

# **AUDITOR'S REPORT**

## **AUDITOR'S OFFICE VENDOR VERIFICATION 2ND QUARTER FISCAL YEAR 2019**



**April 5, 2019**

**Michael Post, C.P.A., M.B.A.  
Harris County Auditor**

**Leslie Wilks Garcia, C.P.A., C.F.E.**  
*First Assistant County Auditor*

**Errika Perkins, C.P.A., C.I.A.**  
*Chief Assistant County Auditor*  
*Audit Division*



1001 Preston, Suite 800  
Houston, Texas 77002-1817  
(832) 927-4600

FAX (713) 755-8932  
Help Line (832) 927-4558

**MICHAEL POST, C.P.A., M.B.A.**  
**HARRIS COUNTY AUDITOR**

April 5, 2019

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

RE: Auditor's Office Vendor Verification – 2<sup>nd</sup> Quarter Fiscal Year 2019 Engagement (June 1, 2018 through August 31, 2018).

The Audit Services Department performed procedures relative to the Harris County (County) Auditor's Office Vendor Verification Section's (Office) 2<sup>nd</sup> Quarter FY 2019 Engagement. The purpose of the engagement was to evaluate the adequacy of the Office's internal controls relative to the Vendor Verification process. Our procedures included the following:

- Determined whether vendor verification procedures for "High Risk" and "Low Risk with Limited Procedures" vendor change classifications were adequate and sufficient supporting documentation was properly retained.
- Determined whether vendor changes made in the County's Financial System's (IFAS) Person/Entity ID (PEID)/Vendor Master Database accurately reflected the information obtained from the verification procedures performed.

The engagement process included providing you with an engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letters and conferences were 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 professional 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's primary responsibility is to authenticate changes to the vendor master file, including changes in bank routing and settlement instructions for vendor payments. The Office utilizes a combination of verbal confirmations and research to validate changes to a vendor's bank routing and settlement instructions and/or address information. For authentication purposes, the team does not utilize the information provided in the vendor's request but instead utilizes verification tools such as Bloomberg, the Texas Secretary of State, WhitePages Pro, the Texas State Bar, Google, existing IFAS information, County property records, and various governmental licensing agencies. The Office also calls each vendor to verbally confirm their bank routing information and settlement instructions including addresses. In addition, vendors who conduct business with the County must provide a valid Internal Revenue Service (IRS) Form W-9, *Request for Taxpayer Identification Number and Certification Form*, which is validated via the *IRS Tax Identification Numbers Database*.

## RESULTS

Based on the procedures performed, the Office's internal controls relative to the Vendor Verification process need to be strengthened. Specifically, the following opportunities for improvement were noted:

### **Access Control/Segregation of Duties**

1. The Office is responsible for updating the Vendor Master Database in addition to performing vendor verification procedures. Additionally, IFAS cannot generate a user friendly report identifying all users that have access rights to the IFAS Person/Entity Database Function. It was also noted that a user in the Accounts Payable (AP) Department has access to make changes in the vendor master file. Furthermore, there is no workflow approval process for all vendor changes in IFAS. These issues should be reviewed to determine whether controls can be implemented within PeopleSoft to mitigate the associated risks. Additionally, the Office should determine if any other users in the AP Department have access to make changes to the vendor master file and work with Universal Services (US) to remove any inappropriate access privileges.

### **Vendor Master File Changes**

2. The Office does not have a monitoring activity in place to ensure changes made to the vendor master file agree to supporting documentation. Additionally, a comprehensive report of all vendor master file changes cannot be generated. Furthermore, IFAS does not restrict multiple bank accounts from being setup for an individual vendor. If this occurs, it is unknown which bank account would apply once a payment is made to a vendor. The Office should implement a monitoring activity to agree bank account changes to the vendor master file to supporting documentation. Consideration should also be given to working with the County Auditor Office's Continuous Audit Department to implement a daily detective control for vendors with multiple bank accounts. Finally, the Office should have US turn on the IFAS automated emailing system for deleted vendor updates related to vendor bank information changes and utilize the email notifications as part of a daily review.

