

The Harris County

# Auditor's Office



Newsletter



December 2010



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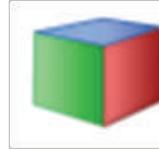
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## Implementing PROPHIX10



The Harris County Auditor's Office recently purchased PROPHIX10, a multi-user performance management software product that is used to create and manage business models. This is a user-friendly tool requiring minimal technical training.



Jeff Jackson,  
Director of Continuous  
Monitoring

PROPHIX10 addresses a variety of needs with emphasis in the following areas:

- Business modeling
- Planning
- Forecasting
- Reporting
- Multi-Dimensional Analysis
- Data mining

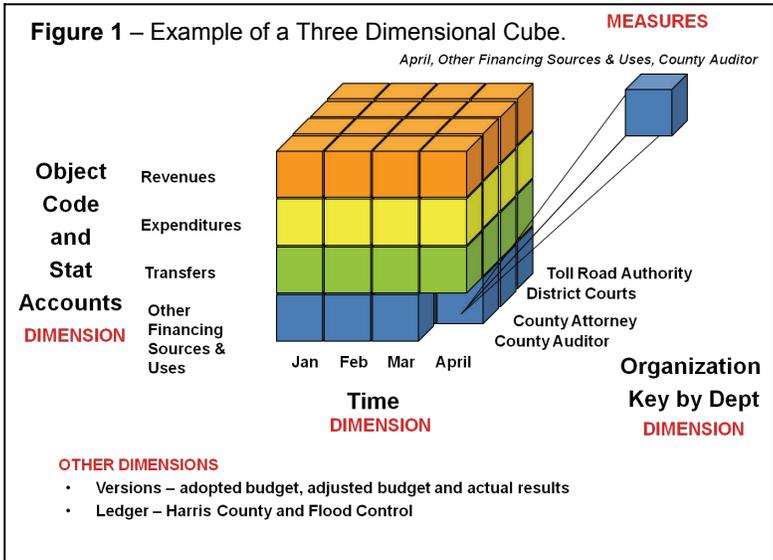
PROPHIX10 utilizes Microsoft SQL Server and Microsoft Analysis Services which are capable of creating scalable relational and multi-dimensional databases providing the end user with the ability to create complex analytical and ad-hoc queries with a short execution time. With the ability to manipulate and analyze data with ease from many different perspectives, the end user can obtain a broader picture and pulse of the organization to more readily determine problem areas and make more informed and timely decisions. This online analytical

processing (OLAP) technology provides the end user with the ability to twist and turn the OLAP cube to find the right combination of coordinates to see the information that he or she wants to see. **Figure 1** illustrates an example of a cube with three dimensions. The minimum number of dimensions needed for an OLAP cube is 2 while the maximum is 128.

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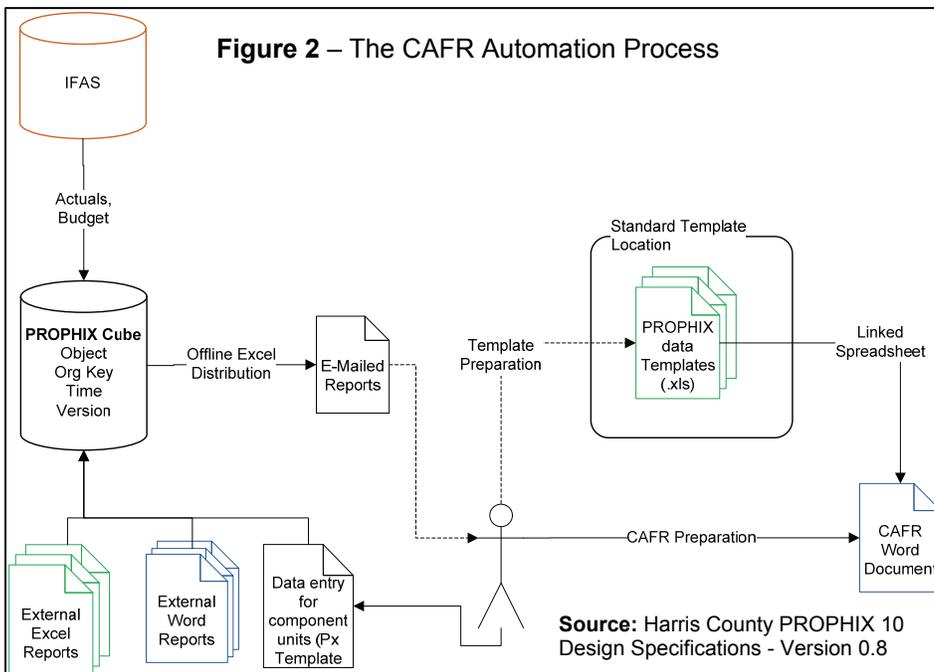




