

AUDITOR'S REPORT

CONTINUOUS AUDITING ANALYTICS FOR THE FOUR MONTH PERIOD ENDED FEBRUARY 28, 2015



May 1, 2015

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HARRIS COUNTY AUDITOR

May 1, 2015

Mr. Mike Post
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Houston, Texas 77002

RE: Continuous Auditing Analytics for the four month period ended February 28, 2015

The purpose of this letter is to present the results of the Continuous Auditing Department (Continuous Auditing) analytics for the four month period ended February 28, 2015. Continuous Auditing provides a near real-time capability to review financial related information by automating the identification of exceptions to the Auditor's Office policies and procedures. Our procedures included three primary analyses:

- 1) Prior to every Commissioner's Court (every 2-3 weeks) an analysis validates that 100% of claims submitted by Aetna for reimbursement are for covered individuals.
- 2) A daily analysis to monitor change controls relative to security, configuration, and user access on the County's primary financial system.
- 3) Routine monitoring and analysis of security override privileges relative to cash handling.

The enclosed Auditor's Report presents information concerning these analytics performed during the period. While a few minor items were identified, none were significant. We appreciate the time and attention provided by you and your staff during this ongoing engagement.

Sincerely,

A handwritten signature in blue ink that reads "Barbara J. Schott".

Barbara J. Schott
County Auditor

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

TABLE OF CONTENTS

OVERVIEW	3
RESULTS	5

OVERVIEW

BACKGROUND

Continuous Auditing performs auditing activities on an ongoing basis. This includes, but is not limited to:

- Analysis of health insurance claims.
- Daily monitoring of changes within the County’s financial system.
- Monthly review of user access relative to cash handling.

While management is responsible for the results of operations and the fair presentation of the financial statements in conformity with Generally Accepted Accounting Principles (GAAP), Continuous Auditing provides a near real-time capability to review financial related information by automating the identification of exceptions through the use of Computer Aided Audit Tools and Techniques (CAATTs). Using CAATTs, Continuous Auditing analyzes patterns within key fields, reviews trends, tests controls, and performs other activities for policy and procedure compliance. In many cases, this allows Continuous Auditing to review 100% of all recorded activity.

The current analyses performed are the Health Insurance Claims Analysis, the Change Control Management Analysis, and the Cash Receipt Batch Security Analysis.

HEALTH INSURANCE CLAIMS ANALYSIS

Harris County’s health insurance is self-funded and administered by Aetna. Local Government Code §113.064 requires that the County Auditor review and approve all claims before payment is made.

§113.064. APPROVAL OF CLAIMS BY COUNTY AUDITOR. (a) In a county that has the office of 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. A claim, bill, or account may not be allowed or paid until it has been examined and approved by the auditor.

Continuous Auditing performs a 100% review of the claims submitted by Aetna for reimbursement. If Continuous Auditing cannot verify insurance coverage, then those claims are referred to the Human Resources and Risk Management Department (HRRM) for further investigation and possible refund to the County.

CHANGE CONTROL MANAGEMENT ANALYSIS

Monitoring Change Control Management is important, as changes to the financial system can affect not only what County personnel can do, but also how the system is configured to perform. For example, access should be assigned to County personnel on a “need to know” or “need to do basis”. Unapproved changes to the system may create an issue related to segregation of duties (i.e., the ability to post and approve transactions) or unauthorized access. Therefore, the change control management related to configuration and user access is monitored to ensure that system controls are in place and functioning as intended.

While the Information Technology Center (ITC) is responsible for maintaining the County's financial systems and data, Continuous Auditing works with ITC to monitor changes to the financial systems to ensure the data is properly maintained. On a daily basis, Continuous Auditing performs the following procedures:

- Obtains a download of key system tables provided by ITC.
- Compares every data element on the tables with the value from the previous day, noting any changes.
- Determines if the changes can impact system security, configuration, or user access to financial systems.
- When necessary, obtains appropriate documentation showing management approval.

As it is management's responsibility to approve changes and assess potential impact, Continuous Auditing does not evaluate the appropriateness of the change itself. The purpose of the analysis is to verify that proper Change Control Management is followed, ensuring the integrity of the system security, configuration, and user access to financial systems.

CASH RECEIPT BATCH SECURITY ANALYSIS

The Cash Receipt Batch Security Analysis identifies County employees that have the ability to distribute and update cash payment batches. Numerous locations around the County receive payments (cash, check, charge, etc.). The receipt of a cash payment is entered into the Cash Receipt function via batches. A batch is a grouping of transactions (usually by day, by shift, etc.). Two critical functions related to cash receipts are the ability to distribute (e.g., record) and update existing batches.

The ability to distribute allows the user to record the amount of cash received by a batch. The ability to update existing batches allows the user to open a batch created by another user and edit the information recorded (e.g., the user can change the amount received). Having access to perform both of these functions can be used to override internal controls and should be closely monitored, as the handling of cash has inherent risks not present with other types of transactions. To help identify and monitor individuals who have these control override privileges, a monthly report is produced by Continuous Auditing and distributed to Audit Services and Compliance Audit management. This report can be utilized to assess control risks when planning an audit engagement.

