

**OFFICE OF THE CITY CONTROLLER**



**INFORMATION TECHNOLOGY DEPARTMENT  
FY2012 AUDIT FOLLOW-UP PROCEDURES**

**Ronald C. Green, City Controller**

**David A. Schroeder, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

RONALD C. GREEN

February 10, 2012

The Honorable Annise D. Parker, Mayor

**SUBJECT: REPORT #2012-10  
INFORMATION TECHNOLOGY DEPARTMENT (ITD) – FY2012 AUDIT FOLLOW-UP PROCEDURES**

Dear Mayor Parker:

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2011 remediation efforts performed by management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

During FY2011, the Audit Division (Division) changed the Audit Follow-Up Process to utilize a risk-based approach, which contains two primary components:

- Management Status/Self-Reporting
- Fieldwork Testing/Verification

Based on the procedures performed, we obtained sufficient and appropriate evidence to render our conclusions related to ITD as follows:

- There were a total of 13 findings contained in the two (2) reports issued during the scope period. Our testwork determined that 10 had been "Closed" (remediated) with the remaining three (3) having been identified as "Ongoing" or open (Objective 1).
- In reviewing the remediation process associated with the 13 findings previously reported, 10 were deemed adequate, yielding an overall assessment of **Adequate** (Objective 2).

Although the overall process was found to be adequate, ITD should be proactive with other departments in their efforts to resolve previously identified issues that result in significant cost savings to the City (see Findings #1-3). Additionally, system change management documentation should also include sign-offs indicating user acceptance of the changes, enhancements, etc.

We appreciate the cooperation and professionalism extended to the Audit Division during the course of the project by personnel from ITD.

Respectfully submitted,

Ronald C. Green  
City Controller

cc: City Council Members  
Chris Brown, Chief Deputy City Controller, Office of the City Controller  
Waynette Chan, Chief of Staff, Mayor's Office  
Charles Thompson, Chief Information Officer, Information Technology Department  
David Schroeder, City Auditor, Office of the City Controller

<sup>1</sup> IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."

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## **BACKGROUND**

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2011 remediation efforts performed by management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

During FY 2011, the Audit Division (Division) changed the Audit Follow-Up Process to utilize a risk-based approach, which contains two primary components:

- Management Status/Self-Reporting
- Fieldwork Testing/Verification

### **MANAGEMENT STATUS/SELF REPORTING:**

During the 3<sup>rd</sup> quarter of the fiscal year, the current list of findings is reviewed and ranked according to three levels of risk (high, medium, and low). They are organized and identified by department and sent for management's self-reported status as to progress of remediation based on their responses in the Audit Report. This information is then assessed by the audit team considering (1) responsiveness to the original issue and (2) resolution of issue identified.

### **FIELDWORK/TESTING VERIFICATION PHASE:**

During the first quarter of the subsequent fiscal year, the information obtained through the management status phase is used as a basis to select departments for follow-up testing. Using the results of weighted risk-ranked findings, while also ensuring complete review of all City Departments, 4-5 are then selected for follow-up. All findings for those departments are then tested for status (Ongoing, Closed, or Disagreed) and assessment of remediation process (Adequate or Inadequate), with consideration of the accuracy of management's self-reported status.

## **AUDIT SCOPE AND OBJECTIVES**

We identified **all** findings issued in **all** reports through the Office of the City Controller **since FY2009** (this includes reports issued by outside professional services firms as well as those performed and issued exclusively by Audit Division professional staff).

Based on the Process described above the four departments selected were:

- Convention and Entertainment Facilities Department (now a component unit as part of Houston One)
- Houston Fire Department (HFD)
- Information Technology Department (ITD)

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<sup>1</sup> IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."



Office of the City Controller  
Audit Division

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- Parks and Recreation Department (PARC)

This report provides the results of the Follow-up process as it relates to ITD and includes 13 individual findings issued via two (2) formal audit report(s) during the period July 1, 2008 through June 30, 2010.

The objectives of our Follow-Up Procedures were to determine:

1. Status of remediation for each open item and
2. A process is in place to resolve the department's universe of findings.