The Auditor's Office purchased PROPHIX10 primarily to automate the production of financial annual and monthly statements and analytics. A significant amount of manual work exists when creating the Comprehensive Annual Financial Report (CAFR) as well as the monthly financial reports. PROPHIX10 will be utilized to streamline and automate this process. The current project scope will utilize one OLAP cube and will interface with Harris County's IFAS system for data extraction. Reports will then be created and exported out of the system where they can be linked with the CAFR, monthly financial reports, or other reporting output. For the annual CAFR, this process is depicted graphically in **Figure 2**.

The Auditor's Office has purchased 40 end user PROPHIX10 licenses which will be made available to certain employees to utilize in the near future. These employees will have the ability to query the financial reporting cube as a tool to complete other related work assignments.

Once the generation of the CAFR and monthly financial statements utilizing PROPHIX10 is perfected, this state of the art technology can be used to create additional OLAP cubes to address analytics and other business needs.



## *Are You Up-To-Date on your Mileage & Travel Claims Knowledge?*

The Auditor's Office processed over 11,000 mileage and travel claims totaling almost \$3 million in the past year. So you can understand why it is so important that we spend a great deal of time reviewing the claims and the attached receipts. We would like to take this time to review some of the procedures that go along with these claims so we can be as productive as possible.



Denise Weaver,  
Supervisor—Accounts  
Payable

**Mileage claims:** You can always find the most current mileage reimbursement rate on the auditor's intranet website. Be sure to look for the 2011 rate in the upcoming weeks. Reimbursement for mileage must be submitted using County Auditor's Form 1241. The following items are required when submitting your claim: name, social security #, address, month mileage is covering, date of trips, destination to/from, miles driven, total miles, extension total, proper coding, authorized signature and notary seal. Parking and toll road expenses are reimbursable, but you must include the original receipt or a certification that the expense was incurred in conjunction with county business. If you do not have a receipt for parking you can receive a maximum of \$6 by completing the County Auditor's Form 1268E, Affidavit for Missing Parking Receipts Less than \$6.

Employees should submit one claim form per month. However, if you choose to be reimbursed on a less frequent basis you can include up to 3 months on one form as long as the total reimbursement is less than \$50. All mileage claim forms should be turned in on a timely basis in order to account for the expenses in the proper month. If you submit a claim form after 90 days then you must have the Department Head's approval along with a reasonable written explanation documenting why the request was not submitted within the 90 day period.

Did you know that the monthly maximum reimbursable amount allowed for in-county travel mileage is \$675? The Auditor's Office will reduce mileage claims if they exceed this limit unless you have Commissioner's Court approval for the additional amount. If you use your

personal vehicle for an out-of-county business trip, you must have written approval from Commissioner's Court and the appropriate authority before commencing on the trip. Also if driving to your destination the total mileage for the trip should not exceed coach airfare plus ground transportation to and from the same destination.

**Travel claims:** Reimbursement for a travel expense must be submitted using County Auditor's Form 1263, and have an approved Commissioner's Court letter attached along with legible detailed original receipts. We cannot accept credit card receipts that do not detail the purchases and are not supported by original receipts. If you do not have an itemized receipt for meals then the maximum reimbursement is \$10. Travel Expense Claims should be submitted within 5 days after the completion of the travel to ensure proper accounting of the expenses. Again the Auditor's Office is requiring a completed form including name, address, dates of travel, purpose of the trip, authorized signature, notary seal and proper account coding. The travel claim should include all expenses for the trip so all prepaid expenses should be listed under the date of occurrence, totaled on the prepaid total line and copies of all prepaid receipts should be included. The following are some items not reimbursable by the county: alcoholic beverages, in-room movies, additional rental car insurance, damage waivers on rental cars, upgrade in rental car size, uneconomical airfares.