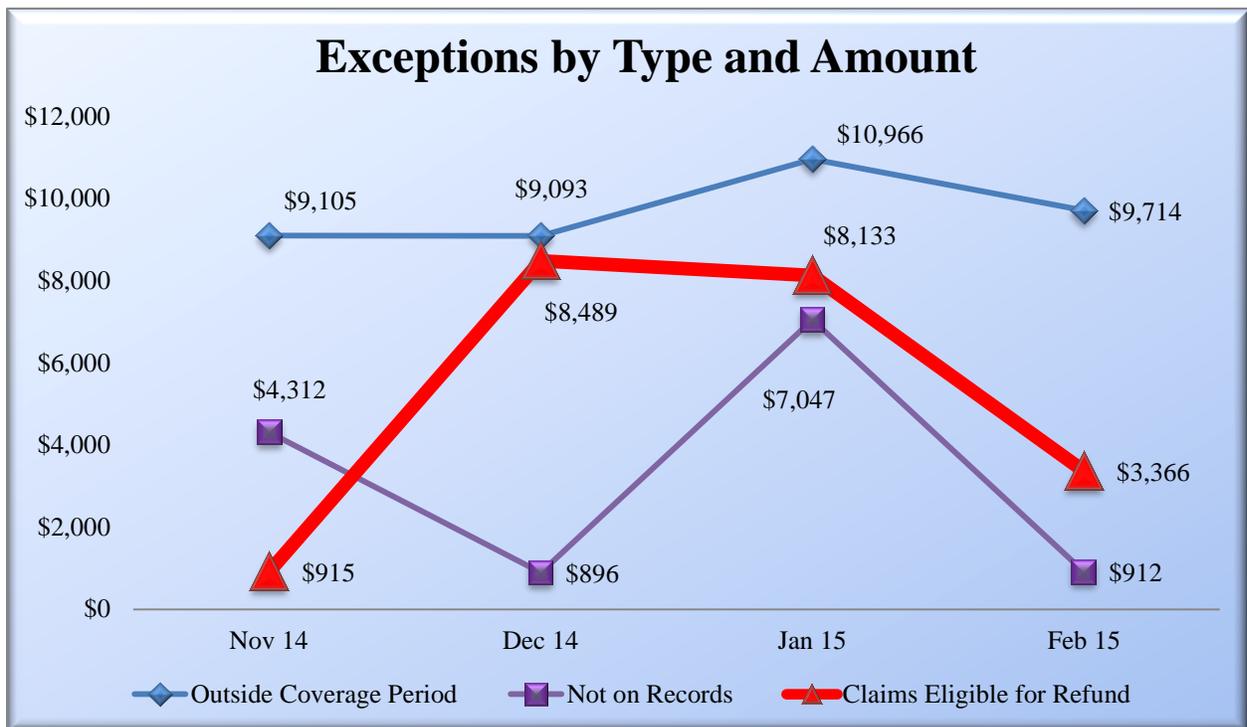
RESULTS

HEALTH INSURANCE CLAIMS ANALYSIS

On a monthly basis, Aetna submits over 75,000 claims requesting the County pay between twelve to fifteen million dollars. The Health Insurance Claims Analysis identifies individuals who are not on Harris County’s insurance records or who received medical services outside of insurance coverage periods. The chart below illustrates the exceptions by type and amount for the months of November 2014 to February 2015. Claims in the blue represent claims for services provided outside of coverage periods (e.g., coverage terminated on January 31st, but services were provided on February 2nd). Claims in purple represent the claims for individuals who were not on the County’s insurance records.

The exceptions identified are turned over to HRRM for further investigation and possible refund to the County. Valid Health Insurance claims may appear as “outside coverage period” or “not on records” due to the time it takes to update the insurance records.

HRRM investigates the potential exceptions and identifies the claims they are requesting for refund from Aetna. For the months of November 2014 through February 2015, the HRRM department has requested refund amounts, as illustrated in red on the chart below.



