The Harris County

Auditor's Office

Newsletter

August 2009

Auditor's Office

Barbara J. Schott, CPA
County Auditor

Accounting Division

Mike Post, CPA
Chief Assistant

Carol Market
Director
Financial Accounting

Debbie Smith
Director
Revenue Accounting

Mel Trammel
Director
Grants/Accounts Receivable

Ronnie James
Director
Accounts Payable

Audit Division

Steve Garner, CPA
Chief Assistant

Mark Ledman
Director
Audit Services

Harland Maisel
Director
Continuous Auditing

Janet Norstrom
Director
Systems & Procedures

Richard Foisner
Director
Payroll Audit

Wayne Comeaux
Manager
Compliance Audit

The Stimulus Bill—Considerations for Harris County

Mike Post, CPA
Chief Assistant County Auditor—Accounting Division

On February 17, 2009, President Obama signed a massive economic stimulus bill known as the American Recovery and Reinvestment Act (ARRA). The stated intent of ARRA is to target *"investments towards key areas that will save and create good jobs immediately, while laying the groundwork for long-term economic growth."*

Harris County has applied for a number of ARRA grants. Aspects of ARRA that will potentially impact Harris County include:

1. The act requires unprecedented levels of transparency, oversight and accountability. The County will be required to report the uses and public benefits of ARRA grants in a timely manner and on a public website. Various federal Offices of Inspector General (OIGs) have been given the responsibility to perform quality control reviews.
2. The act includes special provisions such as requirements to "Buy American", comply with Davis-Bacon Act wage rates, and that recipients are registered in the Central Contractor Registration (CCR) database and have a DUNS number.
3. ARRA funds must be accounted for separately from other grant funds. The County Auditor's Office has developed a protocol for identifying ARRA funded grants within the County's financial system.
4. The act includes whistleblower protections for employees to report suspected misuse of ARRA

(Continued on page 10)

INSIDE THIS ISSUE:

Accounts Payable Invoice Approvals – An Important Step in the Invoice Payment Process

A typical process involving paying a supplier or service invoice begins at the arrival of the invoice at the door of the Auditor's Accounts Payable department. The Accounts Payable claims processor must determine the validity of the invoice and begin the process for payment by imaging the document and electronically transmitting the invoice approval via the IFAS Accounts Payable system. Technology has transformed a once cumbersome manual payment process into an automated invoice payment workflow. The IFAS system provides efficient automation of the invoice approval process and effective monitoring tools which are available to Accounts Payable staff, and department users. Invoice status and delinquencies are easily identified and are monitored with appropriate action when necessary.

Debi Ferraro
Supervisor—Accounts Payable

All department users may not be aware of Texas Government Code, Title 10, 2251.021 *".. a payment by a government entity under a contract executed on or after September, 1987, is overdue on the 31st day after the later of: (1)The date the government entity receives the goods under the contract, (2) The date the performance of the service under the contract is completed; or (3) The date the governmental entity receives an invoice for the goods or service."* (See Auditor's Intranet Accounting Procedures – Processing and Contesting Invoices.)

Translation – there is a 30 day payment provision; once the invoice is received by the Auditor's Accounts Payable department, the clock starts running, and it is the duty of the Accounts Payable claims processor and user department to work together so that the invoice is paid accurately and promptly. This process is made more challenging because payments must first be approved in Commissioners Court before checks and direct deposits may be released to the vendors. Departments must also keep in mind that the payment due date is calculated from the date the invoice is received by Accounts Payable. Therefore, if the department receives an invoice directly from the vendor, it must be forwarded to Accounts Payable as quickly as possible to expedite payment.

All invoices received by Accounts Payable are *"clocked in"* by the mail desk. This *"clock-in date"* is important – the invoice due date will be determined by the date the invoice is clocked in. The Accounts Payable claims processor will enter this date in the IFAS system, and the due date will be automatically assigned. Consideration of the Commissioners Court meeting dates in relation to the payment due date of the invoice is an important step in the process. (For additional Reference – please see the Invoice Processing Schedule for 2009 via the Auditor's Intranet Site under Accounting Division – Accounts Payable.)