You can find more information in the Auditor's Section of the Harris County website, [www.hctx.net](http://www.hctx.net), under the Accounting Procedures Manual - Procedures I.1.2 & T.1. If you should have any questions please contact the AP Department, Ronnie James 713-755-8374, Denise Weaver 713-755-1455 or Debi Ferraro 713-755-4601.

## *GASB Update Affecting Intangible Assets*

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This is effective for the County's fiscal year ending 2/28/11.



Scott Kozara,  
Manager of Capital  
Assets

GASB 51 was issued to improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. Intangible assets include most software, easements, and other assets that have a lack of physical substance, are nonfinancial in nature and have a useful life that extends beyond one year.

As a result of GASB 51, the County has clarified its intangible asset policy, which was approved at Commissioner's Court on November 9, 2010. The capitalization threshold limit for purchased software was left at \$100,000, but the capitalization threshold for internally developed software and software modification (including third party modifications) was increased from \$100,000 to \$1,000,000. This higher threshold will allow departments to work on smaller projects without maintaining the detailed records (e.g., number of hours spent per pay period by employee working on a project) needed to arrive at a capitalization amount. However, detailed records will have to be kept for projects with associated costs exceeding \$1,000,000.

Additionally, Commissioner Court approved an increase in the capitalization threshold for easements from \$1 to \$100,000. This higher threshold will reduce the number of easements that need to be tracked in our fixed asset system to be in compliance with GASB 51.

## *It's That Time of Year*

This time of year while many of you are decorating trees and wrapping presents, we are busy checking our lists. No, not the naughty or nice lists, but the lists to determine whether we have received revenue projections from all County departments. Are they too high, too low or are they just right?



Debbie Smith,  
Director of Revenue  
Accounting

This year, probably more so than others, it's very critical that we receive data that is as accurate as possible. We look at revenue to see if it's going up or down or staying flat. Why? We have the challenge of estimating how much new revenue will be available for the FY 2012 budget. Maybe I should ask Santa for a new crystal ball.

Many of you may ask why I should I estimate revenue or does revenue directly affect my budget? We ask the

departments to provide this information since they should have a better idea of activity in their offices and how it will impact money collected. In most cases, revenue in the General Fund does not have a direct impact on a department's budget. Even though this is the case, it is still very important to provide as accurate a revenue projection as possible. Each department's budget is determined, in part, by overall available resources. The more accurate an amount we can provide to Management Services for available resources, the more accurate the overall budget will be. We do not want to run the risk of overstating revenue and available resources and adopting a budget that is unrealistic. This includes money a department collects through its normal business operations. Money collected through normal business operations of a County department goes to pay for normal business operations of the County as a whole.

If every department had a budget equal to their collections, some departments such as the Tax Office would have a budget in excess of \$800 million. While other departments, such as the County Judge's Office would only have a general fund budget of approximately \$250,000. And the Sheriff's Department would only have a budget of \$283 million, almost \$100 million short of its current appropriations.

There are some situations where funds collected are restricted as to use by either statute, contract, or as a stipulation of a donation. In this scenario, the money collected could have a direct impact on the department budget designated to expend these funds. They must still be appropriated and therefore included in revenue projections provided by departments, if possible. Remember, unless specifically restricted, collections may not necessarily be used to offset specific expenditures.

Suppose a department receives a reimbursement for an expenditure that was previously incurred. Can the department "keep" the funds or do they become part of the overall general fund? The answer is yes and no. If the original expenditure was incurred within the current fiscal year, then yes the funds received may be credited back to the expenditure coding in which the original expenditure was incurred. If however, the expenditure was incurred in a prior fiscal year, from a prior budget, the money must be credited to a revenue account in the same fund in which the expenditure was incurred.

If funds received after the budget is adopted are from a new, unanticipated source, they may be considered for supplemental revenue certification. If this is the case, the County Auditor's Office will submit a supplemental revenue certification to Commissioner's Court. A

budget may be adopted for the purpose of spending the funds received. More information about this scenario and others above may be obtained by referring to County Auditor Accounting Procedure A.19 "Revenue Recognition Policy".

