

AUDITOR'S REPORT

CONTINUOUS AUDITING ANALYTICS FOR THE THREE MONTH PERIOD ENDED JULY 31, 2014



October 31, 2014

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HARRIS COUNTY AUDITOR

October 31, 2014

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

RE: Continuous Auditing Analytics for the three month period ended July 31, 2014

The purpose of this letter is to present the results of the Continuous Auditing Department (Continuous Auditing) analysis for the three month period ended July 31, 2014. 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) A monthly analysis of security overrides 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

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OVERVIEW

BACKGROUND

Continuous Auditing utilizes many automated methods to perform auditing activities on an ongoing basis. This includes, but is not limited to: every 2-3 weeks an analysis of health insurance claims, a daily monitoring of changes within the County's financial system and other key systems, and a 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 Accepted Accounting Principles (GAAP), Continuous Auditing provides a near real-time capability to review financial related information by automating the identification of exceptions. For example, the automation of exceptions is enabled through the use of Computed Aided Audit Tools and Techniques (CAATTs). Using CAATTs, Continuous Auditing can analyze patterns within key fields, review trends, test controls, and perform 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 for daily monitoring of changes to the County's financial system, and the Cash Receipt Batch Security Analysis.

HEALTH INSURANCE CLAIMS ANALYSIS

Harris County's health insurance is self-funded, but 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 (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 (e.g. the ability to post and approve transactions). 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, and user access to financial systems.
- Determines if the changes are routine in nature (e.g. system logon) or require supporting documentation.
- When necessary, obtains appropriate documentation ensuring that the changes were made with management's 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.

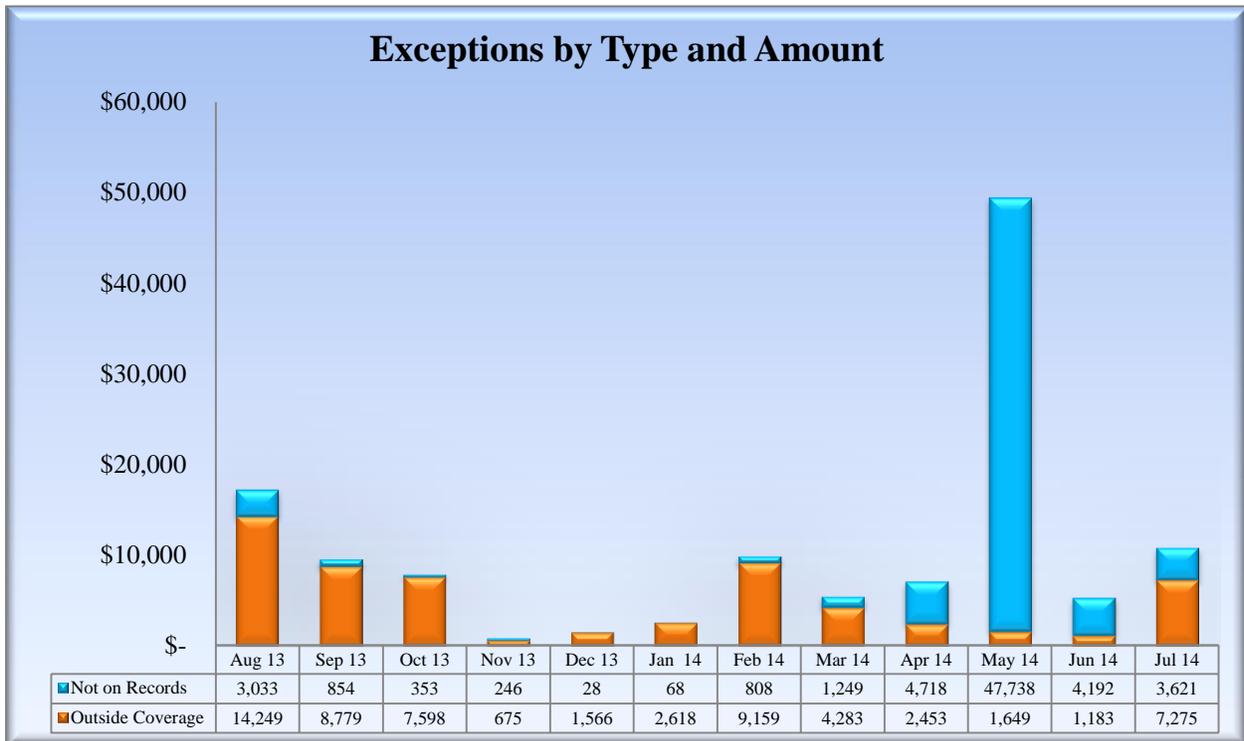
CASH RECEIPT BATCH SECURITY ANALYSIS

Numerous locations around the County receive cash 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 batches allows the user to record the amount of cash received at a location. 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 either 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 then be utilized to assess control risks when planning an audit engagement.