After the Purchase Order invoice is imaged and entered into the IFAS system, the invoice is electronically forwarded to the user department for review and approval. User departments have a variety of IFAS Accounts Payable CDD reports at their disposal to identify invoices awaiting their approval (see IFAS AP CDD Report AP:Invoices in Approval), as well as problem invoices that cannot be processed (see IFAS AP CDD Report AP:Invoice Listing by Department), and delinquent invoices (AP Delinquent Invoices by Department).

The IFAS automated invoice approval is an easy step. However, it actually represents an important responsibility of the department users. By approving the invoice, the department is confirming the goods or services were satisfactorily received and it is OK to pay the vendor referencing the purchase order number, coding, and the amount entered in IFAS.

Failure to pay the invoice, if the goods were satisfactorily received and invoiced, can lead to serious repercussions. Interest may accrue for the past due amount, vendor/county relationships may be affected, and the increased expense of administration and management of delinquent invoice issues with a department are detrimental to the county as a whole. Departments, and sometimes the entire county, may be *"cut-off"* from receiving goods and services due to delinquent accounts. Accounts Payable monitors delinquent invoices in the IFAS system on a daily basis, and user departments will be contacted if delinquencies exist. Department heads will be notified if delinquencies are not promptly resolved.

Of course, the user department should not approve an invoice for payment if the goods or services were not satisfactorily received, or if the invoice is in error. Texas Government Code, Title 10, 2251.002 requires that invoices relating to purchase orders that are incomplete or inaccurate must be disputed within 21 days of receipt of the invoice. The user department must not approve, and may electronically refer back an invoice in IFAS that was not properly received or is in error. The Accounts Payable claims processor must be promptly notified of any invoice that is in dispute. The Purchasing Department's buyer must also be made aware of an unsatisfactory receipt, product, or service issue with a vendor.

In summary, the invoice approval process is important and a vital responsibility of the Accounts Payable staff and the user departments. The IFAS Accounts Payable system provides information to monitor and identify invoices in approval or in delinquent status. Accounts Payable/user department communication is also key to a successful intra-department relationship. Departments may contact their Accounts Payable Claims Processor or Accounts Payable management (Ronnie James, Director – 713-755-8374, Debi Ferraro, Supervisor – 713-755-4601, or Pat Stokes, Supervisor 713-755-1455) for more detailed information and guidance concerning the Accounts Payable process, Auditor's Procedures, and the IFAS system.

What is GASB? & Some Recent Updates & Implementation of New Standards

Greg Lueb
Accountant VI

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and approves standards of accounting and financial reporting for U. S., state and local governments. The GASB is not a government entity. It is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments. The GASB standards are not federal laws or regulations and the organization does not have enforcement authority. Compliance with GAAP is enforced through the laws of some individual states. Also, independent auditors are often engaged by governmental entities to express an opinion that the financial statements present fairly in all material respects the financial position of the government and are in conformity with generally accepted accounting principles.

Implementation of New Accounting Standards

In Fiscal Year 2009 the County implemented the following new standards:

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* ("GASB 49"), establishes accounting standards for pollution remediation obligations regarding existing pollution areas. Implementation of GASB 49 is reflected in the statements and note disclosure of the 2009 CAFR. The County is subject to numerous Federal, State, and local environmental regulations. GASB 49 establishes standards for the accounting and reporting of obligations incurred to address current or potential detrimental effects of existing pollution.

GASB Statement No. 50, *Pension Disclosures- an amendment of GASB Statements No. 25 and No. 27* ("GASB 50"), more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to the financial statements. Implementation of GASB 50 is reflected in the note disclosure of the 2009 CAFR. This pronouncement is designed to improve the disclosure of the cost of pension and post retirement benefits.

In future fiscal years, the County will implement the following new standards:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* ("GASB 51"), establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. GASB 51 will be implemented by the County in fiscal year 2011. Intangible assets include easements, water rights, timber rights, patents, trademarks, computer software, etc.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* ("GASB 52"), establishes consistent standards for the reporting of land and other real estate held as investments be reported at their fair value. GASB 52, if applicable to the County, will be implemented in fiscal year 2010.