We cannot do this alone. We need each department's help in determining how much revenue will be available next year. We appreciate everyone's time and effort in this process. It helps in so many ways.

Maybe next year I can have visions of sugar plums dancing in my head.

## *Managing Accounts Receivable In An Uncertain Economy*

Invoices represent amounts that are owed to the County for services, sale of assets, fees and various other activities or transactions. An invoice that has not been paid is considered an accounts receivable to the County. In an uncertain economy, managing accounts receivable should be one of the top priorities for the County, as it should be for any type of entity. This does not mean that new concepts or strategies need to be developed.



Mel Trammell,  
Director of Grants and  
Accounts Receivable  
Accounting

In an uncertain economy it is important to be even more diligent in applying universally recognized best practices to our unique environment.

In all but a few exceptions, the Accounts Receivable Section of the Auditor's Office is responsible for ensuring that the accounts receivable function for the County is effectively managed. Adequate coordination and communication with County Departments is necessary for the Accounts Receivable Section to provide this service to all County Departments. By working with the Accounts Receivable Section, County Departments benefit by utilizing the resources provided by the Auditor's Office and IFAS to handle the various tasks that must be done related to their receivables and duplication of effort is minimized.

Assistance is needed from all County Departments in performing the following tasks related to accounts receivable effectively and efficiently:

### **Identification of Receivables**

The Accounts Receivable Section monitors Commissioners Court agendas to identify contracts and other items that could potentially result in an amount owed to the County. However, there is the risk with this approach that receivables will not be identified by the Accounts Receivable staff. Therefore, it is critical that County Departments inform the Accounts Receivable Section when entering into a contract, or, modifying an existing contract that might result in money owed to the County.

### **Preparing and Sending Invoices**

During Fiscal Year 2010, the Accounts Receivable Section generated over 57 thousand invoices totaling over \$324 million. A billing schedule is created for each billing. When the billing dates or frequency is at our discretion, the billing schedule selected will be one that is optimal to the County. The billing schedule is monitored to ensure that all identified billings are generated in a timely manner. In most cases the invoices are mailed by the Accounts Receivable Section staff. The Accounts Receivable Section staff generally enters the invoices into IFAS, although there are situations in which it has proven to be more efficient and advantageous for the County Department to enter a receivable batch into IFAS. In addition, departments utilizing this approach become more comfortable using IFAS as a tool to help monitor their receivables. We are happy to provide the access for County Departments to enter receivable batches in IFAS when it is more efficient and practical.

### **Keeping Track of Receivable Data**

The key to keeping track of receivables is having them in IFAS where they can be monitored and payment can be applied to invoices by the County Treasurer's Office. By using IFAS, County Departments are spared the additional work of keeping track of receivables by some other means. In addition, the Accounts Receivable Section helps monitor the receivables and ensures that the data is properly maintained. Each month the Accounts Receivable Section sends a listing of invoices billed during the month to County Departments for review to ensure that the billings were appropriately prepared.

### **Collection Efforts**

In accordance with Accounting Procedure A.28, Accounts Receivable Policy Statement, County Departments are to be involved in collecting accounts receivable originated by them.

The Accounts Receivable Section supports the collection efforts of County Departments by monitoring receivables, sending past due notifications if not paid within 90 days of the invoice date and providing

invoices to the County Attorney if not paid within 30 days of sending the past due notification. The Accounts Receivable or the County Department has contact with the party that owes the County prior to sending past due notifications. Since implementing this procedure in August 2009, the Accounts Receivable Section has sent past due notifications for 404 invoices totaling \$620,898. 163 of these invoices were paid within 30 days of the notification and the remaining 241 invoices totaling \$222,879 were turned over to the County Attorney. Of the total turned over to the County Attorney, \$116,547 was collected leaving a receivable balance of \$106,332.

In addition, the Accounts Receivable Section continues to coordinate collection efforts with the County Department if the receivable is due from a governmental entity as these entities will pay unless there is an issue to be resolved or an oversight.

Accounting Procedure A.28 requires that County Departments take the appropriate action regarding delinquent accounts to include, but not limited to, notifying the customer of delinquent accounts, assisting in resolving issues, terminating service, and providing the County Attorney with the information to collect delinquent accounts. To enhance their abilities in these areas, departments are encouraged to request access to accounts receivable data in IFAS. The following is some of the information that can be made available to departments:

- Aged Delinquent Customer Accounts Report
- Customer Account Activity – Detail Level
- Customer Account Activity – Summary Level
- Open/Paid Invoices
- Customer Account History, etc.

