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

July 15, 2022

Dear Dr. Luis Arturo Sanchez, M.D., Executive Director & Chief Medical Examiner:

The Harris County Auditor's Office Audit Division has completed a financial controls audit of the Institute of Forensic Sciences. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

Michael Post
County Auditor

Report Copies:
  District Judges
  County Judge Lina Hidalgo
  Commissioners:
      R. Jack Cagle
      Rodney Ellis
      Adrian Garcia
      Tom Ramsey
  Christian Menefee
  David Berry

Executive Summary

OVERALL CONCLUSION

Our testing confirmed capital assets existed, and procurement and travel card expenditures complied with Harris County's (County) Procedures. Also, revenue generating contracts complied with the terms of the agreements and petty cash reconciled to the authorized amount. However, several of the Institute of Forensic Science's (IFS) internal controls have opportunities for improvement, such as improper PeopleSoft access and segregation of duties issues within the supplier payment and cash receipting processes. Additionally, supplier invoices are not processed correctly, and cash receipt batches are not posted timely. These issues were discussed with Management and an action plan has been developed that will address the issues identified by November 1, 2022.

SCOPE AND OBJECTIVE

The objective of this audit was to evaluate the design and operating effectiveness of the following financial controls for the six-month period ended January 31, 2022:
- Compliance with revenue generating contracts
- Accuracy and completeness of collections recorded in PeopleSoft
- Processes for receiving, reviewing, approving, and paying supplier invoices
- Authorization and reconciliation of petty cash
- Accuracy and authorization of procurement and travel card expenditures
- Completeness and existence of capital assets in PeopleSoft

SUMMARY OF AUDIT ISSUES
- Improper PeopleSoft access and segregation of duties exists within the supplier payment and cash receipting processes.
- Supplier invoices are not processed correctly.
- Cash receipt batches are not posted timely.

The audit issues, management's action plan to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to IFS.

ISSUE #1: Improper Segregation of Duties and PeopleSoft Access [HIGH]

What is the Issue: Improper PeopleSoft access and lack of segregation of duties exists within the supplier payment and cash receipting processes. Specifically, the following was noted during testing:

Supplier Payment Process
- Three employees have access to authorize a purchase order (PO), receive goods or services, and authorize invoices for payment. The combined ability to perform these functions creates a segregation of duties issue.
- Two employees have access to receive goods or services and four employees have access to create or maintain POs and requisitions. This access is not required to perform their respective job functions.

Cash Receipting Process
- One employee can deposit funds, enter cash receipts, enter deposits for cash receipts, balance the funds with the receipts, update cash receipts, and void existing receipts. The combined ability to perform these functions creates a segregation of duties issue.
- Eight employees have access to enter cash receipts. This process is not required to perform their respective job functions.

Why it Happened: Management did not understand user role functionality within PeopleSoft due to the limited role descriptions and permissions provided by the County's Universal Services (US). As a result, Management did not identify these issues during their annual review of PeopleSoft system access.

Why it Matters: Improper system access and segregation of duties could result in unauthorized transactions, misappropriation of assets, or financial loss to the County.

What is Expected: Pursuant to the County's Internal Controls Manual, management should organize their department to promote proper segregation of duties. In addition, US's *Information Security Access Control Policy* Section C.1.1, states that "individuals must only be granted access to the systems, applications and data required to perform their respective job functions."

What Actions are Suggested: Management should coordinate with US to gain an understanding of the functionality provided by PeopleSoft user access roles. Subsequently, Management should align user access roles to job functions and ensure segregation of duties.

MANAGEMENT'S ACTION PLAN

Responsible Party: Andrea Cervin, Senior Director, Finance & Administration

Management has already taken steps to rectify the noted deficiencies, including removing access from certain individuals. Another review of employee access and job duties will be performed at the beginning of the fiscal year, and annually thereafter. Language describing this annual review of access and job responsibilities will be added to an existing standard operating procedure (SOP). Management will also identify and train additional employees to authorize POs, balance funds, update cash receipts, and void existing receipts to further separate duties.

More specifically:
- Access permissions in STARS have been restricted for two of the three employees who were able to authorize a PO, receive goods or services, and authorize invoices for payment in STARS.
- An employee will be designated as a new backup for completing PO requisitions and first level approvals. Once a new backup is trained, management will remove the third person's ability to authorize POs.
- Any unnecessary accesses for receiving goods, placing PO requisitions, and entering cash receipts has been removed.
- Management will designate a primary person for balancing funds, updating cash receipts, and voiding existing receipts. Once this person is trained, management will remove these functions from the employee with all the cash receipting permissions.