GASB Statement No. 53, *Accounting and Financial*

Reporting for Derivative Instruments ("GASB 53"), addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB 53 will be implemented by the County in fiscal year 2011. Common types of Derivative instruments used by governments include interest rate swaps, commodity swaps, interest rate locks, options (caps, collars, & floors) forward contracts, and futures contracts.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"), establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB 54 will be implemented by the County in fiscal year 2012.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 55"), is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. GASB 55 will be implemented by the County in fiscal year 2010.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* ("GASB 56"), is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. GASB 56 will be implemented by the County in fiscal year 2010.

The GASB issues standards and other communications that result in decision-useful information for users of government financial reports. The County's Comprehensive Annual Financial Report (CAFR) is reported using GASB standards.

Keeping Up With ARRA Funding

Mel Trammell
Director of Grants and Accounts Receivable Accounting

It is anticipated that Harris County will receive a significant amount of grant funding through the American Recovery and Reinvestment Act of 2009 (ARRA). While ARRA provides the County with funding opportunities, it also will require a greater level of coordination between all County departments, the Management Services Grants Coordination Section (GCS), and the Auditor's Office Grants Accounting Department (Grants Accounting). Therefore, it is critical that County departments are aware of the following requirements for ARRA grants:

I. **<u>Grant Applications/Awards</u>**

- Inform the Grants Coordination Section of any grant opportunities that they would like to pursue.
- Provide finalized grant applications and notifications of awards from granting agencies to the Grants Coordination Section and the Auditor's Office Grants Accounting Department.
- Provide grant amendment award notifications or proposals from granting agencies to the Grant Coordination Section and the Auditor's Office Grants Accounting Department.

II. **<u>Agreements Awarded By Harris County</u>**

- Make the Vendor/Sub-recipient determinations on all purchase orders and contracts awarded by Harris County that involve ARRA grant funding.
- Inform recipients of their reporting status and document at the time of sub-award and the time of disbursement of funds, the federal award number, the CFDA number and award amount..
- Ensure that all recipients of ARRA funding through Harris County are registered in the Central Contractor Registration (CCR) database and have a Dun and Bradstreet Data Universal Numbering (DUNS) number.
- Ensure that the Buy American provision of the act is followed for all ARRA funds awarded to and by Harris County (Sub-recipient, Vendor,

and direct purchases) and that all agreements involving ARRA funding include specific Buy American language if applicable.

- Ensure the payment of Davis-Bacon Act wage rates to laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by ARRA funding. And, ensuring that this requirement is included in all subawards.
- Ensure that all requirements included in the agreement awarding funds to Harris County are included in subawards made by Harris County as appropriate or required in the award agreement.
- Award and distribute funds in a prompt, fair and reasonable manner.
- Use funds for authorized purposes and have process in place which avoids fraud, waste, error and abuse.

Avoid unnecessary delays and cost overruns.

III. **Review/Approval/monitoring of Grant Expenditures**

- Ensure that all expenditures are compliant with the terms of the grant agreement.
- Ensure that grant budgets are not exceeded.
- Absorb excess/disallowed expenditures in your General Fund budget or in another budget available to your department.

IV. **Harris County Reporting**

- Provide programmatic information for all reports to GCS.
- Provide quarterly programmatic information to GCS within 10 days after the end of the quarter.
- Submit corrections to programmatic data in quarterly reports to GCS within 30 days after the end of the quarter.
- Review and approve financial reports prepared by Grants Accounting.
- Establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all programmatic data.

V. **Sub-recipient Monitoring/Auditing**

- Monitor Sub-recipients in accordance with the monitoring steps outlined in the grant application and/or contract.
- Develop a methodology for conducting quality review of Sub-recipient data.
- Exercise the appropriate discretion in determining the approach for identifying material omissions or significant reporting errors in regards to Sub-recipient reporting.
- At a minimum, establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all programmatic data and Grants Accounting should do the same for all financial data.