The Accounts Receivable Department will provide brief training sessions to departments interested in accessing this data.

## *Fixing Your Assets in Inventory*

Have you ever asked yourself “why do we do this?” It’s a question many are asking as we examine what functions are necessary and which are dispensable. Many times you will find that the reasons we do things are because they are required by state statutes.



Wayne Comeaux,  
Manager of  
Compliance Audit

Once a year your department receives an e-mail from the County Purchasing Agent informing you to verify your inventory and complete County Auditor's Form 3368, indicating that the inventory records are current and correct. You receive this notice and take this action because Local Government Code §262.011 requires purchasing to file with the auditor an inventory of all property on hand belonging to the county.

The code also provides for the County Auditor to examine the inventory and make an accounting for the inventory. The Compliance Audit Department of the Auditor's Office reviews the inventory of selected departments and issues reports of our findings.

So if fixing your assets in the inventory records is required by statute, what should you do to verify your inventory and prepare for a compliance review by the Auditor's Office? While there are several different approaches that can be taken, here are some actions you can take to make your inventory process a little more efficient:

- As the e-mail from purchasing suggested, you will need to run an IFAS CDD report to see your inventory. One method is to run the report FA\_35\_DNLD which creates an Excel file, but there are other reports available. You may want to check IFAS training classes and manuals for specifics.
- If you have a large enough staff, separate the inventory duties. Just like you don't want the clerk counting the cash to be the same one who prepares the bank deposit slip, the staff member locating the inventory should not be the one who has inventory update capability in IFAS.
- If you have a large department, look for the important items first. Items that are over \$5,000 are considered “capitalized” and are reported in the County's financial statements. We call these items “Category I” and they must be recorded on the inventory listing. Next

important are the Category II items, which are those over \$500 and under \$5000 and have a unique serial number. Those also must be on the inventory listing. Then find the remaining items on the list. For a more complete guide as to what should be on the inventory listing, please refer to Accounting Procedure A.1-1, Attachment "A".

- If your department is located in multiple places in the county, you may want to sort the Excel file you created by location. That way you can cover one floor or building completely first before moving on to another. This is why it is always a good idea to keep the locations of the items accurate. More on that later.
- Sometimes the inventory listing is not complete. As you are going through your department and you see an item that should be on inventory but is not, investigate to see if the item is miscoded to either an incorrect code or department. Remember that while not all assets in your department are required to be on the inventory listing, Category I and II items are required.

A quick scan of the inventory list can help you quickly spot obvious mistakes. From experience, we have noticed that certain types of inventory errors occur more frequently than others. For instance:

- Sometimes if one purchase order was used to acquire multiple quantities of a particular piece of equipment, the items will need to be separated on the inventory listing. When several computers are ordered on the same purchase order, we have seen one computer listed for \$10,000, when in reality there were ten \$1,000 computers.
- If items are not separated on the inventory listing, serial numbers cannot be reflected. This makes tracking a specific item, such as a computer, a much more difficult task. Missing or inaccurate serial numbers from the inventory listing makes the reconciliation process very difficult and time consuming.
- Sometimes items appear twice on the inventory listing. This can occur when a department creates a record to dispose an item without realizing that the item was already on the inventory list and didn't need to be created.
- If items were miscoded at the time of purchase,

they may not appear on the inventory listing. We have seen items coded to office supplies when they should have been coded to equipment. Had the coding been correct at the start, they would have populated the inventory listing.

Simple perpetual maintenance of your inventory will help make your annual inventory run more smoothly. Therefore, during the year:

- If an item has been lost or destroyed, request Commissioner's Court remove the item from inventory using County Auditor's Form 3351.
- If an item is no longer needed and you want to transfer it to Purchasing surplus, use the FASITE screen in IFAS.
- If you change the location of the asset, update the new information in IFAS using the FASITE screen.

Of course to perform functions in IFAS, proper security must be obtained and the staff performing the functions should have proper IFAS training. An extensive Fixed Assets and Inventory Control "On-Demand" class is available on the County Auditor's intranet web site.

