

AUDITOR'S REPORT

CONTINUOUS AUDITING ANALYTICS, FOR THE PERIOD FEBRUARY THROUGH APRIL 2014



August 1, 2014

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

August 1, 2014

Mr. Mike Post
Chief Assistant County Auditor – Accounting Division
1001 Preston, 8th Floor
Houston, Texas 77002

RE: Continuous Auditing Analytics For the Period February through April, 2014.

The Continuous Auditing Department performs ongoing procedures to evaluate controls for making changes to 53 key IFAS tables related to security, configuration, and user access. Our procedures included the following:

- Utilizing automated tools to review 100% of all identified changes on a daily basis.
- Determine if the changes affect critical functions relative to the County's financial records.
- Verify that those changes have been approved by the appropriate level of management.

Additionally, prior to every Commissioner's Court an analytic is performed comparing 100% of claims submitted by Aetna with the County's insurance policies. The enclosed Auditor's Report presents information concerning the analytics performed during the period. There were no significant issues identified during our procedures. 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

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OVERVIEW

BACKGROUND

Continuous Auditing involves any automated methods used to perform auditing activities on a more frequent basis. This can include, but not limited to, the daily monitoring of changes within key systems, the bi-weekly analysis of claims, or monthly review of user access.

While management is responsible for the results of operations and the fair presentation of the financial statements in conformity with Generally Acceptable Accounting Principles (GAAP), Continuous Auditing provides a near real-time capability to review financial information by automating the identification of exceptions or anomalies, analyzing patterns within key fields, reviewing trends, testing controls, and other activities. For example, using Computer Assisted Audit Tools and Techniques (CAATTs) 100% of all identified activity can be reviewed. The current analyses performed are:

BASELINE ANALYSIS

Monitoring information system access is important, as information system access controls allow County personnel to perform different financial and accounting functions. For example, some information systems have built in certain checks and balances so that initiators of transactions cannot approve the same transactions as it would be poor separation of duties. As such, information access should be assigned to County personnel on a “need to know” or “need to do” basis.

Similarly, the configuration and set-up of the system is monitored to ensure that the system controls are in place and functioning as intended. The Baseline Analysis is used in evaluating potential problem areas with user system access in a preventive manner.

The Information Technology Center (ITC) is responsible for maintaining the county’s financial systems and data. The Continuous Auditing department coordinates efforts with ITC to obtain the information needed to identify whether the IFAS system and financial data are properly maintained. A series of automated tests monitors 53 key tables (i.e. collections of related information) in IFAS that affect the operations, system security, or the County financial records.

The Baseline Analysis compares the system configuration and key data elements as it exists on one day to how it exists on subsequent days. A basic function of the analysis is to compare the content of every data value with the content of the previous day, thus detecting any changes, additions, or deletions to the system. As it is management’s responsibility to approve changes and assess potential impact, documentation affirming management approval is sought for any changes increasing risks to the system configuration, security, or the County’s financial systems.

CASH RECEIPT BATCH SECURITY REPORT

Numerous locations around the County receive cash payments (cash, check, charge, etc.). The receipt of a cash payment is entered into the Cash Receipt system 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 batches allows the user to record the amount of cash received at a location. The ability to update 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 either of these functions can be used to override normal controls and should be closely monitored as the recording of cash payments poses risks not present with other types of financial transactions. To help identify individuals who have these control overrides, a monthly report is produced by Continuous Auditing and distributed to Audit Services and Compliance Audit management. This report can then be utilized to assess control risks when planning an audit engagement.

