

OFFICE OF THE CITY CONTROLLER



**HUMAN RESOURCES DEPARTMENT (HR)
AUDIT FOLLOW-UP PROCESS REPORT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor

Report No. 2019-10



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

June 12, 2019

The Honorable Sylvester Turner, Mayor

**SUBJECT: REPORT #2019-10
HUMAN RESOURCES DEPARTMENT (HR) – ONGOING AUDIT FOLLOW-UP PROCESS**

Mayor Turner:

The Office of the City Controller's Audit Division has completed follow-up procedures on remediation efforts performed by Human Resources management, as they relate to *Audit Report #2014-02*, titled, "*Health Benefits Claims – Performance Audit*". 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.¹

The Audit Division (Audit) Audit Follow-Up Process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.²

- A total of four (4) findings were issued under Audit Report 2014-02, that were the responsibility of HR; three (3) were previously remediated and reported in *Audit Report 2017-03*, leaving only one (1) open. The Audit Team concluded that the management

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

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c (4)

GAGAS Appendix I Supplemental Guidance A1.08 states "*Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for.... addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations...*"

² See Exhibit 1 for the Detailed Remediation Assessment, 2019 Audit Follow-Up Procedures



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of HR has established control procedures to facilitate consistent application of the smoker penalty. In addition, HR is in the process of performing an audit/review of personnel files to ensure that only eligible spouses and dependents are covered per City policy. However, Audit was not able to confirm that compliance has been achieved in that area and, therefore, the finding will remain open.

- In reviewing the department's remediation processes associated with the one (1) finding, we concluded the overall assessment to be **Adequate**.

We would like to thank the Human Resources Department for their cooperation during the audit follow-up process.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Jane Cheeks, Director, HR
Teri Germany-Haddad, Deputy Director, HR
Dr. Nicole Hare-Everline, Assistant Director, HR
Marvalette Hunter, Chief of Staff, Mayor's Office
Shannan Nobles, Chief Deputy City Controller
Courtney Smith, City Auditor, Office of the City Controller



Office of the City Controller
Audit Division

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EXECUTIVE SUMMARY

BACKGROUND

The Office of the City Controller's Audit Division (The Division) has completed its FY2019 follow-up procedures related to remediation efforts performed by Human Resources management, as they related to Audit Report #2014-02, titled, "Health Benefits Claims – Performance Audit". 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.¹

The Division's Audit Follow-Up Process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Prior to the issuance of audit reports, findings are ranked according to three levels of risk to the City as a whole (High, Medium, and Low). Our continuous follow-up process includes sending requests for status updates related to management's progress toward the remediation of open findings. Management provides status updates through an online portal that alerts the Division when received. This information is then assessed by the follow-up auditor, who considers (1) responsiveness to the original issue and (2) remediation of the issue. A status update which indicates that a finding has been remediated is tested/verified by the follow-up auditor prior to being closed.

FIELDWORK/TESTING VERIFICATION:

The information received through management status updates is used as a basis for follow-up testing. Additional supporting information is gathered by the follow-up auditor if it is needed to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed (Adequate or Inadequate). A rating of **Adequate** indicates the department has processes in place to sufficiently monitor and address issues identified. The department demonstrates this by having either remediated (if the finding is Closed) or is exhibiting progress in the remediation efforts (if the status is Ongoing). An **Inadequate** rating is assessed when the status of the findings is not as reported by management and/or the issues have not been addressed as stated in a status update.

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

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c (4)

GAGAS Appendix I Supplemental Guidance A1.08 states "Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for... addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations..."



Office of the City Controller
Audit Division

AUDIT SCOPE AND OBJECTIVES

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

1. The status for each open item and
2. The adequacy of the department's remediation process in place to resolve its universe of open findings.

