

AUDITOR'S REPORT

AUDITOR'S OFFICE ACCOUNTS PAYABLE 2ND QUARTER FISCAL YEAR 2019 AUDIT



June 28, 2019

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HARRIS COUNTY AUDITOR

June 28, 2019

Ms. Leslie Wilks Garcia
First Assistant County Auditor
1001 Preston, Suite 800
Houston, Texas 77002

RE: Auditor's Office Accounts Payable - 2nd Quarter Fiscal Year 2019 Engagement for the audit period of June 1, 2018 through August 31, 2018

The Audit Services Department performed procedures relative to the Auditor's Office Accounts Payable Department (Office) - 2nd Quarter FY 2019 Engagement. The objective of the engagement was to evaluate the adequacy of internal controls related to the Accounts Payable (AP) Construction and Credit Card Claims processes. Our procedures included the following:

- Determined whether AP Construction and Credit Card Claims were properly received and accurately recorded into the County's Financial Records (IFAS).
- Determined whether AP Construction and Credit Card Claims were properly supported, approved, and processed/paid in accordance with Texas Government Code, Title 10, §2251.021.

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

The work performed required our staff to exercise judgment in completing the scope procedures. As the procedures were not a detailed inspection of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

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

Ms. Leslie Wilks Garcia
First Assistant County Auditor

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

Sincerely,



Errika Perkins
Chief Assistant County Auditor

cc: District Judges
County Judge Lina Hidalgo
Commissioners:
 R. Jack Cagle
 Rodney Ellis
 Adrian Garcia
 Steve Radack
Kim Ogg
Vince Ryan
William J. Jackson

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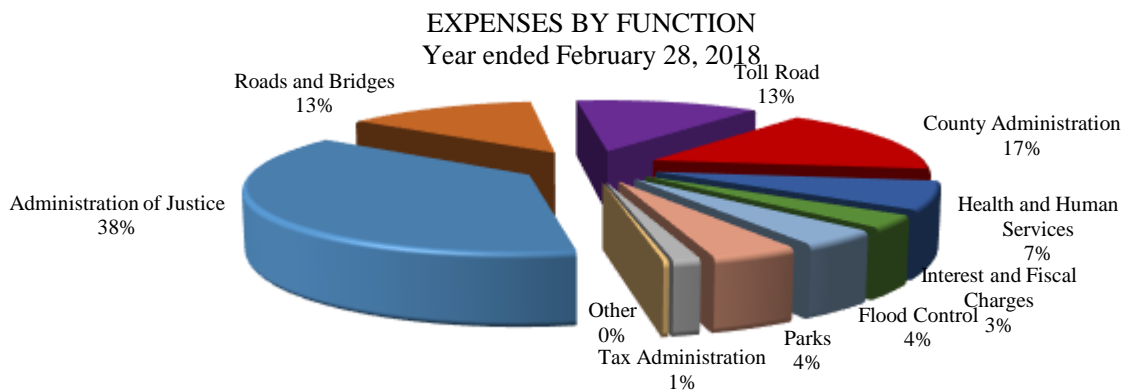
OVERVIEW

The Office is responsible for auditing claims submitted for payment. These claims are for payment of goods and services purchased by Harris County (County), the County Flood Control District, County Juvenile Board, and the Community Supervision and Corrections Department, including construction contracts, court appointed attorneys, special judges, interpreters, substitute court reporters, guardianships, all county utilities, travel of county personnel, purchase orders, term contracts, requests for payment, and many others.

The Office acts in accordance with Texas Local Government Code (TLGC) §113.064 and §113.065. TLGC §113.064 indicates that “(a) In a county that has the office of county auditor, each claim, bill, and account against the county must be filed in sufficient time for the auditor to examine and approve it before the meeting of the commissioners court.” As a department within the County Auditor’s Office, the role of the Office is to examine and prepare disbursements for the Auditor’s approval. TLGC §113.065 states that “the county auditor may not audit or approve a claim unless the claim was incurred as provided by law.”

For the fiscal year ended February 28, 2018, the Office’s processed payments for expenses incurred totaling \$3,188,898,843. Compared to the prior fiscal year expenses of \$3,095,991,150, expenses increased by \$92,907,693. The largest functional expense for the County was for the Administration of Justice with an amount of \$1,202,880,595 or 38% of total expenses.

The chart below lists total primary government expenses by function (including payroll expense) as included in the County’s Comprehensive Annual Financial Report for the year ended February 28, 2018.



RESULTS

Based on the procedures performed, the Office's internal controls relative to the AP Construction and Credit Card Claims processes need to be strengthened. Specifically, the following opportunities for improvement were noted:

Construction – Pay Estimate Supporting Documentation

1. The Office was not able to provide evidence that they are consistently reviewing construction contracts prior to processing construction pay estimate invoices. Office Management should design and implement a document management process that ensures supporting documentation is readily available and consistently updated prior to payment processing and disbursement.
2. The Office is not consistently verifying an itemized list of materials on hand during the Construction Pay Estimate Invoicing Process. Office Management should implement procedures to validate materials on hand for all construction pay estimate invoices prior to processing payment. This could include obtaining an itemized listing of materials on hand and agreeing this listing to supporting documentation and confirming that the total balance of the itemized list agrees to the amount listed on the construction pay estimate invoice prior to processing payment.