### ***PROCEDURES PERFORMED***

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained and reviewed the management's self-reporting of findings status;
- Determined and requested the documentation necessary to support the status reported by management;
- Performed Interviews with Management and relevant staff; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

### ***AUDIT METHODOLOGY***

We conducted Follow-Up Procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and The International Standards for the Practice of Internal Auditing as promulgated by The Institute of Internal Auditors. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained meets these standards to support our findings and conclusions based on our audit objectives.



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## CONCLUSIONS

Based on the procedures performed above, we obtained sufficient and appropriate evidence to render our conclusions as follows:<sup>2</sup>

- There were a total of 13 findings contained in the two (2) reports issued during the scope period. Our testwork determined that 10 had been "Closed" (remediated) with the remaining three (3) being identified as "Ongoing" or open (Objective 1).
- In reviewing the remediation process associated with the 13 findings previously reported, 10 were deemed adequate, yielding an overall assessment of **Adequate** (Objective 2)

Although the overall process was found to be adequate, ITD should be proactive with other departments in their efforts to resolve previously identified issues that result in significant cost savings to the City (see Findings #1-3). Additionally, system change management documentation should also include sign-offs indicating user acceptance of the changes, enhancements, etc.

## ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank ITD, specifically: Mary Ann Grant, ERP Support Manager/Deputy City Controller; Cindy Ellis, ERP Business Systems Consultant for their efforts throughout the course of the engagement.

  
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Scott Haiflich, CGAP  
Auditor-in-Charge

  
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Arnie Adams, CFE, CIA  
Audit Manager

  
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David Schroeder, CPA, CISA  
City Auditor

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<sup>2</sup> See Exhibit 1 for the Detailed Remediation Assessment – "FY2012 Audit Follow-Up Procedures Matrix"



# Exhibit 1 - Detailed Remediation Assessment, 12-10 Audit Follow-Up Procedures

Report Number	Title	Finding	Management Status As of 9/30/2010	Conclusion(s)	
				Ongoing/Closed	Remediation Process
2010-14	1. INTEREST PAID TO VENDORS FOR LATE PAYMENTS	The City's SAP financial system baseline date is not configured to automatically determine if payment to a contracted vendor is late based on the Texas Government Code. In addition, SAP is not configured to calculate interest owed to contracted vendors for late payments. This is reflected by a lack of City Policies and corresponding business processes to pay vendors in net 30 (e.g., majority of vendors are paid immediately).	It is anticipated that this will be addressed with the Accounts Payable Streamlining Project. Because of specific components implemented in SAP for COH (e.g., retainages), a custom Invoice Aging Report was designed and developed by ERP. The custom report is currently in Customer Acceptance Testing as of Aug 2010. New reporting requirements have recently come into light as the report will also calculate Interest Due. ERP is awaiting the final specifications for this change from Controller's Office."	Ongoing	Inadequate
2010-14	2. EFFICIENT VENDOR PAYMENT SCHEDULING	Departments issuing POs have the ability to change the payment terms to expedite remittance of funds to vendors without approval. This often results in the Controller's Office paying a vendor the very next day after the invoice is successfully posted (e.g., instead of state requirement which is the latter of the receipt of an invoice, or receipt of goods or services).  Based on the listing of checks written to vendors identified in finding XI, approximately \$78,000,000 was paid for October, 2008. With a potential holding period of 30 days, and using 4.70% annual percentage rate, the interest earnings lost on not holding those funds for the maximum amount of time is approximately \$305,000 per month, with an annualized savings potential of \$3.6 million .	"It is anticipated that this will be addressed with the Accounts Payable Streamlining Project. Controller's Office has developed a draft policy. Until the Invoice Aging/Late Payment processes are finalized, the policy cannot be finalized for ALL Vendors. As part of AP Streamline, ERP will implement Override of Payment Terms only by Controller's Office."	Ongoing	Inadequate
2010-14	3. TIMELINESS AND ACCURACY OF DATA ENTRY	Audit testing revealed 11 out of 40 invoices were entered with incorrect dates. The vendor invoice date was the date of the entry, rather than the date the invoice was received.	It is anticipated that this will be addressed with the Accounts Payable Streamlining Project that is now under discussion in the ERP Governance Committee.	Ongoing	Inadequate
2010-03	4. Identification of Potential Bid Splitting Situations	SPD does not have an automated monitoring system in place to routinely review purchasing activities and practices of the various City departments to determine whether component, separate, or sequential purchases are made to circumvent the Texas procurements laws and the City's Administrative Procedures regarding procurements. Also, SAP does not have the capability to block non-contract purchases to vendors at the \$50,000 threshold.	COMPLETED. The Phoenix Consulting Group completed the design on 5/14/10 and user testing will be performed on 5/25/10. The new configuration will be available for all SAP users on 5/31/10.	Closed	Adequate