By following these tips, you will be able to perform your inventory much more efficiently, the auditor's review should go much more quickly, and you will have more time to perform all of those other functions the statutes require.

## *Changes, Legislation Can Bring Many*

The Texas Legislature will convene for the 82<sup>nd</sup> Regular Session on January 11, 2011, but pre-filing started on November 8, 2010. Numerous bills are introduced in every session of the Texas Legislature that directly or indirectly impact Harris County. The Systems and Procedures Section of the Harris County Auditor's Office reviews the bills as they are introduced and applies the following criteria to determine which legislation it monitors:



Don McGee,  
Sr. Procedures  
Analyst III

- Whether a proposed bill affects fees and/or fines schedules;
- Whether a proposed bill has any financial impact on the county;
- Whether a proposed bill affects any reporting requirements;
- Whether a proposed bill affects any auditing requirements;
- Whether a proposed bill strengthens or unduly burdens the county auditor's office;
- Whether a proposed bill affects payroll in any manner; and
- Whether a proposed bill changes the responsibilities of any statutory county office.

Bills are actually reviewed online utilizing Telicon, the County's Legislative vendor (no more paper copies). Proposed bills are inserted on a "track pick list" within Telicon. This pick list is distributed to the Auditor's Office Management to determine if they would like to personally track a bill. If they see any bills that they would like to be tracked they notify Systems and Procedures of the bill number and the bill is put on their individual tracking report. Their tracking reports are distributed when any changes or movement in the bill occurs.

Additionally, our office will notify the Harris County Legislative Services Department of any bill that we think will have a negative effect upon the County or any bill that we think will help the County. Their office actually pursues trying to kill the bad bills or insuring that the good bills pass.

The bills are tracked until they fade away or until they are passed into law.

Also, within the last year federal bills are also reviewed and tracked as needed. For federal bill we use "govtrack" @ <http://www.govtrack.us/>.

Systems & Procedures also receives notification of new and requested Texas Attorney General Opinions directly from the Attorney General's Office. Copies of old Attorney General Opinions are obtained through our Westlaw software as requested by various sections within the Office.

## *Preparation, Risk Evaluation, Evaluating the Plan and Appropriate Testing of the Plan is the Key to Business Continuity Management.*

As many people know, the traditional end of the hurricane season is November 30 of each year. One newsman reported recently that 2010 was an active hurricane season for the world with 26 named storms and six major storms. This may seem surprising as the Houston area only experienced minor effects of these storms. *Although hurricane season 2010 is behind us, it is a good time to review your Department's business recovery plan for personnel changes, information system or operational process updates, etc.*



Mark Ledman,  
Director of Audit  
Services

Business continuity management is a continually evolving area as technology continually changes which can effect changes in business processes and the manual processes that are needed to recover from information systems interruptions. Additionally, there are new types of risks that surface every day. One such risk that comes to mind with cold and flu season upon us, is the risk of a pandemic or outbreak of an illness that could impact a significant number of persons or geographic area. The H1N1 (A) flu pandemic or severe acute respiratory syndrome (SARS) are examples of illnesses that impacted a group of people. At first glance, you may believe that your current business continuity plan would address this type of risk. However, for example as you examine your business continuity plan and consider the potential impact of a hurricane, the focus tends to be more on loss of equipment and buildings, access to information systems and data, personnel's ability to access data, etc. When considering the risk of a pandemic, the largest risk is the loss of key personnel for a long period of time. The information systems and data are available.

In conclusion, preparation, risk evaluation, evaluating the plan and appropriate testing is the key to business continuity management. Business continuity plans need to be evaluated and updated on an ongoing basis to minimize business interruption.

## *The Basics*

For those of you that do not know, the Auditor's Audit Division performs its Audit engagements under the guidance of the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing (Standards). These Standards provide the framework for the basic requirements of internal auditing and the evaluation of its performance. They are divided between Attribute Standards – guidelines defining the purpose, authority, and responsibility; and Performance Standards – guidelines for conducting audits.