VI. **Audits of Individual Grants**

- Inform Grants Accounting and GCS whenever an ARRA grant awarded to Harris County is being audited by a State or Federal agency and the status of audits that are underway. Provides copies of any reports that are issued to the Auditor's Office and GCS.

VII. **Harris County ARRA Website**

- Provide accurate programmatic information to be posted on the website.

VIII. **Retention of Documentation**

- Retain all documentation related to ARRA grants for a period of time that meets or exceeds the record retention requirements imposed by the applicable Grantor Agency.

IX. **Single Audit**

- Maintain records that identify adequately the source and application of ARRA funds.
- Separately identify to each Sub-recipient and document at time of sub-award and at the time of disbursement of funds, the federal award number, CFDA number and amount of ARRA funds.
- Require their Sub-recipients to include ARRA information on their SEFA.

Should you have any questions or concerns, please contact Mel Trammell or Paul Wilden with the Auditor's Office Grants Accounting Department at (713) 755-3584.

Custodial Bank Accounts

Michael O'Barr, Supervisor—Bank Reconciliations

Custodial accounts are typically used for non-County funds held in a "custodial" capacity, separate from County bank accounts. County departments maintaining these accounts are responsible for the funds, for recording all deposits, disbursements, adjustments, and for reconciling the bank account monthly to the appropriate subsidiary ledger. The Auditor's Office Bank Reconciliation section further reconciles these accounts and their subsidiary ledgers to the County General Ledger.

The Auditor's Office is enacting new procedures that will enable us to record departmental receipts and disbursements within the month that they occurred. This is an easy procedure that will keep our General Ledger on a real-time current basis.

Going forward, the County Auditor's Accounting Procedure C.8 will require departments to submit County Auditor's Form #324C, "*Custodial Bank Account Monthly Summary Report*" by the 5th day of the month following the month for which the report is prepared. This is simple – painless – doesn't even require receipt of the bank statement. Simply fill out the total receipts and disbursements and forward this form to County Auditor - Financial Accounting and County Auditor - Revenue Accounting either electronically or by inter-office mail. Each department should easily have a record at month-end of their total receipts and disbursements.

County Auditor's Form #324A, "*Custodial Bank Account Monthly Reconciliation Report*" along with copies of the bank statements, deposits in transit, outstanding checks, deposits, issued checks, and subsidiary ledger balances will remain due to the County Auditor – Revenue Accounting by the 20th of the following month.

Together we can easily perform this function and provide a more current picture of the County's financial position.

New Court Cost and Fees

Wayne Comeaux, Manager of Compliance Audit

The conclusion of the 81st Regular Legislative session in Austin brings to us, as it does every two years, new court cost and fees that effect Harris County collections. Below is a brief summary of some of the signed legislation that adds or changes cost assessed by various courts or offices. This summary is based on the State Comptrollers' list of changes in fees and fines published in the Texas Register at http://www.county.org/resources/legal/pdf/courtcostsfees.pdf

- HB 3637 Section 1 effective January 1, 2010 amends Code of Criminal Procedure §102.0169. It adds a new $4.00 technology fee for the County and District Courts.
- HB 3637 Section 5 effective January 1, 2010 amends Local Government Code §113.153(a). It increases the current Civil Legal Services fee from $2.00 to $6.00 in the Justice of the Peace Courts and from $5.00 to $10.00 by the County Clerk.
- HB 3637 Section 8 effective January 1, 2010 amends Government Code §51.708 by adding a filing fee of no more than $10.00 for court record preservation by the District Clerk and County Clerk.
- SB 375 Section 1 already in effect amends the Transportation Code §550.065 by setting accident reports at $6.00 and certified accident reports at $8.00.
- SB 1685 Section 1 already in effect amends Government Code §51.305 by allowing Commissioner's Court to add a filing fee of no more than $5.00 for District Court records archive.
- SB 61 Section 1 effective June 1, 2010 amends Transportation Code §545.412 by adding a $0.15 court cost on unrestrained child offenses.
- HB 666 Section 1 effective January 1, 2010 amends Code of Criminal Procedure §102.0178(a) by increasing the Drug Court Program fee for A/B misdemeanors and felonies from $50.00 to $60.00.
- SB 727 Section 2 effective January 1, 2010 amends Code of Criminal Procedure §102.020 by adding a new $34.00 DNA fee.
- HB 3389 Section 30 effective January 1, 2010

amends Code of Criminal Procedure §102.022 with the addition of a Civil Justice Fee of $0.10 on moving violations.