# Exhibit 1 - Detailed Remediation Assessment, 12-10 Audit Follow-Up Procedures

Report Number	Title	Finding	Management Status As of 9/30/2010	Conclusion(s)	
				Ongoing/Closed	Remediation Process
2010-03	5. Unauthorized Contract Purchases (System Control)	In SAP, all departments have an add clause which allows them to purchase off a contract over their initial authorized spending authority (whether \$0 or higher) without having to get permission from SPD. This creates a potential situation in which where not enough money is left in the contract for the department(s) who initially requested the contract.	COMPLETED. The Phoenix Consulting Group completed the design on 5/4/10 and user testing was performed on 5/13/10. The new configuration will be available for all SAP users on 5/31/10.	Closed  Review of change management documentation revealed that the design changes were written, tested by ERP, and migrated to production. <b>(1)</b>	Adequate
2010-14	6. SAP APPLICATION GUIDANCE, DOCUMENTATION AND RELATED POLICIES & PROCEDURES	<p>The ERP Team issued a detailed set of Blueprints and Flow Diagrams that provide various SAP processes, including the City's Purchasing Processes. The purchase related blueprints include 1) Requisitioning; 2) Purchasing; 3) Accounts Payable; and 4) Inventory/Warehousing. At one time, they were available for viewing on the City's ERP/SAP Intranet website which provides general user guidance to City employees.</p> <p>The Blueprints are the original design for SAP and will not change; however, if management or the ERP Team determines SAP should operate in a different manner than the original Blueprints describe, only the flow diagrams will be revised to reflect the change.</p>	<p>Complete</p> <p>All SAP Blueprint documents and Visio flow documents for each module have been updated with current SAP business processes in place and in use at the City of Houston. This is an ongoing process; as new SAP processes are put in place the blueprint documents and Visio flows are being updated by ERP.</p>	Closed  The documentation necessary to verify the Management Status was not provided as requested.	Adequate
2009-14	7. COMPLIANCE WITH MOTOR VEHICLE RECORD REQUIREMENTS	Discussion with Department management revealed that MVRs had not been obtained annually. The Department requested MVRs from the Texas Department of Public Safety of preparation for the audit.	Automated process developed and in the testing phase. Process will be placed in production once testing and approval is complete from Business Owner Department.	Closed  We selected a sample five ITD employees who drive on City business and verified that their MVR information was current.	Adequate
2010-03	8. Programming of Departmental Spending Authority in SAP	The SAP system control that is supposed to provide an additional layer of control for purchase orders in excess of a department's established spending authority by blocking DPU from releasing a purchase order in excess of their spending authority is ineffective.	COMPLETED. The Phoenix Consulting Group completed the design on 5/10/10 and user testing will be performed on 5/18/10. The new configuration will be available for all SAP users on 5/25/10.	Closed  Review of change management documentation revealed that the design changes were written, tested by ERP, and migrated to production. <b>(1)</b>	Adequate