### **Vendor Risk Classification**

3. There is no formal documentation of the process utilized to support the established vendor types and associated risk classifications. The Office should prepare formal documentation regarding the classification of vendors. Additionally, the Office should re-assess vendor types and associated risk classification utilizing both qualitative and quantitative measures. Finally, the Office should establish, at a minimum, an annual review to assess the changes in the business environment and any adjustments to the County's services and functions.

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

## ISSUES AND RECOMMENDATIONS

### IFAS Related Issue - Access Control/Segregation of Duties

#### Background

The County's Internal Controls Manual defines Segregation of Duties as "a preventive control that is considered to be a critical control. Proper segregation of duties reduces the risk of both erroneous and inappropriate actions. Basically, proper segregation ensures that no ONE person initiates, records, approves, reconciles, handles the asset, and reviews the reports for any given transaction."

Pursuant to the Vendor Verification Desktop Manual, the Office is responsible for updating the PEID/Vendor Master Database utilizing the IFAS Person/Entity Database Function in addition to performing vendor verification procedures.

Each month, all members of the Office participate in the vendor file review process. The members select a random sample of another verifier's completed PEID request for independent review. The purpose of this review is to validate the accuracy, validity and completeness of the initial PEID request verification. The reviewing staff person shall review the existing file documentation to ensure that:

1. All documents are properly authorized by the initiating department.
2. PEID requests are properly e-Served.
3. Requested changes in address and/or telephone numbers are sufficiently verified via two independent reliable sources.
4. EFT requests are supported by Form 798B and a voided check/bank letter.
5. EFT requests are confirmed with authorized vendor personnel and approved by an Office team lead/manager.
6. Licenses are validated via authorized licensing agencies/associations.
7. The verification log adequately reflects the verification process.
8. Standard file naming conventions are utilized.
9. Verifications are completed in a timely manner and any significant delays are properly noted/communicated.

In accordance with County Auditor's Auditor-Only Operations Procedure 6-11, *Processing and Merging PEIDs*, Accounts Payable receives the Form 635, along with the County Auditor's Form 635A, Vendor Verification Form, County Auditor's Form 798B, ACH Vendor Payment Authorization Agreement, and Form 641, if applicable, from Revenue Accounting, and reviews the Form 635 taking action on any errors/issues in accordance with internal procedures.

## **ISSUES AND RECOMMENDATIONS**

### **IFAS Related Issue – Access Control/Segregation of Duties (Continued)**

#### **Issues**

1. The Office is responsible for updating the Vendor Master Database in addition to performing vendor verification procedures to ensure the proper changes were made. This creates a segregation of duties conflict.
2. A user friendly IFAS report cannot be generated to identify users having access rights to the IFAS Person/Entity Database Function. It was also noted that a user in the AP Department has access to make changes in the vendor master file.
3. There is no system workflow approval process for all vendor changes.

The inability to identify users having access rights to the vendor setup function, having a segregation of duties conflict, and not having a workflow approval process, impairs the Office's ability to detect unauthorized vendor master changes and could lead to financial loss to the County.

#### **Recommendations**

These issues should be reviewed by Office Management to determine whether controls can be implemented within PeopleSoft to mitigate the associated risks.

Additionally, the Office should determine if any other users in the AP Department have access to make changes to the vendor master file and work with US to remove any inappropriate access privileges.

#### **Management Response**

Vendor Verification will work with the PeopleSoft Implementation Team to ensure that segregation of duties concerns are mitigated and to develop a system workflow approval process for all vendor changes.

We will analyze IFAS PEUPPE access for all Accounts Payable users and remove any inappropriate access privileges.



## ISSUES AND RECOMMENDATIONS

### IFAS Related Issue – Vendor Master File Changes

#### Background

According to US, there are currently no vendors that have more than one bank account set up in IFAS. Additionally, an IFAS automated emailing system notifies Office Management of “created” and “updated” EFT/ACH bank account changes.