In addition, the AP Processor should review an itemized listing of materials on hand for completeness in order to validate that the amounts and descriptions agree to those outlined in the contract, bid specifications, or related change orders/addendums. In circumstances where incomplete information is submitted, the AP Processor should contact the requesting department for additional details and/or notify Office Management. Office Management should consider performing a spot audit periodically to ensure that construction pay estimates processed include complete and accurate supporting documentation.

Credit Card Claims – Invoice Date

The AP Processor uses the date entered into IFAS as the invoice date instead of using the “day the agency received the invoice for the goods or services” as required by Texas Government Code Chapter 2251, *Payment for Goods and Services* (TGC 2251). The Office should comply with TGC 2251 by utilizing the date the Office receives invoices for goods or services as the entry date into IFAS, which starts the invoice aging process.

In addition, The Office should consider working with the County's Purchasing Department to send a letter to each department head that is not consistently submitting *Request for Payment* (Form 1268), in a timely manner. The letter should detail the importance of timely submittal of Form 1268, including compliance with TGC 2251, and require the department head to sign and return the letter indicating their acknowledgement of receipt and understanding of the letter.

RESULTS

IFAS System Limitation

IFAS system limitations require AP to override controls designed to prevent duplicate invoice payments. For departments that have multiple Requests for Payment (RFP) for one credit card in a given month, the Office circumvents the “duplicate invoice” indicator system control by adding a “letter” at the end of the invoice number to make the invoice number unique. This issue should be reviewed to determine whether controls can be implemented within PeopleSoft to mitigate the associated risks. In the interim, Office Management should consider adding the last 4 digits of the credit card number to the invoice number to improve and track multiple RFPs for one invoice in the same month.

These opportunities for improvement are discussed in more detail in the following Issues and Recommendations section of this report.

ISSUES AND RECOMMENDATIONS

Construction Pay Estimate Supporting Documentation

Background

Pursuant to Accounts Payable Desk Manual Procedure AP.2-1-1, *Claims Processing Construction Estimates*, the Office should “review the contract and compare the estimate charges/fees to those in the contract” for the initial and all subsequent payments. Additionally, the desk manual requires a Contract File to be maintained that includes all pertinent documents from the initial purchase order through the ending certificate of substantial completion.

Office Management informed us that they no longer maintain paper copies of all construction contracts, change orders, addendums, and other supporting information regarding construction payments. Several years ago, a decision was made to retain contracts and supporting documentation electronically within IFAS.

Issues

1. The Office was not able to provide evidence that they are consistently reviewing construction contracts prior to processing construction pay estimate invoices. Five of 16 (31%) contracts selected for testing were not readily available at the time of our procedures. However, payments selected for testing associated with these 5 contracts were in compliance with their respective contract.
2. The Office is not consistently verifying an itemized list of materials on hand during the Construction Pay Estimate Invoicing Process. The Office was not able to provide evidence demonstrating that an itemized listing of materials on hand was reviewed for 4 of the 5 (80%) payments selected for testing that contained materials on hand balances.

As a result, we were unable to determine whether the Office is consistently reviewing supporting documentation, including a complete review of item and description information and performing a reconciliation to contractual agreements before processing payments. Not consistently reviewing supporting documentation and not performing a reconciliation to contractual agreements could expose the County to erroneous or unauthorized payments and financial loss.

Recommendations

1. Office Management should design and implement a document management process that ensures supporting documentation is readily available and consistently updated prior to payment processing and disbursement.
2. Office Management should implement procedures to validate materials on hand for all construction pay estimate invoices prior to processing payment. This could include obtaining an itemized listing of materials on hand and agreeing this listing to supporting documentation and confirming that the total balance of the itemized list agrees to the amount listed on the construction pay estimate invoice prior to processing payment.

ISSUES AND RECOMMENDATIONS

Construction Pay Estimate Supporting Documentation (Continued)

3. The AP Processor should review an itemized listing of materials on hand for completeness in order to validate that the amounts and descriptions agree to those outlined in the contract, bid specifications, or related change orders/addendums. In circumstances where incomplete information is submitted, the AP Processor should contact the requesting department for additional details and/or notify Office Management. Office Management should consider performing a spot audit periodically to ensure that construction pay estimates processed include complete and accurate supporting documentation.

Management Response

Management agrees that the Office must continue to consistently review supporting documentation prior to paying any claim. The Office has established a restricted folder on the "H" drive to store contracts/agreements. Construction processors and AP management can now retrieve copies to help ensure claims are audited/paid properly and also demonstrate to outside auditors that agreements are being maintained.

Regarding materials on hand, additional pages from e-builder and CapTrack are now being included with payment requests submitted by the departments. Although Department signatures are still being relied upon as proof the amounts reported are correct, Form 1915, *Request for Payment of Material on Hand* (when required) will also be requested when one is not provided with payment requests. Reconciliation sheets have also been created to assist with ensuring payment request are accurate.