Harland Maisel,  
Director of Continuous  
Auditing

Within the Performance Standards are a number of principles that define the Audit Division's function and activities. These principles address Governance, Risk Management, and Control (commonly referred to as GRC by the IIA). These principles also tie into the Internal Control Structure (ICS) used in many of the County's business processes. The ICS's primary purpose is to provide reasonable assurances in attaining the County's or a department's objectives.

The ICS consists of five interrelated components that help identify and mitigate risks that jeopardize the attainment of organizational objectives. ICS components include:

- Control environment – the organization's mind-set or attitude;
- Risk assessment – the organization's identification, analysis, and management of threats;
- Information and communication systems – the ability to share information in a manner and timely fashion that allows the execution of responsibilities;
- Control activities – the policies and procedures implemented to carry out management's directives;
- Monitoring – the assessment of internal controls performance over time.

Governance relates to the Control Environment component of the ICS and covers the system(s) or processes (structure) used to direct, influence, and administer organizational activities and behaviors in attaining its objectives. Governance covers the establishment, communication, implementation, and

enforcement of philosophies and attitudes in areas such as:

- Ethical values;
- Job competencies, skill sets, and knowledge requirements;
- Operating styles addressing
  - Risk acceptance and management
  - Financial reporting, information processing, accounting functions, and personnel;
- Organizational structure to provide planning, executing, controlling, and reviewing of overall objectives;
- Delegation of authority and responsibility hierarchies to align the assignment of operating activity authority and responsibility with reporting relationships and authorization;
- Employment policies and practices dealing with items such as recruitment, development, compensation, and discipline.

Because of County's makeup or structure, there are multiple groups with different levels of responsibilities in the fulfillment of the Governance role. This ranges from Commissioners Court's global role for the County's overall direction and accountability to the individual roles within the offices of elected and appointed officials for their specific functions. It should be noted that because of statutorily defined responsibilities of the County Auditor, not all aspects of Governance are covered by the Audit Division (primarily those not relating to financial activities).

The Risk Management aspect of GRC encompasses the Risk Assessment component of the ICS. Risks representing potential events or conditions that may affect the achievement of objectives typically occur within one of the following areas:

- |                        |                   |
|------------------------|-------------------|
| • External Environment | • Operational     |
| • Legal                | • Information     |
| • Regulatory           | • Human Resources |
| • Governance           | • Financial       |
| • Strategic            | • Technology      |

Upon identification, risks are assessed based on the likelihood to result in a loss or negative impact and the severity or the extent to which the impact will be felt. Decisions are then deployed based on the risk acceptance level (accept the risk and take minimal or no action, pass the risk on to a third party – insurance,

implement controls to mitigate the risk, or any of a combination). The monitoring of the risks and acceptance level actions are used to determine the adequacy and effectiveness of the Risk Management role.

The Control portion of GRC covers the last three components of the ICS. Different manual and automated systems are utilized to gather, process, maintain, and disseminate information. Control objectives relating to the information systems and functions are identified (typically covering – authorizations, accuracy, completeness, validity, efficiency and effectiveness, segregation of duties, safeguarding assets, asset accountability, and regulatory compliance) and Control Activities, policies and procedures, are implemented to address the risks identified during the Risk Management role. Such Control Activities generally relate to items such as:

- Performance reviews and analysis (i.e. budget to actual comparisons, comparisons of operational data to financial data, or validation of internally produced data to external sources);
- Information processing includes those performed to check the accuracy, completeness and authorization of transactions;
- Physical controls (i.e. physical access to assets, asset records, data files, or computer programs);
- Segregation of duties (the assignment of responsibilities for authorizing, recording, and custody to different individuals).

Finally, Monitoring steps are implemented to determine the effectiveness and efficiency of the ICS. These steps provide for the ongoing assessment and revision of the ICS.

## *Fringe Benefits*

As defined in the tax code, “*fringe benefits*” can be any property or service that an employee receives besides regular compensation. Examples include professional association dues, free coffee, Christmas ham and employer provided vehicles. Although many fringe benefits may not be subject to taxation, certain requirements set forth in the Internal Revenue Code must be met in order for such benefits to be excludable from ordinary income but deductible by the employer.



Linda Dougherty,  
Assistant Director of  
Payroll Audit

In general, fringe benefits are taxable to employees as wages unless a specific exclusion is provided in the

Code. Fringe benefits are generally valued at fair market value for tax purposes. Some benefits qualify for exclusion from the employee's taxable income. Some benefits can be either taxable or non-taxable income, depending upon the use of the benefit. Generally, any personal use of an employer-provided benefit is subject to taxation.

