

AUDITOR'S REPORT

HARRIS HEALTH SYSTEM ACCOUNTS PAYABLE CONTROLS



December 5, 2013

**Barbara J. Schott, C.P.A.
Harris County Auditor**

Mike Post, C.P.A.
Chief Assistant County Auditor
Accounting Division

Mark Ledman, CISA, MPA
Chief Assistant County Auditor
Audit Division



1001 Preston, Suite 800
Houston, Texas 77002-1817
(713) 755-6505

FAX (713) 755-8932
Help Line (713) 755-HELP

BARBARA J. SCHOTT, C.P.A.
HARRIS COUNTY AUDITOR

December 5, 2013

Mr. David Lopez
President and Chief Executive Officer
Harris Health System
2525 Holly Hall
Houston, TX 77054

RE: Harris Health System Accounts Payable Controls for the six months ended January 31, 2013, and as of April 9, 2013 with respect to accounts payable system (PeopleSoft) access testing

The Audit Services Department performed procedures relative to the Harris Health System Accounts Payable Controls. The objective of the engagement was to evaluate Accounts Payable Department (Accounts Payable) critical application controls within PeopleSoft regarding the three-way match (purchase order, receiving document, and vendor invoice), critical controls for processing certain types of voucher payments, and critical controls for vendor master file changes. Our procedures included the following:

- Selectively tested critical information system based controls in PeopleSoft for invoices with purchase orders.
- Selectively tested critical controls for processing certain types of non-purchase order voucher payments for the four months ended December 31, 2012 (excluding employee related payments generated through the payroll system and patient refund payments).
- Evaluated critical controls for vendor master file changes.

The engagement process included providing you with a combined engagement and scope letter and conducting entrance and exit conferences with your personnel. The purpose of the letter 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 enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

Mr. David Lopez
President and Chief Executive Officer

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

Sincerely,



Barbara J. Schott
County Auditor

cc: Harris Health System Board of Managers
District Judges
County Judge Ed Emmett
Commissioners:
 R. Jack Cagle
 El Franco Lee
 Jack Morman
 Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

Payments to vendors, except employee paychecks and wire transfers, are made through Accounts Payable. Accounts Payable processes payments using PeopleSoft which includes automated controls that ensure that certain types of payments are for legitimate liabilities and for the authorized amounts. During the four months ended December 31, 2012, \$152.5 million in payments were made through Accounts Payable. The following table presents dollars paid during the period by payment method:

Payment Method	Dollars (000's)
Check	\$129,658
Automated Clearing House (ACH)	22,814
TOTAL	\$152,472

Accounts Payable prepares payments from vendor invoices received. Vendors are instructed to send original invoices directly to Accounts Payable by mail, or to submit them electronically. Payments which do not require a purchase order are paid from payment request forms completed by employees in Harris Health System departments and submitted to Accounts Payable.

To initiate payments, Accounts Payable employees (AP Analyst) manually record the information from the invoices or payment request forms in PeopleSoft, which creates an electronic invoice (voucher) and allows Accounts Payable Management to generate a payment by check or ACH. In addition, electronic invoices are submitted by vendors through an electronic data exchange (EDI) and recorded through an electronic interface to PeopleSoft in order to create vouchers.

Some vouchers are also created through the transfer of information through an interface with the Harris Health System payroll system (for payroll related payments such as tax remittances) or patient billing system (for patient refunds). Controls for payments of vouchers created through these transfers were not evaluated in this engagement and will be evaluated in separate engagements.

To prevent payment of invoices that have already been entered and paid, PeopleSoft searches historical records when vouchers are created to identify payments for the same vendor number, invoice number, gross invoice amount, and invoice date. PeopleSoft also searches for payments to the same business unit for payments not requiring a purchase order. PeopleSoft will not allow payment of an invoice identified as already paid.

Payments with Purchase Orders

Purchase orders are created by Harris County Purchasing employees (Buyers) from orders placed by Harris Health System employees. For payments associated with a purchase order, PeopleSoft compares information from the purchase order to information on the voucher. If the comparison reveals an overcharge, PeopleSoft will not allow payment of the invoice.