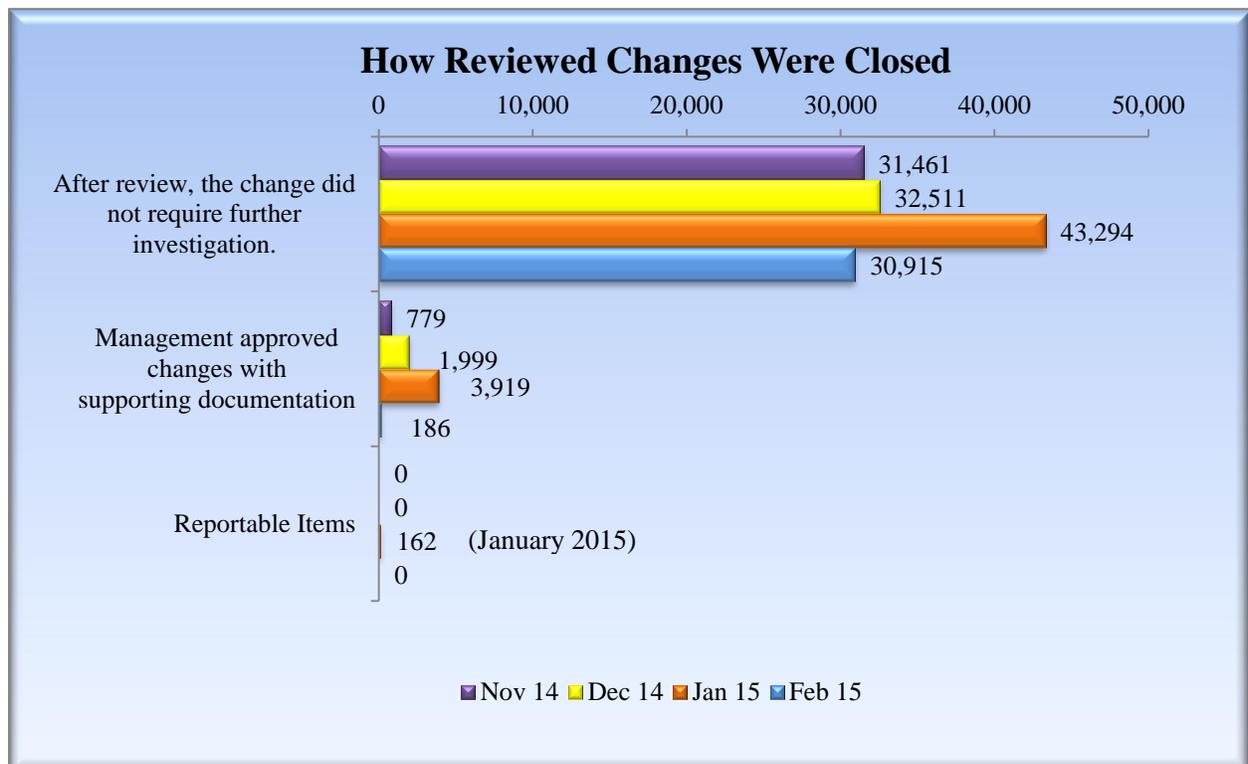
While HRRM has requested \$20,903 in refunds, for this period, no specific procedural issues were identified relative to the claims processing this quarter.

CHANGE CONTROL MANAGEMENT ANALYSIS

The Change Control Management Analysis performs over 4.3 million comparisons a day, identifying changes as explained in the Overview section. On a daily basis, the analysis identifies an average of 4,000 changes. To review these changes, Continuous Auditing uses three monitoring levels to measure the associated risks of the changes. The three levels are Critical, Important and Awareness.

- Critical changes are those that pose an *immediate risk* to the system security on the County’s financial system (e.g., changing posting strategies). These changes require supporting documentation.
- Important changes are those that *may pose a risk* to the system security or the County’s financial system (e.g., granting of certain access to the system). Important changes may require supporting documentation or further review for appropriateness.
- Awareness changes are those that are either *routine in nature* (e.g., a user logging onto the system) or *do not pose a risk* to the system (e.g., adding a printer). Awareness changes may require review for appropriateness or may be closed automatically.

The majority of the changes can be resolved via automated processes and require no further review. Remaining changes are analyzed by Continuous Auditing to determine if supporting documentation is required. The chart below illustrates how those changes were resolved:



The top section of the chart reports the reviewed changes that are closed automatically or required an analytical assessment by Continuous Auditing. As a result of this assessment, Continuous Auditing was able to close the changes without requesting additional documentation (e.g., changes that decreases user access to the system).

The second section of the chart indicates changes that required management approval and supporting documentation. In the months of December (yellow bar) and January (orange bar), a large number of changes, 1,999 and 3,919 respectively, were made by management. These changes were necessary due to end of year maintenance or modifications.

The third section illustrates the reportable items for each month. Reportable items are changes that were made without management approval or not performed properly. For the month of January, the reportable items were due to a routine maintenance process initiated at the wrong time. Central Technology Services (CTS) was able to show that their internal controls had identified and rectified the changes in a timely manner and that the business process owner was aware of the reportable item. As such, the changes did not adversely affect the County financials or system security, the risks were adequately mitigated.

CASH RECEIPT BATCH SECURITY ANALYSIS

The Cash Receipt Batch Security Report is generated every month and provided to Audit Services and Compliance Audit management to review and consider for their engagements. At the start of the period, there were 65 user accounts that could distribute Cash Receipt batches and 30 user accounts that had the ability to update. At the end of the period, there were 67 user accounts that could distribute Cash Receipt batches and 33 user accounts that had the ability to update. During this period, four users were added and Continuous Auditing verified that management approved these additions. All changes throughout the period were communicated to Audit Services and Compliance Audit management.

CONCLUSION

After reviewing 100% of the claims submitted by Aetna, Continuous Auditing was able to provide HRRM with a list of claims to be investigated for possible refund to the County. Additionally, Continuous Auditing noted 162 reportable changes made during the Change Control Management Analysis. CTS's internal controls identified the reportable changes which do not appear to have posed a risk to the County's financial system. Finally, Continuous Auditing's review of security override privileges via the Cash Receipt Batch Security Analysis did not identify any changes that were made without appropriate managerial approval.