All of the above legislation, as well as others, can be reviewed in much more detail at http://www.courts.state.tx.us/tjc/pdf/81st_leg_update.pdf As always, the actual statutes serve as the authoritative reference should there be a conflict between the various summaries.

In addition, the State Comptroller's Office publishes charts that incorporate new legislation with existing criminal court cost. Those charts, which have not been completed for this year, can be found on the Comptroller's web site. An example of the previous chart can be found at http://www.texasahead.org/lga/courtcosts07/96-865.pdf Those charts will serve as the basis for our audit of collected fees in criminal cases.

A final note of warning. We have seen in the past where conflicting legislation, Attorney General Opinions and lawsuits have nullified some fees. So even though the session is over and the legislators have returned home, court cost and fees can always change. And it will start all over again with the opening of the 82nd Legislative Session on January 11, 2011.

Identity Theft

Identity theft is a serious crime. It occurs when personal information is stolen and used to commit fraud or other crimes.

Rebecca Phillips, Senior Analyst

Identity theft has three primary victims – the person whose identity was stolen; the vendor/business that provides goods/services or who accepts payments from a person who is fraudulently using someone else's money/credit; and the financial institution whose name is on the check, debit card or credit card involved in the transaction.

After the three primary victims' loss, the rest of us lose, too, in the form of increased vendor prices, interest rates and bank transaction fees; all raised to replace the lost revenue.

Not only should you protect your identity but you should also take steps to prevent the County from being a victim of identity theft.

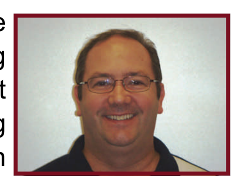
The Federal Trade Commission has issued a *"Red Flag Rule"*. This rule provides a good model of identity theft protection for all businesses and governments. The Red Flag rule has four parts: 1) identify *"red flag"* fraudulent situations; 2) design ways to detect *"red flags"*; 3) include specific actions to take when red flag situations happen; and 4) have periodic reviews and revisions of policies and *"red flag"* procedures to keep them current. The Harris County Auditor's office is in the process of reviewing our accounting procedures to make adjustments, as necessary, to provide guidance.

How does this affect you? Preventing identity theft includes being careful with your own and with other people's/customer's/client's sensitive information. As public servants, we should protect information provided to us to prevent it from getting into the wrong hands. Also, if you receive money or set up accounts for the County, you are in the position to protect both the County and a possible victim of identity theft. Do you set up an account or accept a check or credit / debit card from anyone without comparing the information with a picture ID card issued by either the State (aka a driver's license) or a major business that also has a picture you can compare with the person standing in front of you? If the answer is yes, pat yourself on the back. If the answer is not, you should start verifying this information with the next transaction you process.

The bottom line is that, unfortunately, there may be some greedy people in the world who would do just about anything to get everything for nothing. Use your common sense in all transactions – County and personal – to protect against identity theft.

Separation of Duties, an Important Piece of the Control Environment

Auditors promote and advocate strong internal and/or accounting controls. Of course, Management has a vested interest in strong internal controls as they assist in achieving organizational objectives. A strong internal control environment can protect the



Mark Ledman
Director of Audit Services

organization, as well as the employees. The Association of Certified Fraud Examiners in their 2008 Report to the Nation on Occupational and Fraud & Abuse stated that:

U.S. organizations lose an estimated seven percent of their annual revenues to fraud, according to a survey of Certified Fraud Examiners who investigated cases between January 2006 and February 2008. If this percentage were applied to the County's revenues for the primary government as presented in the Comprehensive Annual Financial Report for the fiscal year ended February 28, 2009, the amount of revenue at risk would be $172,885,544.

The Report also found that:

Fraud schemes tend to be extremely costly. The median loss caused by the occupational frauds in this study was $175,000. More than one-quarter of frauds involved losses of at least $1 million.