PeopleSoft also searches historical records to verify that the goods or services associated with an invoice were received. PeopleSoft will not allow payment for goods or services not recorded as received by an authorized Harris Health System employee.

Invoices that PeopleSoft will not allow to be paid (match exceptions) are automatically reported to appropriate personnel at Harris Health System or at Harris County Purchasing for research. PeopleSoft will not process the payment unless there is resolution to the cause of the match exception.

Payments Not Requiring a Purchase Order (Non PO Vouchers)

Non PO Voucher payments such as the types presented below do not require purchase orders:

- Retiree insurance
- Utilities
- Tuition
- Reimbursement of employee travel and other expenses
- Subscriptions, publications, and seminars
- Items under \$100 not requiring a purchase order

Payment request forms for Non PO Voucher payments must be approved by the appropriate levels of management and have adequate supporting documentation attached. The Manager of Accounts Payable and AP Analysts review for the appropriate levels of approvals and documentation before recording the information in PeopleSoft to create vouchers.

Vendor Master Controls

PeopleSoft will not allow payment to vendors that do not have active records in the PeopleSoft vendor master file (Vendor Master). PeopleSoft will not allow payments to be sent to an address that is not in the Vendor Master.

The number of employees with access to the Vendor Master and the ability to add new vendors or change existing vendor records is limited. Requests to add new vendors or change existing vendor information are initiated by Harris County Purchasing, or by Harris Health System employees, by submitting a *Vendor Add/Update* form to Account Payable.

RESULTS

Based on procedures performed, critical information system based controls in PeopleSoft for matching purchase orders, receiving documentation, and vendor invoices were effective in ensuring that payments were for legitimate liabilities and for the correct amounts. PeopleSoft controls to prevent the duplicate payment of invoices or to prevent paying unauthorized vendors also operated effectively.

In addition, controls for Non PO Voucher payments provided adequate assurance that requests for payments were appropriately approved and documented.

Although controls reviewed were working effectively, some opportunities for improvement were identified as follows:

- The ability to change information in the Vendor Master should be restricted to employees that work outside of Accounts Payable and are not able to create vouchers.
- Procedures and automated reporting should be developed to ensure all changes to the Vendor Master are reported to Management for review.
- Processes should be changed to allow PeopleSoft to identify duplicate invoices if the invoices are rebilled with different dates, or the invoices are recurring and do not have unique invoice numbers.
- Changes should be implemented to achieve consistency between the procedure and the practice for the Non PO Vouchers.

These and other issues are discussed in more detail in the Issues and Recommendations matrix below.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Separation of Duties - Vendor Master		<p>The Assistant Manager and Manager of Accounts Payable have access rights in PeopleSoft which allow them to change information in the Vendor Master and to create vouchers. As a result, there is an increased risk of improper payments because of inadequate separation of duties.</p> <p>Vouchers created by the Assistant Manager and Manager during the four months ended December 31, 2012 were reviewed and no unusual payments were identified.</p>	Fiscal Services Management should restrict access rights to change information in the Vendor Master to employees that work outside of Accounts Payable and are not able to create vouchers.	<p>Management agrees with the recommendation and a new process has been developed and was implemented September 27, 2013 as follows.</p> <p>Current roles within PeopleSoft for those employees with the ability to create vouchers have been edited such that vendor master access is for inquiry and view only. The ability to edit/update the vendor master is assigned by job code and requires management approval.</p>
Reviewing Vendor Master Changes	An Accounts Payable employee (the AP Coordinator) records changes to the Vendor Master (adding new vendors and changing information for existing vendors). Changes made are recorded on electronic	There is no automated report that provides the detail of changes made to the Vendor Master. The spreadsheets prepared by the AP Coordinator and sent to the Assistant Manager for review are not tested to ensure all changes	Accounts Payable Management, in conjunction with Information Technology Management, should develop a PeopleSoft report that captures the detail information for all changes to the Vendor Master. If	<p>Management agrees with the recommendation.</p> <p>PeopleSoft has an audit table that tracks all changes to the vendor master. Information Technology has reviewed existing reports and determined a new report</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Reviewing Vendor Master Changes	spreadsheets which are provided to the Assistant Manager each day with copies of related <i>Vendor Add/Update</i> and W-9 forms. The Assistant Manager reviews the electronic spreadsheets and forms to verify the Vendor Master changes were accurate and appropriate.	are included. As a result, there is an increased risk that the electronic spreadsheets provided are not complete, which could result in the Assistant Manager not detecting inappropriate changes to the Vendor Master.	the report is not feasible, the Assistant Manager should test the completeness of the spreadsheets by selectively testing that all Vendor Master changes are on the spreadsheets. In addition, the review of the reports or spreadsheets should be documented to allow verification that the procedures were performed.	needed to be developed to insure automated reporting against that audit table. The report specifications have been developed and submitted October 9, 2013. Report implementation is scheduled for November 15, 2013. Documentation of reviews will be noted on the reports effective with implementation
Duplicate Payments		Computer Assisted Auditing Techniques (CAATs) identified six invoices paid during the four months ended December 31, 2012, that were paid twice because the same invoice was processed with different invoice dates. The six invoices resulted in overpayments totaling \$4,166. Of the \$4,166, \$3,000 were identified and recovered by Accounts Payable before our	Accounts Payable Management, in conjunction with IT Management, should develop procedures to identify duplicate invoices where the invoice dates are different because the invoices were rebilled. Also, standard invoice numbering conventions should be developed and used for recurring vendor invoices without unique	Management agrees with the recommendation. Standard invoice numbering conventions have been previously developed. However, the process is manual and subject to human error. It is estimated that approximately 3,300 such invoices were processed during the period audited, an average of 830 a month. At this time an automated methodology for reviewing these issues that is more

