

AUDITOR'S REPORT

AUDITOR'S OFFICE ACCOUNTS PAYABLE 3RD QUARTER FISCAL YEAR 2019 AUDIT



January 10, 2020

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HARRIS COUNTY AUDITOR

January 10, 2020

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

RE: Auditor's Office Accounts Payable – 3rd Quarter Fiscal Year 2019 Engagement for the audit period of September 1, 2018 through November 30, 2018.

The Audit Services Department performed procedures relative to the Auditor's Office Accounts Payable Department (the Office) – 3rd Quarter FY 2019. The objective of the engagement was to evaluate and test the adequacy of internal controls related to the Accounts Payable (AP) Construction and Healthcare Claims processes. Our procedures included the following:

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

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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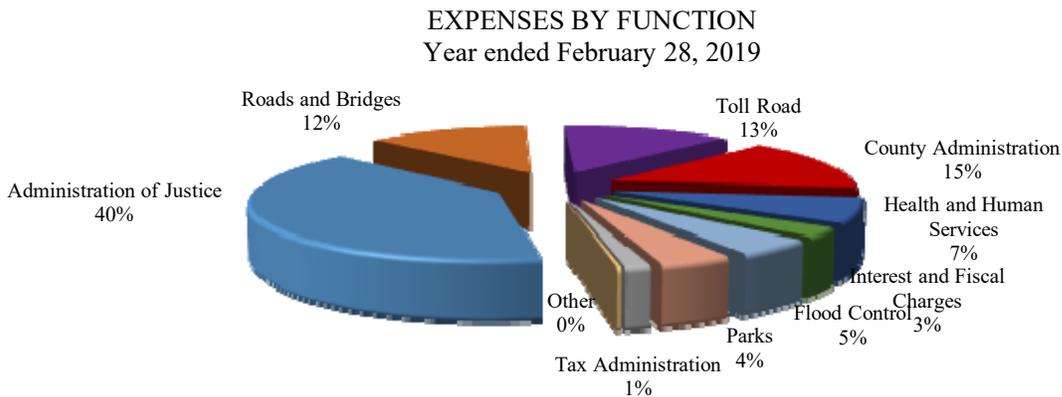
OVERVIEW

The Office is responsible for auditing claims submitted for payment. These claims are for the payment of goods and services purchased by Harris County, the Harris County Flood Control District, Harris County Juvenile Board, and the Community Supervision and Corrections Departments.

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 the 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 commissioner’s court”. As a department within the County Auditor’s Office, the role of the AP Department 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, 2019, the Office processed payments for expenses incurred totaling \$3,295,256,090. Compared to prior fiscal year expenses of \$3,188,898,843, expenses increased by \$106,357,247. The largest expense for the County was for the Administration of Justice with an amount of \$1,316,001,030 or 40% 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, 2019.



RESULTS

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

IFAS Related Issue – Lack of Workflow Re-Routing Function For Invoice Adjustments

There is no automated workflow to route invoice adjustments made by the department back to Accounts Payable for review prior to payment being processed. Additionally, documentation supporting the County's financial records are impaired as invoice balances reflected on the Office's records do not always reconcile to the final disbursement totals.

IFAS Related Issue – Workflow History Errors

A system data processing error within the IFAS AP Invoice Processing Workflow (AP Workflow) is causing some AP transactions within the AP Workflow to be lost during processing. The AP processor is required to reprocess these lost invoices back into the AP Workflow when this occurs. As such, duplicate invoices could be paid. Additionally, Universal Services informed us that they cannot reproduce previous queries of invoices that are lost from the AP Workflow and copies of the original queries are not maintained. As such, we could not isolate other potential duplicate payments for lost invoices that could have been reprocessed back into the AP Workflow.

