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

June 3, 2022

Dear Mr. Dopslauf, Purchasing Agent, and Ms. Wilks Garcia, First Assistant County Auditor:

The Harris County Auditor's Office Audit Division has completed the Supplier Change Management Audit. 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 at 713-274-5673.

Sincerely,

Errika Perkins

Errika Perkins
Chief Assistant County Auditor

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

	INTERNAL AUDIT REPORT
	SUPPLIER CHANGE MANAGEMENT
	JUNE 3, 2022

Executive Summary

OVERALL CONCLUSION

Internal controls over the Purchasing Agent and Auditor's Office supplier change management processes are generally effective. However, we noted that as of the January 2022, 1,678 (11.6%) of the County's suppliers with an outside party classification had only a P.O. Box address recorded in PeopleSoft. According to the American Institute of Certified Public Accountants (AICPA), the risk of fictitious vendors, shell companies, or phantom vendor schemes increases when a supplier doesn't provide a physical address. Purchasing should create guidelines that require physical addresses for suppliers and allow P.O. Boxes only on an exception basis.

Additionally, we identified an issue regarding the lack of a periodic Supplier Table cleanup and deactivating inactive suppliers. This issue was discussed with Purchasing's management and a management action plan has been developed that will address the issue identified by August 31, 2022.

SCOPE AND OBJECTIVE

Internal audit conducted an audit of the controls over the Supplier Change Management processes for the period of June 1 through November 30, 2021. The objectives of this engagement were to:

- Review desk procedures for the Purchasing Vendor Management and Auditor's Office Revenue Accounting Vendor Verification teams for reasonableness.
- Evaluate PeopleSoft system access and security roles for the Supplier Tables.
- Selectively test to determine whether supplier additions and changes are properly supported and approved.
- Determine whether the Supplier Tables are periodically reviewed for completeness and accuracy.
- Test to determine whether the Supplier Tables contain debarred or suspended suppliers.

SUMMARY OF AUDIT ISSUE

Purchasing is not performing a periodic Supplier Table cleanup and they are not consistently deactivating inactive suppliers.

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

AUDIT ISSUE

ISSUE: Controls Over the Supplier Tables Need Improvement [MODERATE]

What is the Issue: Purchasing is not performing a periodic Supplier Table cleanup and they are not consistently deactivating inactive suppliers.

Why it Happened: Purchasing does not have a formal policy governing a periodic Supplier Table cleanup. In addition, the automated deactivation control for inactive Suppliers in PeopleSoft was not implemented.

Why it Matters: Not having a periodic Supplier Table cleanup has resulted in 31 duplicate suppliers and 11 additional suppliers with incomplete addresses. In addition, not activating the PeopleSoft inactive supplier control has resulted in 336 active suppliers with no transactions within the last 18 months.

What is Expected: It is best practice to perform a periodic Supplier Table cleanup and deactivate inactive suppliers to reduce the risk of duplicate payments or payments to the incorrect supplier.

What Action(s) are Suggested: Purchasing Management should deactivate the duplicate suppliers noted above and correct suppliers with missing address information. Additionally, Management should implement a formal policy governing a periodic cleanup of the PeopleSoft Supplier Tables. Furthermore, Purchasing should coordinate with Universal Services and the Auditor's Office to evaluate the feasibility of activating the PeopleSoft inactive supplier control.

MANAGEMENT'S ACTION PLAN

Responsible Party: DeWight Dopslauf, Purchasing Agent

Purchasing agrees with this issue. We will deactivate the duplicate suppliers noted above and correct suppliers with missing address information. Additionally, Purchasing Management will implement a formal policy governing a periodic cleanup of the PeopleSoft Supplier Tables and coordinate with the appropriate departments to evaluate the enabling of the PeopleSoft inactive supplier control.
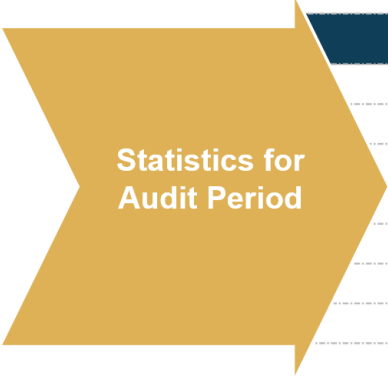
Due Date: August 31, 2022

Supplier Tables

The PeopleSoft Supplier Tables are a listing of County approved suppliers that are used to pay for goods or services by County departments. County approved suppliers contain many classifications, such as outside party, corporations, limited liability companies, individuals, and others.

The creation of new suppliers or changes to existing suppliers within PeopleSoft require 2 levels of workflow approval. Management from the Purchasing Vendor Change Management team performs the first level of workflow approval. This approval is granted or denied based on the initial entry into the system and related supporting documentation, such as the supplier Information Form, W-9, and IRS e-serve. The second level of workflow approval is provided by the Auditor's Office Revenue Accounting Vendor Verification team. The Vendor Verification team authenticates the validity of the supplier based on the supporting documentation.

Supplier Tables – June 1, 2021 to November 30, 2021

Statistics for Audit Period

Description	Quantity
Total number of suppliers in the supplier tables	14,463
Total number of suppliers added	1,086
Suppliers with a change in their bank account number	231
Suppliers that had a change in their tax identification number	31
Suppliers that had a change in their address	209
Suppliers that had a change in their name	160
Suppliers that were re-activated	5

Debarment and Suspension of Suppliers

Harris County is disallowed from entering into any contract with an organization that is debarred or suspended or is otherwise excluded from or ineligible for participation in the Federal assistance programs under Executive Order 12549, "Debarment and Suspension." To comply with this Executive Order, the Purchasing Office verifies the eligibility and debarment status of suppliers prior to award if the contract: 1) requires Commissioners Court approval, 2) exceeds $50,000, or 3) is funded through Federal assistance or grants. This validation is also conducted for renewals of contract(s), changes of contract(s), amendments, or as otherwise necessary for all applicable projects. Internal Audit compared all the County's active suppliers to the System for Awards Management (SAM.gov) database of excluded vendors and found no matches.

The Purchasing Office includes the following language in all advertised contracts: "The Contractor certifies by execution of this Contract that it is not ineligible for participation in federal or state assistance programs under Executive Order 12549, "Debarment and Suspension." Additionally, contractor warrants and represents by execution of this Contract that it is not debarred, suspended, or otherwise excluded from or ineligible for participation in any Federal programs…"

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.