Schemes frequently continue for years before they are detected. The typical fraud in the study lasted two years from the time it began until the time it was caught by the victim organization.

In a previous column we briefly mentioned the concept "*Separation of Duties*". As department head or process owner, one area that is important to be aware of is separation of duties.

A fundamental concept of internal control is that no one person or department should handle all aspects of a transaction from beginning to end. Separation of duties is akin to having adequate checks and balances in process. An example of poor separation of duties is a cashier who collects funds and is able to view or print the cash posting report prior to reconciling the collections and receipts and/or prepare the deposit slip.

The best way to have good control through separation of duties is to establish duties or job responsibilities of employees where they could not perpetrate and conceal an action in the normal course of their duties.

The International Standards for the Professional Practice of Internal Auditing, established by the Institute of Internal Auditors requires all engagements be evaluated from a fraud risk standpoint. As part of every business process risk assessment performed in an audit engagement, consideration is given to assessing risk of separation of duties concerns and typically audit procedures are developed for audits to provide some assurance that no one individual has physical or system access control of multiple phases of a business process or transaction. One consideration for Management to keep in mind is that the audit engagement would include an audit period or a conclusion as of a particular point in time, or typically a period ended date. Management would need to maintain the existing control environment at the time of the audit engagement in order to maintain the level of assurance over time. If policies, procedures, system access controls, etc. change, then the separation of duties may not have been maintained. In light of this, it is suggested that Management periodically review a listing of their systems and employees information system access roles for each system for proper separation of duties. Monitoring is an important component of internal control. Ongoing departmental internal monitoring activities such as regularly performed supervisory and management activities such as continuous monitoring of customer complaints, performing self audits of transactions and reviewing management reports. Additional monitoring on a periodic basis such as conducted by Audit Services is also a component of internal control.

One might ask how separation of duties can be achieved in a remote location where cash collections may need to occur where staffing is limited. Management is responsible for the control environment and may need to implement detective (after the fact) controls or other compensating controls to assist in reducing the risk and provide reasonable assurance. Careful analysis will need to be done to in this situation to determine whether controls were adequate.

As most organizations and departments use information systems to conduct business, one consideration a prudent Manager could do is to consider the impact of each user role in a *new* information system and careful documentation of written desk level procedures *prior* to it being implemented.

If duties are adequately separated, the risk of an inappropriate transaction is reduced. It is not completely eliminated, as two or more people could plan and execute an inappropriate transaction which is referred to as collusion. Collusion is very difficult to detect as it circumvents controls. All of the above in mind, Management override of controls may also be a risk and should be evaluated. If separation of duties has been properly built into accounting controls at the lower levels but Management can override such controls, a risk of inappropriate transaction activity remains.

During the course of an audit engagement Management can contact the Audit Director or any member of the Audit Services staff assigned to the engagement to discuss any particular concerns regarding separation of duties. Additionally, if there are concerns outside of a normal audit engagement feel free to contact the Audit Services Director for guidance in this area.

Data Analytics

Porter Broyles, Continuous Monitoring Analyst II

Over the past two decades computers have become a larger part of the everyday workstation. Today, productivity and efficiency has blossomed because computers can perform the same complex calculations and analysis that used to take days or weeks in a matter of minutes. This might involve using a commercial program to perform tasks without really knowing how those programs work. Or, it could involve a home grown program, process, or spreadsheet used to perform specific functions. The general assumption is that the computer will provide the correct results.

But is that assumption safe?

Recently, Gartner, a leading IT advisory firm, released a report arguing that Information Technology deserves part of the blame for the recent financial crisis. "*Underneath every bad decision, fraudulent assumption, and greedy gamble, there's some analysis … whether that application is a spreadsheet, business intelligence application, or ERP (Enterprise Resource Planning) system---it all points back to IT.*" Blaming IT makes for a convenient scapegoat, but the ultimate responsibility rests with the business units themselves. The business unit, not IT and not Audit, are responsible for ensuring that their work is accurate and complete---this means validating that the systems they rely upon produce accurate results. To this end, business units have implemented manual and automated controls (or procedures) in an effort to ensure accurate results.

