurred, the following contacts should be made:

- Contact the County Auditor's Chief Assistant – Audit Division at 713-755-6571
- Contact Management Services' Risk Management Department – Assistant Director – Claims at 713-755-6615
- Contact the District Attorney's Public Integrity Division at 713-755-8330

By Harland Maisel, Manager of Continuous Auditing



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