ISSUES AND RECOMMENDATIONS

Invoice Date

Background

Pursuant to TGC 2251, for any contract executed after August 31, 1987, a payment by a governmental entity is overdue on the 31st day after the latest of the following: the day the entity received the goods; the day the services were completed by the vendor for the entity; or the day the agency received the invoice for the goods or services.

Pursuant to the County's Accounting Procedures Manual P.7, *Procurement Card Program*, cardholders log into the system in a timely manner to compare the online statement to the applicable receipt and flag the transaction as authorized. Deadlines for this process are strictly enforced.

Pursuant to the County's Accounting Procedure T.1, *Travel, Training, and Business Meetings*, for all Travel Card purchases, appropriate County department employees prepare and send a Form 1268 requesting payment be made to Citibank if travel charges occurred in the billing cycle, including charges for airline tickets purchased 30 days or more in advance (prepaid), to the Office one week before the due date on the monthly statement if applicable. If Form 1268 is submitted after the due date, there will be late fees, and the County department is responsible for paying these late fees. Some travel charges for the same travel dates may appear on a current or a subsequent credit card billing statement; therefore, a Form 1268 for travel charges to Citibank must be completed and forwarded to the Office for each billing statement in which the travel charges appear.

Issues

The AP Processor uses the date entered into IFAS as the invoice date instead of using the "day the agency received the invoice for the goods or services" as required by TGC 2251. Not using the date the invoice is received impairs the Office's ability to properly track the aging of invoices through the AP Aging Report and could result in untimely payments and noncompliance with TGC 2251.

As a result, the following was noted:

1. 16 of 60 (27%) invoices tested were not paid within 30 days of receiving the invoice. Of these 16 invoices, 12 of the associated Form 1268s were not approved and submitted by the originating department at least one week prior to the Citibank Statement "due date" as required by the County's Accounting Procedure T.1, *Travel, Training, and Business Meetings*, 2 were not paid within 30 days due to the irregular scheduling of Commissioners Court, and 2 could not be processed timely due to the budget block system control within IFAS. Therefore, all sixteen exceptions noted are considered to be outside of the Office's control. Departments not providing approved and timely Form 1268s to the Office impairs the Office's ability to pay invoices within 30 days of receipt as required by TGC 2251.

ISSUES AND RECOMMENDATIONS

Invoice Date (Continued)

2. 36 of 60 (60%) statements reviewed had an outstanding underpaid (58.3%) or overpaid (41.7%) previous balance, which is an indication of untimely and/or inaccurate payments.

Of the 60 transactions tested, the following was noted:

Total amount due	\$115,957.25
Total amount paid	<u>(82,636.55)</u>
Variance	\$33,320.70
Underpaid	\$(39,579.03)
Overpaid	<u>6,258.33</u>
Total (under) overpaid	\$(33,320.70)

The untimely processing of Citibank invoices has resulted in noncompliance with TGC 2251 and could lead to late fees being assessed and financial loss to the County.

Recommendations

In order to comply with TGC 2251, the Office should:

1. Utilize the date the Office receives invoices for goods or services as the entry date into IFAS, which starts the invoice aging process with regards to TGC 2251.
2. Consider working with the County's Purchasing Department to send a letter to each department head that is not consistently submitting Form 1268 in a timely manner. The letter should detail the importance of timely submittal of Form 1268, including compliance with TGC 2251, and require the department head to sign and return the letter indicating their acknowledgement of receipt and understanding of the letter.

Management Response

Depending on how items are submitted to AP, not all of them are date stamped. Processors use the date items are entered for the sake of consistency. We have been informed that this should not be an issue with the implementation of PeopleSoft. Citibank invoices are processed within 30 days of receipt unless they are received late from the departments, or budget constraints preclude them from being paid. This is the explanation for the items referenced above in your findings. AP will work with Purchasing when time permits to send letters to the department heads of departments that miss submitting statements on a timely basis.

ISSUES AND RECOMMENDATIONS

IFAS System Limitation

Background

While performing our procedures we identified one issue related to IFAS that should be reviewed in conjunction with the implementation of the County's new ERP system (PeopleSoft) to determine whether controls can be implemented within PeopleSoft to address this issue going forward.

Issue

IFAS system limitations require AP to override controls designed to prevent duplicate invoice payments. For departments that have multiple Requests for Payment (RFP) for one credit card in a given month, the Office circumvents the "duplicate invoice" indicator system control by adding a "letter" at the end of the invoice number to make the invoice number unique.

Overriding internal controls designed to prevent duplicate invoices increases the risk of fraud or errors being processed resulting in financial loss to the County.

Recommendations

This issue should be reviewed to determine whether controls can be implemented within PeopleSoft to mitigate the associated risks. In the interim, Office Management should consider adding the last 4 digits of the credit card number to the invoice number to improve and track multiple RFPs for one invoice in the same month.

Management Response

Management agrees that PeopleSoft will most likely eliminate these sort of risks. Claims processors will begin adding the last four digits of the credit card number to the invoice number to improve tracking and reduce the chances of making duplicate payments.