Due Date: November 1, 2022

ISSUE #2: Processing of Supplier Invoices do not Always Follow Required Processes [HIGH]

What is the Issue: Testing of 60 supplier invoices identified the following issues:

- Eleven invoices were not paid timely. The payments were required to be paid before the 31st day of the later of receiving the supplier invoice or physically receiving the items or services.
- Four invoices were not reviewed and approved timely in the Audit Invoice Review System (AIR). The approvals were between 7 to 18 days after the later of receiving the supplier invoice or physically receiving the items or services.
- Twelve invoices were authorized for payment in AIR without receipting the items or services in PeopleSoft although they were physically received.
- Nine items or services were receipted in PeopleSoft prior to physically receiving the items or services. However, this did not result in payment because receiving was done prior to County Auditor's Office - Accounts Payable receiving the invoice from the vendor.
- Twenty-nine annotations in AIR for accepted invoices contained inaccurate and/or missing PO or receipt numbers needed by the Accounts Payable to process payments.

Why it Happened: A lack of employee training on PeopleSoft invoice processing and a payment monitoring control to determine the timeliness and accuracy of invoice processes.

Why it Matters: Untimely payment of supplier invoices is non-compliant with Texas Government Code §2251.021. Additionally, receipting items/services into PeopleSoft prior to physically receiving them may result in prematurely paying for incorrect or incomplete invoices.

What is Expected: Texas Government Code §2251.021 states that "a payment by a governmental entity is overdue on the 31st day after the later of: (1) the date the governmental 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 services."

The County's Internal Control Manual states that "departments should ensure they have well-written policies and procedures which address their significant processes and provide a basis for accountability, performance standards, and reporting relationships."

What Actions are Suggested: Management should develop and implement desk procedures for invoice processing and provide training on these procedures to the applicable employees.

Additionally, Management should monitor PeopleSoft transactions to ensure the following and re-educate employees on proper procedures to follow when anomalies are identified:
- Invoices are timely reviewed and approved in AIR.
- Invoices are not authorized for payment in AIR prior to receiving the items or services in PeopleSoft.
- Items or services are received in PeopleSoft in a timely manner and only after they are physically received.
- Invoice annotations in AIR for PO and receipt numbers are timely, accurate, and complete.

MANAGEMENT'S ACTION PLAN

Responsible Party: Andrea Cervin, Senior Director, Finance & Administration
Currently, an SOP exists for the purchasing process. Management will not only update this SOP, but will also create a separate procedure for the payment protocol. The new SOP will instruct employees to authorize payments only if goods/services are received and acceptable documentation is used for receipting in STARS. The SOP will also address requirements for authorizing invoice payment in AIR (e.g., if there is a Purchase Order and a Receipt number for the invoice in STARS).

A training manual will be created for the payment process and personnel will be retrained with it in order to ensure proper documentation in AIR. The SOP and training will also reinforce the need for timely reviewing of invoices.

Additionally, a documented check of AIR will be conducted on a weekly basis to view what is pending, how old the pending invoices are, and what actions have been taken to address problematic items.

Due Date: November 1, 2022

ISSUE #3: Cash Receipt Batches not Consistently Posted Timely [MODERATE]

What is the Issue: IFS is not posting the daily closeout of cash receipt batches to PeopleSoft timely. Nine of 60 cash receipt batches tested were posted between 2 and 11 days late.

Why it Happened: Management does not have monitoring controls in place to ensure cash receipt batches are posted timely. Furthermore, Management has not cross-trained a backup person to post cash receipt batches to PeopleSoft when the supervisor is out of the office.

Why it Matters: Not posting cash receipt batches timely reduces Management's ability to detect discrepancies when performing reconciliations between actual cash collected and recorded amounts.

What is Expected: Pursuant to the County Auditor's Accounting Procedure A.1 *Cash Handling Guidelines*, employees should be cross trained in each other's duties and rotated occasionally to provide for a backup to minimize the burden of staff out of the office. Additionally, it is best practice to post cash receipt batches into PeopleSoft at least daily or by the next business day.

What Action(s) are Suggested: Management should implement controls to ensure cash receipt batches are posted timely. Furthermore, Management should cross train an employee to post cash receipt batches when the supervisor is out of the office.

MANAGEMENT'S ACTION PLAN

Responsible Party: Andrea Cervin, Senior Director, Finance & Administration

Management will revise the SOP for this process to include a biweekly documented check of cash receipts and supervisor verification of timely posting. In addition, an employee has been identified and trained as a backup for the daily posting of batches.

Due Date: November 1, 2022

BACKGROUND

IFS is a science-based, independent operation comprised of two distinct forensic services for the community: 1) The Medical Examiner Service and 2) The Crime Laboratory Service. The Medical Examiner Service investigates sudden deaths and deaths resulting from physical or chemical injury to determine the cause and manner of death and to preserve evidence. The service encompasses the fields of Forensic Investigations, Forensic Pathology and Morgue Services, Forensic Anthropology, Forensic Imaging, and Histology. The Crime Laboratory Service analyzes evidence and includes five distinct disciplines: Drug Chemistry, Firearms Identification, Forensic Genetics (serology/DNA), Forensic Toxicology, and Trace Evidence.

The IFS Financial Services Division is responsible for carrying out the fiscal duties of IFS, including budget management, procurement, accounts receivable and payables, grants, property inventory, equipment maintenance, and payroll/benefits.

ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official 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.