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Duplicate Payments		<p>procedures.</p> <p>Also, it was observed that recurring vendor invoices without unique invoice numbers are recorded to PeopleSoft with generic invoice numbers or account numbers.</p> <p>These situations increase the risk that invoices already paid will not be identified by PeopleSoft, and that a duplicate payment could occur.</p>	invoice numbers.	<p>beneficial than costly has not been identified. As \$3,000 of the \$4,166 invoices noted in the audit had been previously identified and recovered, there is evidence that other compensating controls are in place and working.</p> <p>In addition, a system upgrade is scheduled for the fall of 2014 and will include a review of this issue for more efficient methodologies.</p>
Approval of Non PO Vouchers	Accounts Payable's procedure, <i>Non PO Voucher</i> , states that the approval of the Manager of Accounts Payable is required for all payments without purchase orders.	The Manager of Accounts Payable informed us that although all <i>Non PO Vouchers</i> are reviewed as they are distributed to AP Analyst for processing, only those greater than \$10,000 are initialed as approved. Because there is no requirement for documentation supporting the Manager's review of payments less than	Account Payable Management should implement a process for documenting the Manager's review of Non PO Vouchers less than \$10,000, such as by having the Manager stamp the forms as approved as they are distributed to AP Analysts.	Management agrees with the recommendation and a stamp has been ordered to document review of Non PO Vouchers less than \$10,000 effective November 1, 2013.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Approval of Non PO Vouchers		\$10,000, there is an increased risk that the review will not be performed.		
Match Exceptions	Liabilities associated with match exceptions are recorded in the financial records and remain as recorded liabilities while the match exceptions are researched for clearing.	<p>Of 1,362 match exceptions with a value of \$1,841,857 included on the March 20, 2013 Match Exception Report, 222 with a value of \$118,120 (6.4%), were over six months old. The aged match exceptions identified should be evaluated to determine whether they still represent potential liabilities.</p> <p>Not evaluating aged match exceptions increases the risk that those no longer representing liabilities will not be identified, increasing the risk that liabilities in the financial records are overstated.</p>	Accounts Payable Management, in conjunction with Harris County Purchasing, Harris Health System Materials Management, and Financial Accounting should evaluate the aged match exceptions identified to determine whether they continue to represent potential liabilities. Any match exceptions that are determined not to still represent liabilities should be removed from accrued liabilities recorded to the financial records.	Financial Accounting uses two tools on a routine basis that address the items included on the match exception report – a “receipt accrual report” and an “R500 match exception report”. The receipt accrual report, which represents a liability, is reviewed each month end for financial reporting purposes as well as on a continuing basis. Aging receipts that have not been invoiced and paid are reviewed to insure the appropriateness of a liability and if determined to no longer represent a liability, the receipts are submitted to materials management for reversal. In addition, exceptions created by invoices without a matching receiver are reviewed for