While IT and Audit can help assess the effectiveness of these controls, responsibility lies with the process owners. Over reliance on system controls have lead companies to incorrectly pay millions of dollars annually. One company had a subroutine that checked for duplicate payments, but failed to notice that the subroutine was bypassed when the system was upgraded. In June, the Detroit school district reported that there were over 250 suspected ghost employees on their payroll! Another company processed thousands of transactions using the terms from an unapproved contract.

A PricewaterhouseCoopers (PwC) study showed that 90 percent of spreadsheets have significant errors. A similar study by KPMG placed the same figure at 92 percent. These errors typically fall into one of three categories:

Mechanical Errors- e.g. data entry.

Logical Errors- e.g. using the wrong formulas/logic to calculate the results.

Omission Errors- e.g. failing to include key steps/analysis.

Other systems may similarly produce erroneous results due to one of the above items.

Data Analytics is a process of gathering, modeling, and transforming data with the intention of identifying information that can support conclusions or assist in the decision making process. In other words, one can use the data available to validate the results and ensure that system controls operate the way they should.

One of the ways to test system controls is through the use of parallel processes or simulated projects. By setting up tests that duplicate the process in an independent environment, one can compare results and determine if the outcome matches. This simulation can often be performed in Excel, Access, SQL, or other data analytics software packages. The value in doing this is not just that results are validated, but it encourages the business owner to better understand and appreciate the logic utilized in the system. By having to process flow the logic used, it might be discovered that the system is doing something differently than expected.

When testing the output of a computer program or spreadsheet, there are several things that can be done to validate the results:

First, validate that the results that were generated match the results of the parallel simulation. Does the primary system produce the same results? If different, can the reason be identified? If it is a problem with your parallel system, can it be fixed? If it is a problem with the primary system, what is causing the problem? Is the root cause identifiable? Confirming that the results are accurate is only part of the challenge. Looking at and validating the historical results does not ensure that the controls are effective, it only confirms that the results are correct. It does not confirm that the controls work.

For example, a friend of mine has lived in another state for over 15 years and has never been robbed. He never locks his doors and has an open invitation to *"let yourself in"* and *"make yourself at home"* if he wasn't there. Were his controls effective or had they just never been tested? Looking solely at the results, one might incorrectly conclude that his controls work. In reality, looking solely at historical results only indicates that they have not failed.

When looking at systems, the data elements available should be reviewed to help determine and validate that the controls work as designed. Consider this scenario, you are looking at employee benefits. Depending on the benefit, there will be a specific start and stop date for the benefits. Did anybody receive a benefit prior to the benefit start date? (Or after the benefit termination date?) Was anybody denied the benefit after the benefit start date? When looking at controls, you should test to see if there were items that should have:

Been stopped, but were processed?

Been processed, but were stopped?

If you cannot answer those two questions, then you cannot answer the question, "Do the controls work?"

(Continued from page 1)

funds. Grant recipients and subcontractors must post a notice explaining these protections.

5. Reporting requirements are more extensive than for most grants, and quarterly reports on activities are due by the tenth day following the end of the quarter. These tighter reporting requirements will require increased planning and coordination between departments. Management Service's Grants Coordination Section will be working with various County departments to coordinate programmatic reporting, and the County Auditor's Office will coordinate financial reporting.

This is a very brief introduction to ARRA requirements. An ARRA website is being developed that will provide more detailed information, as well as financial and programmatic data related to ARRA grants awarded to the County. Also, a workshop is being planned for departments that are receiving or expect to receive ARRA funds. Information about the webpage and the workshop will be sent to departments in the near future. In the meantime, questions related to ARRA can be directed to Mel Trammell or Paul Wilden in the County Auditor's Office. They can be reached at 713-755-4832 and 713-755-3584 respectively.

Ask Richard

Richard Foisner
Director of Payroll Audit

Hey Richard, what are pre-tax and after-tax deductions and how are they different?