In accordance with County Auditor’s Auditor-Only Operations Procedure 6-11, *Processing and Merging PEIDs*, Accounts Payable receives the Form 635, along with the County Auditor’s Form 635A, Vendor Verification Form, County Auditor’s Form 798B, ACH Vendor Payment Authorization Agreement, and Form 641 if applicable, from Revenue Accounting, and reviews the Form 635 taking action on any errors/issues in accordance with internal procedures.

#### Issues

1. The Office does not have a monitoring activity in place to ensure changes made to the vendor master file agree to supporting documentation. As a result, one vendor was erroneously set up with an invalid bank account that was associated with a different vendor. Accounts Payable identified the issue, and the Office corrected the error, prior to the payment being processed.
2. A comprehensive report of all vendor master file changes cannot be generated. As such, a complete reconciliation of all vendor master file changes to supporting documentation cannot be performed.
3. IFAS does not restrict multiple bank accounts from being set up for an individual vendor. If this occurs, it is unknown which bank account would apply once a payment is made to a vendor.
4. The IFAS automated emailing system is not turned on for deletions to vendor bank account information.

Having no monitoring activity to ensure changes made to the vendor master file agree to supporting documentation, not having a comprehensive report of all vendor master file changes, and not turning on the IFAS automated emailing system for vendors with deleted banking information could lead to unauthorized payments that could result in financial loss to the County.

## **ISSUES AND RECOMMENDATIONS**

### **IFAS Related Issue – Vendor Master File Changes (Continued)**

#### **Recommendations**

1. Until PeopleSoft is implemented, the Office should implement a monitoring activity to agree bank account changes to the vendor master file to the supporting documentation. In order to determine or identify potential invalid bank accounts, the Office should work with the County Auditor Office's Continuous Audit Department to implement a daily detective control for vendors with multiple bank accounts. In addition, the Office should utilize the IFAS automated emailing system, which lists bank account changes for the previous day to ensure all bank account changes reconcile to supporting documentation.
2. The Office should consult with US and turn on the IFAS automated emailing system for deleted vendor updates related to vendor bank account changes. The IFAS automated emailing system should be reviewed by Office Management who do not have access to make changes to the vendor master file.

#### **Management Response**

During the course of the audit, Vendor Verification implemented a procedural change to verify bank account changes in the vendor master file to the supporting documentation approving the PEID request and returning it to Accounts Payable.

We will work with the Continuous Audit Department to develop a report which identifies vendors with multiple bank accounts.

We will consult with US to turn on the IFAS automated emailing system for deleted vendor bank account data. The IFAS automated emailing system data shall be reviewed by Office Management who do not have access to make any changes to the vendor master file.

## ISSUES AND RECOMMENDATIONS

### Vendor Risk Classification

#### Background

During the formation of the Office, a planning session occurred that informally established risk classifications types for the numerous vendors that transact with the County. Based on the conclusion of the meeting, which included management personnel from Accounts Payable, Revenue Accounting, Audit Services, and the County Auditor, 19 vendor types were established. Each vendor type was then assigned a risk level of either High or Low. Vendor verification procedures were then created and incorporated into the County Auditor's Auditor-Only Operations Procedure 6-11, *Processing and Merging PEIDS*, and D.1-2, *Electronic Vendor Payments*, as well as the Office's internal policies. Limited documentation exists regarding the process used to support vendor risk types and related verification levels.

#### Issue

There is no formal documentation of the process utilized to support the established vendor types and associated risk classifications.

The lack of documentation inhibits the Office's ability to identify, develop, and administer effective measures to ensure appropriate responses to identified risks.

#### Recommendations

1. The Office should prepare formal documentation regarding the classification of vendors into the 19 categories currently established. At a minimum, the documentation should include definitions of the classification type, and details regarding potential for reclassification between vendor types. The documentation should also establish a rationale for factors utilized for determining risk levels and be approved by Executive Management.
2. The Office should establish, at a minimum, an annual review process to assess changes in the business environment and any adjustments to the County's services and functions.

#### Management Response

We agree to review the vendor risk classifications on an annual basis and to establish rationale for factors utilized in determining the risk level. The vendor risk classification shall be approved by Executive Management.