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Match Exceptions				accrual on a monthly basis. The reports are further scrubbed by both accounts payable and financial accounting on an annual basis.
Semi-Annual Application Audit	The Harris Health System's Application Semi-Annual Security Audit Procedure requires a review of users two times each year to confirm that PeopleSoft Accounts Payable system access conforms to Information Technology Management security procedures. We were informed that an employee at the Manager level or higher is required to review and approve the review.	Documentation for the semi-annual security review as of November 2012 was approved by the Assistant Manager. Not having the Manager approve the documentation for the semi-annual security review could result in the review not being performed at the desired level of management.	Accounts Payable Management should require the Manager to approve documentation for the performance of the semi-annual security review.	Management has consulted with the Information Technology department and believes this is an isolated incident as previous and subsequent reviews were reviewed/signed. Security reviews are to be submitted by the manager to both Information Technology and the Controller.
Conflicts of Interest - Vendor Master		Vendor information from the Vendor Master is not routinely compared to Harris Health System employee information to detect possible conflicts of interest. In March 2012, the Corporate Compliance	Accounts Payable Management, in conjunction with Corporate Compliance Management, should develop a routine process for comparing employee and vendor information for unreported	<i>Corporate Compliance Management Response:</i> Agree. In March 2012, Corporate Compliance compared employee and dependent information against the Vendor Master for undisclosed conflicts of

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Conflicts of Interest - Vendor Master</p>		<p>Department compared employee and dependent information against the Vendor Master for undisclosed conflicts of interest, but this was not an established procedure.</p> <p>Not routinely comparing employee and vendor information could result in not detecting undisclosed conflicts of interest or fraudulent activity.</p>	<p>conflicts of interests.</p>	<p>interest (COI). Harris Health is currently in the process of revising the COI policy, disclosure procedures, and resolution methodology. Corporate Compliance will also implement regular and/or continuous monitoring to provide reasonable assurance that COI relationships are detected.</p>

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

Inherent Risk:	Control Risk:		Overall Risk:
<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low	Prior to Procedures	After Procedures	<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low
	Adequate	Adequate	
Type of Procedures: Audit			
Purpose: Evaluate Accounts Payable Department (Accounts Payable) critical application controls within the accounts payable processing and payment system (PeopleSoft) regarding the three-way match (purchase order, receiving document, and vendor invoice), critical controls for processing certain types of voucher payments, and critical controls for vendor master file changes.			
Outstanding Audit Recommendations:			
Priority Rating:	Audit Recommendations: Harris Health System		
1	Restrict access rights to change information in the Vendor Master to employees that work outside of Accounts Payable and are not able to create vouchers.		
1	Develop a PeopleSoft report that captures the detail information for all changes to the Vendor Master. If the report is not feasible, test the completeness of the spreadsheets by selectively testing that all Vendor Master changes are on the spreadsheets. The review of the reports or spreadsheets should be documented to allow verification that the procedures were performed.		
1	Develop procedures to identify duplicate invoices where the invoice dates are different because the invoices were rebilled. Standard invoice numbering conventions should be developed and used for recurring vendor invoices without unique invoice numbers.		
1	Implement a process for documenting the Manager's review of Non PO Vouchers less than \$10,000, such as having the Manager stamp the forms as approved as they are distributed to AP Analysts.		

2	Routinely evaluate aged match exceptions to determine whether they continue to represent potential liabilities. Any match exceptions that are determined not to still represent liabilities should be removed from accrued liabilities recorded to the financial records.
1	Require the Manager to approve documentation for the performance of the semi-annual security review.
2	Develop a routine process for comparing employee and vendor information to determine whether there are unreported conflicts of interests.
Priority Rating	<ol style="list-style-type: none"> 1. Implement immediately (30 – 90 days) – Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. Work towards implementing (6 – 18 months) – Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. Implement in the future (two – three years) – Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).