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

Validation of Invoice Pricing

We observed control gaps when reconciling invoice pricing with specified contract pricing. As a result, we identified \$32,494 in vendor over payments made for the period of December 2017 through June 2019 due to different invoiced pricing for the same services at different locations. The overpayments were communicated to the Purchasing Agent's Office to ensure credits were received for the \$32,494. It is anticipated that these control gaps will be addressed with the implementation of PeopleSoft. As such, we verbally discussed this issue with management. This process will be reviewed again post PeopleSoft go-live.

ISSUES AND RECOMMENDATIONS

IFAS Related Issue – Lack of Workflow Re-Routing For Invoice Adjustments

Background

According to the Texas Local Government Code Section 113.064, "all claims, bills, and accounts may not be allowed or paid until it has been examined and approved by the auditor."

The Office receives and inputs vendor invoices into IFAS. Once entered into the system, the Office examines and approves vendor submitted invoices in accordance with County Auditor's County-Wide Accounting Procedure D.1 - Processing and Contesting Invoices Once Approved by the Office. IFAS Workflow routes invoices to the payment requesting department's assigned individuals for review and final approval.

The Office does have a mitigating control in place to identify variances created subsequent to their initial review. Prior to running the daily General Ledger posting, a lead analyst from Accounts Payable runs the PO Invoice Amount Difference report for review. This report identifies variances between the Office approved invoice totals and the department adjusted final distribution totals. There is no report that identifies changes to PO numbers or accounting code.

Issue

There is no automated workflow to route invoice coding adjustments made in IFAS by the department back to the Office for review prior to a payment being processed.

Office Management informed us that IFAS Workflow does not have a re-routing functionality. As such, invoice coding adjustments are being made by department personnel without being re-examined and authorized by the Office.

The lack of a re-routing functionality allows the department to make payment amount or coding adjustments to the PO invoice without the review and approval of the Office. As a result, we were unable to reconcile certain invoice amounts to the corresponding disbursement amounts.

Recommendation

The issue should be reviewed to determine whether workflow controls exist or can be implemented within PeopleSoft to route departmental changes to invoices back to the Office for review to remain in compliance with Texas Local Government Code Section 113.064.

Management Action Plan

This issue will be eliminated once Harris County transitions to PeopleSoft. Effective March 1, 2020 departments will no longer be allowed to modify invoice line item coding or amounts. Vendors will be required to invoice based on the purchase order. Departments will receive into PeopleSoft only what appears on the purchase order (quantity and amount). Once paid, departments will be required to submit any needed coding changes to Financial Accounting via journal entry.

ISSUES AND RECOMMENDATIONS

IFAS Related Issue - Workflow History Errors

Background

Universal Services generates a query of all invoices that are "lost" in processing. Universal Services communicates with the Office to reprocess the "lost" invoices identified from the query.

Issue

A system data processing error within the IFAS AP Invoice Processing Workflow (AP Workflow) is causing some AP transactions within the AP Workflow to be lost during processing. The AP processor is required to reprocess these lost invoices back into the AP Workflow when this occurs. As such, duplicate invoices could be paid.

On one occurrence, the reprocessing of a lost invoice resulted in a duplicate payment because the original lost invoice and the reprocessed invoice were both paid. IFAS did not reject the original invoice as a duplicate and the invoice was paid twice on the same check. However, following the duplicate payment, a credit memo was issued and applied against the subsequent vendor invoice after the vendor informed the Office that the invoice was paid twice.

Additionally, Universal Services informed us that they cannot reproduce previous queries of invoices that are lost from the AP Workflow and copies of the original queries are not maintained. As such, we could not isolate other potential duplicate payments due to lost invoices.

Recommendation

The issue should be reviewed to determine whether system controls can be implemented within PeopleSoft to prevent workflow history errors from occurring.

Management Action Plan

The cause of the system data processing error is unknown. However, the issue should no longer exist once the County transitions to PeopleSoft. If the issue continues to occur when PeopleSoft is implemented, the Office will communicate with Universal Services to seek resolution.