The short answer would be, when employers require or allow employees to contribute a portion of the cost of certain benefits they provide, those contributions may be made either pre-tax or after tax. A pre-tax contribution is one that is made from an employee's wages before the tax on those wages is calculated, while an after-tax contribution is made after the tax is calculated. A pre-tax contribution will result in a higher take-home pay for the employee.

Pre-tax deductions:

When you give your employer permission to make these deductions, this money is subtracted from your paycheck before your wages are taxed. This means your income tax withholding will be based on a lower wage than you started with, resulting in lower taxes. Some examples of this type of deduction at Harris County are your Section 457 deferred compensation plan, health insurance plans and flexible spending accounts. Your TCDRS retirement account is also treated as a pre-tax deduction. The great thing about pre-tax deductions is that we as employees can all take advantage of them and there is no real drawback in using them. If given a choice go with the pre-tax option.

After-tax deductions:

After-tax deductions are payments that are withheld directly from your earnings that are left after all of your taxes have been withheld. After-tax deductions do not affect the amount of taxes you owe. Some examples of this type of deduction are union dues, savings bonds, child support payments, and student loans to name a few. As you can see after-tax deductions can be either of the voluntary or involuntary type.

As always if you have any questions, feel free to give us a call and we will be glad to explain this to you.

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.

January	Length of Service
Carolyn Helm	33
Curt Weller	27
Wendee McCain	18
Janet Norstrom	15
Maggie Cauley	12
Martha Rowell	12
Sheli Ruis	10
Timothy Leonard	9
Vicki Cash	9
JoEllen Lamb	8
Candice Kendall	6
Carol Market	6
Jose Mendoza	6
Tijuana Smith	4
Jessica Vallieres	1
Marie Cary	1

February	
Yolanda Anderson	23
Liz Calhoun	21
Pamela Mayon	19
Anna Spalding	9
Cynthia Dowers	8
Filomeno Viloria	8
Judi Carter	7
Veronica Sanchez	7
Clarice Brown	5
Courtney Leigh	5
Ronald Foster	4
Sylvia Mercy	2
Robin Barker	1

March	
Pat Stokes	33
Debi Ferraro	26
Patricia Mata	9
Desiree Barrett	5
Cynthia Smith	5

March, continued	Length of Service
Stacey Wilson	5
Calvin Clark	4
Mel Trammell	2
Ronquie Patterson	2
Isimenmen Aburime	1
Charles McDonald	1

April	
Jason Compion	31
Elizabeth LeBlanc	11
Mary Nguyen	7
Mark Ledman	3
Darlene Taylor	3
Aleta Chambers	3
Leticia Quiroz	3
Pat Moreno	2
Lisa Godfrey	1
Greg Lueb	1
Rodney Pollard	1

May	
Tommy Jenkins	29
William Erb	21
Cassandra Davis	12
Gwendolyn Foy	10
Leovigilda Genova	9
Rosa Trevino	9
Nicholas McGee	6
Sophana Ven	4
Stacey Clingaman	3
Edith Ellis	2
Tanya Williams	2
Robert Kegresse	1
Peter Cripps	1

June	Length of Service
Mary Jo Zalesky	30
Wayne Comeaux	25
Harland Maisel	23
Donna Godair	19
Jeffrey Nesheim	6
Cassandra Smith	5
Walter Hammann	4

July	
Leslie Pope	25
Tammie Sonnier	19
Julie Wither	9
Michael O'Barr	9
Maria Awayan	8
Tom Ngo	8
Lucas Harp	7
Ollie Willis	6
Cynthia Acosta	3
Wai Leung	2
Erik Gonzalez	2
Ashley Foster	2
Craig Landis	1
Rebecca Phillips	1
Lin Zhong	1

August	
Debra Smith	26
Trina Cheney	25
Stephen Hoza	20
Ronnie James	14
Christopher Casas	13
Michael Post	13
Sophia Montgomery	10
Tracie Wortham	10
Barbara Schott	9
Mohammad Haroon	9
Demetrice Collier	7
Betty Lew	3
David Tish	3

Congratulations to each of YOU!!!

Barbara J. Schott, C.P.A.
Harris County Auditor
1001 Preston, Suite 800
Houston, Texas 77002