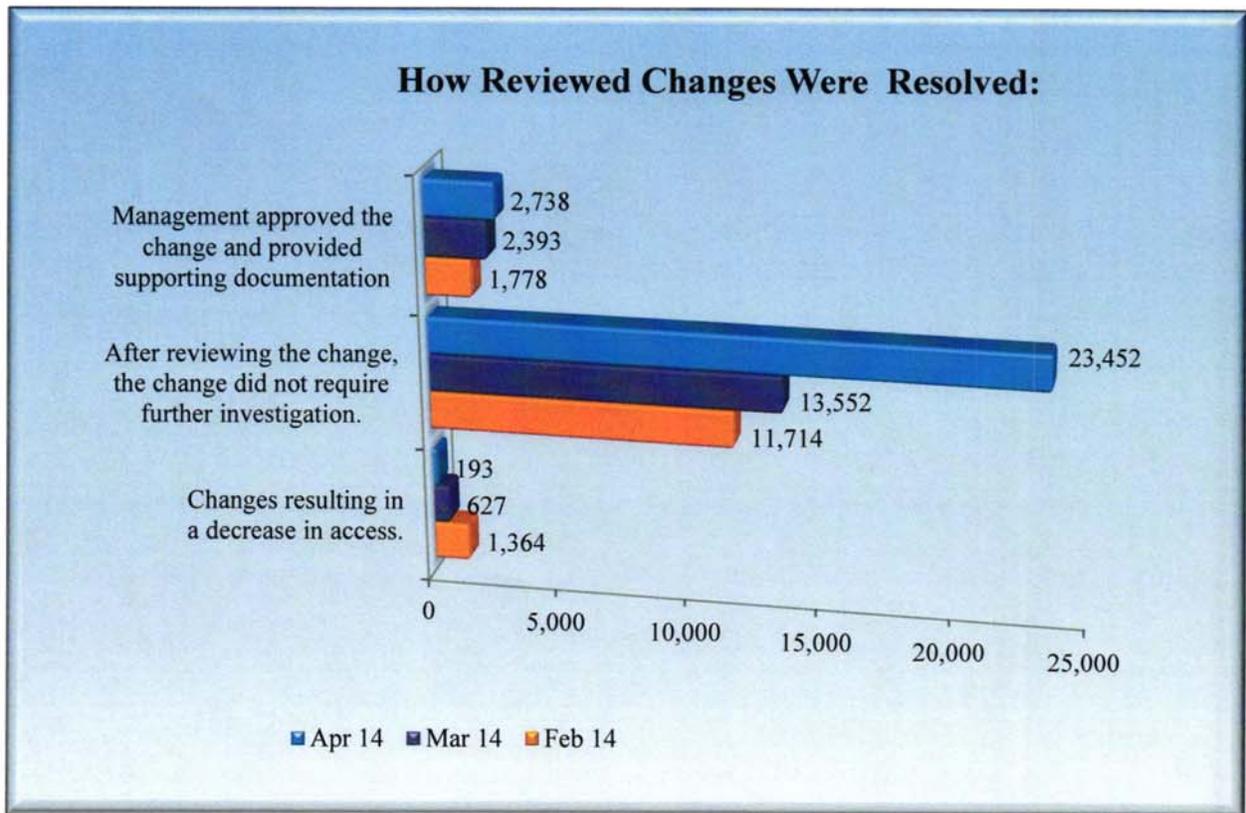
HEALTH INSURANCE CLAIMS ANALYSIS

Harris County's health insurance is self-funded, but administered by Aetna Insurance. Local Government Code §113.064 requires that the County Auditor review and approve all claims before payment is made. The Health Insurance Analysis evaluates 100% of the claims submitted by Aetna for reimbursement. If Continuous Auditing cannot verify coverage, then those claims are turned over to Human Resources: Risk Management (HRRM) for further investigation and possible refund to the County.

RESULTS

BASELINE ANALYSIS

The baseline analysis performs over 4.3 million comparisons a day identifying changes as explained in the overview section. All (100%) of the changes on these key tables are identified, which is approximately between two thousand and five thousand changes daily. The majority of these changes can be resolved via automated processes as they are routine in nature and require no additional follow-up to resolve. The remaining changes are resolved by Continuous Auditing after reviewing the changes against online IFAS resources, information obtained from ITC or department Management, and other Harris County documentation (23,452 Blue Bar) or through supporting documentation requesting the change. As department management has become proactive in providing Continuous Auditing with supporting documentation (often at the same time they submit a request to ITC), Continuous Auditing can close most changes the day they are identified. The chart below illustrates how changes that require additional analysis are resolved:



The number of reviewed changes (23,452) during April 2014 (blue graphs) nearly doubled due to a modification in the workflow process stemming from reassignments in supervisory roles. The changes in supervisory roles were supported by management documentation, but those changes affected other records that Continuous Auditing had to be reconcile (e.g. if you have user ranked 1 to 100, and the second user is removed then all of the subsequent users move up a position.).

After reviewing the changes, the system functionality had not been affected beyond management intent.

The changes identified for review (2,738 blue bar) were resolved with supporting documentation provided by Management approving the change. This reflects a 60% increase in the number of changes approved by management over February (orange bar).

The minority of the changes (193 blue bar) were changes where the system user access was actually decreased. Decreases in access are generally not investigated further as the user's access no longer poses the same risks it had.

In conclusion, during the three month period from February through April 2014, there were no identified unauthorized changes to critical systems reviewed by Continuous Auditing. Management either requested all of the changes or Continuous Auditing were able to resolve the changes.

CASH RECEIPT BATCH SECURITY REPORT

The Cash Receipt Security Report is generated every month and provided to Audit Services and Compliance Audit Management for their review and consideration in their audits. During the period there were 70 people who could "distribute" (post) Cash Receipt batches and 30 people who have the ability to "update" them. The "update" and "distribute" functions were not added to any individuals inappropriately.

HEALTH INSURANCE CLAIMS ANALYSIS

On a monthly basis Aetna Health submits claims for over 75,000 claims requesting the county to pay between 12-15 million dollars. It is the County Auditor's responsibility (§113.064) to ensure that these claims are the County's responsibility.

§ 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.

The Health Insurance analysis identifies policies that are not identified on Harris County records or who received medical services outside of covered coverage periods. As represented on the table below, the total dollar amount of exceptions has trended downward over the past year but has recently started to climb again (February 2014). A similar pattern was noted last year when the months of December 2013 and January 2014 had unusually low exception amounts. Claims in light blue represent individuals whom Continuous Auditing could "Not Identify" on any approved insurance lists. Claims in the orange represent individuals who received services outside of their coverage periods. Identified exceptions are turned over to HRRM for further investigation and possible refund.