RESULTS

HEALTH INSURANCE CLAIMS ANALYSIS

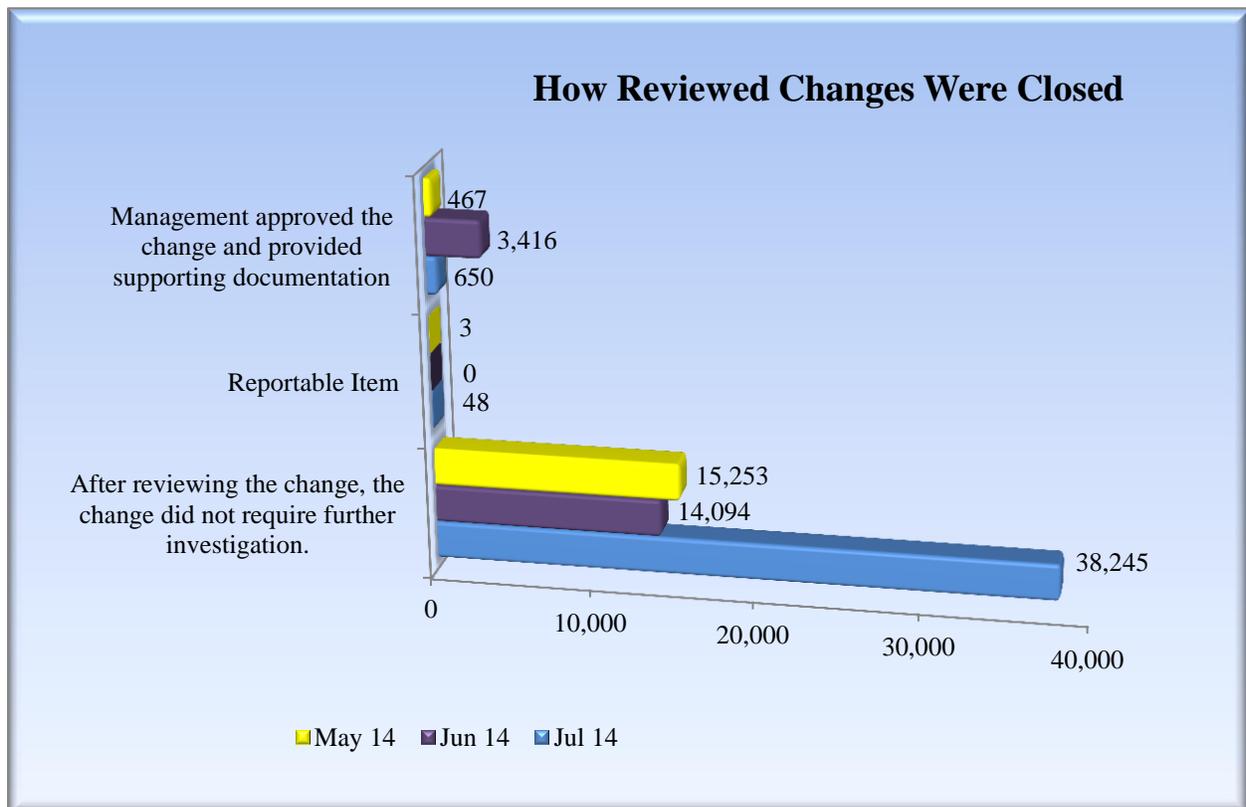
On a monthly basis Aetna submits over 75,000 claims requesting the County to pay between twelve to fifteen million dollars. The Health Insurance Claims Analysis identifies individuals who are not on Harris County’s insurance records, or who received medical services outside of insurance coverage periods. Claims in blue represent the claims amount for individuals who were not on the County’s insurance records. Claims in the orange represent claims for services provided outside of coverage periods (e.g. coverage terminated on June 30, but services were provided on July 2).



The exceptions identified are turned over to HRRM for further investigation and possible refund to the County. The significant increase in the month of May 2014 as noted by the blue bar stems from a former policy holder, whose new insurance status had not been updated on Harris County’s records and is an explainable exception and did not result in an inappropriate payment. The remaining exception amount accounts for an insignificant amount of the total submitted claim amount. Thus, no reportable issues were identified relative to 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. It identifies approximately four thousand changes daily. The majority of these changes can be resolved via automated processes and require no further review. The remaining changes have to be analyzed by Continuous Auditing to determine if supporting documentation is required. The chart below illustrates how those changes are resolved:



The top section of the chart indicates the number of changes that required managerial approval during the period reviewed. In June 2014 (purple bar), Continuous Auditing identified an unusually large number of changes that required supporting documentation. This was due to periodic system maintenance and updating the financial posting strategies.

The center section of the chart presents reportable items. These items are changes that were made without management approval, or not performed properly. ITC management informed us that the three changes in May (yellow bar), were the result of non-standard characters being saved in an unused field. The 48 changes in July (blue bar), were related to a new job class wherein the same job functionality was assigned multiple times. In both cases, ITC was notified and corrected the items. Both items posed an insignificant risk to the system's functionality.

The bottom section of the chart presents the number of changes that required an analytical assessment by Continuous Auditing. During July 2014, Continuous Auditing updated its assessment process to include additional procedures regarding certain tables. This accounts for

the increase in the number of changes reviewed in July 2014 (blue bar). As such, it is not an increase resulting from potential data irregularities, but rather an increase in our scope of procedures. All of these changes appeared to be appropriate.

CASH RECEIPT BATCH SECURITY ANALYSIS

The Cash Receipt 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 70 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 70 user accounts that could distribute Cash Receipt batches and 32 user accounts that had the ability to update. Continuous Auditing verified that management had approved these changes and notified Audit Services and Compliance Audit management. Continuous Auditing concluded that it appears the update and distribute functions were not added to individuals inappropriately.

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 51 changes made incorrectly during the change control management review, ITC was notified and corrected the changes, and none of them appear to have posed a risk to the County's financial system. Finally, Continuous Auditing's review of security override privileges did not identify any changes that were made without appropriate managerial approval.