### TAXABILITY OF CASH

Cash gifts, prizes and awards given to employees constitute gross wages subject to federal and FICA taxation. Cash and cash equivalent fringe benefits (gift card, credit card, gift coupon), no matter how little, are never excludable as fringe benefits.

**There is not an approved CDH (code) to do a gross up for gift cards, gift coupons and any non-cash gift , therefore, departments should not purchase and distribute these items**

### NON CASH GIFTS

Non-cash gifts, prizes and awards given to employees are subject to federal and FICA taxation, unless the following items qualify as:

- De minimis Fringe Benefit---considered as small that accounting for the benefit would be unreasonable or administratively impracticable. (Coffee and doughnuts)
- Length of Service Award---employee has at least five years of service, there is a meaningful presentation of the award and the award limit is \$400.00 per year

### IMPUTED INCOME

This is the method Payroll uses to add the value of cash/non-cash compensation to your taxable wages in order to properly withhold income and employment taxes from the wages. Imputed income is reported on Form W-2. Imputed income is not subject to federal income tax withholding rules. Examples of imputed income are: Group term taxable life insurance coverage over \$50K and personal use of employer-provided vehicle.

### EMPLOYER-PROVIDED VEHICLES

Although the business use of a company-owned vehicle is excluded from taxable income (based upon the employee's documentation of the business use), the personal use of a company vehicle is taxable compensation. Federal wages must be reported and social security and Medicare tax must be withheld on the value of the personal use.

### DID YOU KNOW:

- The first \$50,000.00 of group term life insurance coverage is excluded from income, but the value of insurance over \$50K is

taxable. For those who have GTL greater than \$50K, look for the imputed income on your final paycheck this year, dated 12-22-10.

- Harris County provided health insurance coverage paying part of the premiums for its employees is the largest fringe benefit, while the employees appreciate no taxable income.
- Cell phones are removed from the definition of listed property in the federal Internal Revenue Code. Thus, under the provision, the heightened substantiation requirements and special depreciation rules that apply to listed property do

not apply to cell phones. The provision is effective for taxable years ending after December 31, 2009.

If you are interested in IRS rules on Fringe Benefits, please refer to IRS Publication 15-B.

## County Auditor's Office Employees Service Anniversaries

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

<b>September</b>	<b><u>Length of Service</u></b>	<b>October, continued</b>	<b><u>Length of Service</u></b>	<b>November, continued</b>	<b><u>Length of Service</u></b>
Reginald Thomas	27	Erma Warner	11	Jennifer Pham	6
Lula Bookman	25	Minal Kanvinde	10	Jacqueline Roney	3
Sharlene Cate	23	Jimmie Young	8	She-Neese Spencer	2
Nadine Schaefer	21	Connie Sanders	7	David Clark	2
Synithia Jacquet	18	Winfred Iles	5	Latisha Shivers	2
Jeraine Root	14	Tommy Rose	4	Christina Stumph	2
Kimberly Lewis	14	Paul Broyles	2	Nohemy Vasquez	2
Toya Edwards	10	Zanobia Rhodes	2	Tera Thompson	1
Martha Abdullahad	7	Robin Alewine	2	Denise Weaver	1
Martha Rowell	7	Jeff Jackson	1		
Gary Salamone	6	Scott Kozara	1	<b>December</b>	
Kimberly Jones	4	Edgar Serrano	1	Steven Garner	25
Valerie Robbins	4			Joan Lora	20
Maria Mares	2	<b>November</b>		Linda Cowen	9
Tiffany Orandi	2	Donald McGee	33	Susan Wheeler	9
John Garcia	1	Julie Weller	26	Lisa Harper	5
Anita Williams	1	Wanda Dewald-Green	21	Stephen Shields	5
		Tamara Oliver	18	Don Tan	5
<b>October</b>		Marlene El	18		
Janice Mitchell	30	Connie Kirkpatrick	14		
Richard Rhoads	20	Paul Wilden	10		
Ronald Hamilton	17	June Davis	9		

*Congratulations to each of YOU!!!*



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