PROCEDURES PERFORMED

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

- Obtained, reviewed and assessed management's status updates to open findings;
- Determined the findings for which management's status updates indicated remediation;
- Determined and requested the documentation necessary to support the findings status reported by management; 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 Professional Practice of Internal Auditing as promulgated by The Institute of Internal Auditors. Those standards require that we plan and perform the audit 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSIONS

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards:

Conclusion 1 – (Audit Objective 1)

There were a total of four(4) findings issued under Audit Report 2014-02 that were the responsibility of HR; three (3) were previously remediated and reported in *Audit Report 2017-03* leaving only one (1) open. The one (1) finding will remain open pending completion and review of the results of a self-audit by HR Management to address it. See Exhibit 1 for the detailed remediation assessment.

Conclusion 2 – (Audit Objective 2)

In reviewing the department's remediation efforts, we concluded that the processes implemented by HR Management to remediate the one (1) open finding were **Adequate**. Testing revealed that management has taken steps to facilitate consistent application of the smoker penalty. HR is in the

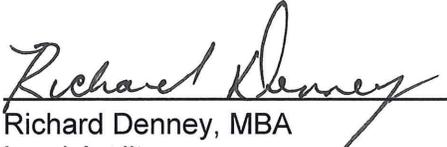
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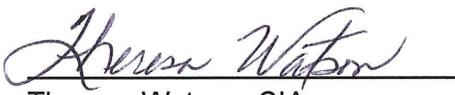


process of performing an audit/review of the personnel files to ensure that only eligible spouses and dependents are covered per City policy. Therefore, Audit was not able to test to confirm whether the new process is sufficient to remediate the audit finding.

ACKNOWLEDGEMENT AND SIGNATURES

We would like to thank the Human Resources Department for their proactive approach to risk management and their cooperation during our follow-up process.


Richard Denney, MBA
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Theresa Watson, CIA
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City Auditor

City of Houston
Office of the City Controller - Audit Division
Project: FY 2019 Follow-Up
Human Resources - FY 2019 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY 2019 Audit Follow-Up Procedures

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/ Closed	Remediation Process
2014-02	Inconsistent Application of Smoker Penalty and Lack of Penalties for Employees Who Violate the City's Eligibility Policy	<p>1. The smoker surcharge/penalty is not being applied consistently to all employees that check the smoker box on their insurance application. Four employees who marked that they were smokers were not charged the penalty and one employee who marked they were not a smoker but was charged the penalty. Because I-enroller (one of two electronic systems to store employee's records for insurance selections, I-enroller was used for Plan Year 1 May 1, 2011 - April 30, 2012) was not able to run reports it was impossible to determine the total population of employees that had marked they were smokers but were not charged and vice versa.</p> <p>2. Employees are not penalized when they violate City policy on spouse/dependent eligibility. Two of 45 (4%) employees were discovered to be covering ineligible spouse/dependents. Other than dropping coverage on the ineligible individuals the employees were not penalized.</p>	<p>Updated Response: 01/31/2019</p> <p>The HR Department has drafted and will propose changes to Employee Self Service (ESS) for the election of tobacco use among all health plan participants (including employees and their dependents) during Open Enrollment. The department will also propose a monthly increase of the health benefit premiums for plan participants electing to use tobacco. Although, the surcharge is voluntary HR is reviewing the current measures to realign participant compliance and reporting.</p> <p>An external consultant was utilized in 2017 to examine the validity of the documentation associated with the dependent population. HR has utilized the findings to execute an actionable plan.</p> <p>Updated Response: 03/28/2019</p> <p>Internal audit of spouse/dependent eligibility to be completed by 10/2019.</p>	Ongoing- This finding remains open pending completion of HR's internal review and additional testing by Audit. Audit obtained and reviewed Enrollment documentation, Dependent Audit results, and the New Dependent Adding Process. Based on testing performed, Audit determined that management has taken steps to facilitate consistent application of the smoker penalty. HR is in the process of reviewing all of the existing dependent documents to ensure eligibility and proper documentation are on file for all applicable employees. Therefore, Audit was not able to test to confirm whether the new process is sufficient to remediate the audit finding.	Adequate

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