# Exhibit 1 - Detailed Remediation Assessment, 12-10 Audit Follow-Up Procedures

Report Number	Title	Finding	Management Status As of 9/30/2010	Conclusion(s)	
				Ongoing/Closed	Remediation Process
2010-03	9. Use of Outline Agreements (SAP System Control)	A formal monitoring system is not currently in place to efficiently monitor situations in which outline agreements should have been used in place of one-time procurements.	COMPLETED. The Phoenix Consulting Group completed the design on 4/30/10 and user testing was completed on 5/7/10. The new configuration is now in SAP, which requires the buyer to include the applicable material number before SAP will allow the P.O. to be created.	<b>Closed</b>  Review of change management documentation revealed that the design changes were written, tested by ERP, and migrated to production. <b>(1)</b>  We verified in the SAP Sandbox that the system prevents non-contract and outline agreement purchase orders from being created without entering an eight digit SAP material record.	<b>Adequate</b>
2010-03	10. Spending Authority Amounts	SPD had an incorrect spending authority amount posted on their website for PARD.  SPD did not have on file letters establishing departmental spending authority for three of the 24 City departments.	COMPLETED. The City Purchasing Agent issued memorandums increasing the DPU spending authority of HAS, SWM, HFD, PWE, CEF, and HPD. The ERP/SAP Team has been notified of this change, and the increased spending authority for each DPU is reflected on SPD's website.	<b>Closed</b>  Review of change management documentation revealed that ERP entered individual spending authority amounts into SAP in line with the limits on the Departmental Purchasing Unit list on SPDs website. <b>(1)</b>	<b>Adequate</b>

# Exhibit 1 - Detailed Remediation Assessment, 12-10 Audit Follow-Up Procedures

Report Number	Title	Finding	Management Status As of 9/30/2010	Conclusion(s)	
				Ongoing/Closed	Remediation Process
2010-03	11. Printing of Unapproved Purchase Orders (SAP System Control)	A screen print of an unapproved purchase order that contains the necessary signatures of the Mayor, Purchasing Agent, and Controller could appear to be valid if faxed to a vendor and lead to items being purchased by the City without the proper approval.	COMPLETED. The Phoenix Consulting Group completed the design on 4/19/10 and user testing was completed on 5/8/10. The new configuration is now in SAP.	Closed  Review of change management documentation revealed that the design changes were written, tested by ERP, and migrated to production. <b>(1)</b>  In the SAP Sandbox we determined that the finding was resolved by including the statement, "PRINT PREVIEW PURCHASE ORDER NOT VALID" at the top of unapproved purchase orders.  Although not removing the signatures from unapproved purchase orders still leaves the potential to circumvent, the potential is significantly reduced.	Adequate
2010-03	12. Designation of Sole Source Procurements	On 4 of the 5 sole source procurements selected, the RCA origination date was more than 30 days later than the date of the sole source "justification" letter received from the manufacturer/supplier. Further, SAP does not provide a way to identify sole-source procurements.	COMPLETED. The Phoenix Consulting Group created a sole source type P.O. and O.A. The new configuration is now in SAP.	Closed  Review of change management documentation revealed that the design changes were written, tested by ERP, and migrated to production. <b>(1)</b>  We verified in the SAP Sandbox that the system has a drop-down menu with "PO Sole Source" as a selectio option applicable to both purchase orders and outline agreements.	Adequate
2010-03	13. Use of Consolidated Contracts	Because SPD does not formally retain copies of their ACR at specified intervals, the Audit Team could not determine SPD's progress toward their stated target of increasing their use of consolidated contracts by 10%.	COMPLETED. It has been determined that the citywide ACR (even though available in SAP) is not in an easy-to-use format. Therefore, the Phoenix Consulting Group was engaged to develop two types of ACRs: one listing contracts established by SPD and another listing all active contracts citywide. The ACRs are in development and will be in production no later than 6/30/10. SPD will then notify the departments of the availability of the two ACR types on its intranet site.	Closed  We reviewed the City-Wide ACR and verified that it included not only SPD generated contracts, but also contracts generated by other City departments.  Review of change management documentation revealed that the design changes were written, tested by ERP, and migrated to production. <b>(1)</b>	Adequate

**(1) The change management documentation did not include user acceptance. This internal control issue will be communicated through separate memorandum.**