

OFFICE OF THE CITY CONTROLLER



**HUMAN RESOURCES DEPARTMENT (HR)
FISCAL YEAR 2016
AUDIT FOLLOW-UP REPORT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



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

CHRIS B. BROWN

July 25, 2016

The Honorable Sylvester Turner, Mayor

**SUBJECT: Report #2017-03
Human Resources Department (HR) – FY 2016 Audit Follow-Up Procedures**

Mayor Turner:

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2016 remediation efforts performed by HR 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.¹

The Audit Division (Division) 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 obtained sufficient and appropriate evidence to render our conclusions as follows:²

- There were a total of six (6) open findings issued under audit reports 2014-02 and 2015-07. Our test work determined that five (5) of the open findings had been Closed/Remediated (Objective 1).
- In reviewing the department's remediation process associated with the six (6) findings, we concluded the overall assessment to be Adequate (Objective 2).

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...f. 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, 2016 Audit Follow-Up Procedures



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

CHRIS B. BROWN

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

Respectfully submitted,

Chris B. Brown
City Controller

xc: Alison Brock, Chief of Staff, Mayor's Office
City Council Members
Jane Cheeks, Director, HR
Ramiro Cano, Deputy Director, HR
Teri Germany-Haddad, Deputy Assistant Director, HR
Kelly Dowe, Chief Business Officer, Mayor's Office
Harry Hayes, Chief Operating Officer, Mayor's Office
Shannan Nobles, Chief Deputy City Controller
Courtney Smith, City Auditor, Office of the City Controller



TABLE OF CONTENTS

TRANSMITTAL LETTER	i
EXECUTIVE SUMMARY	1-3
BACKGROUND	1
AUDIT SCOPE AND OBJECTIVES.....	2
PROCEDURES PERFORMED	2
AUDIT METHODOLOGY	2
CONCLUSIONS.....	2
ACKNOWLEDGEMENT AND SIGNATURES	3
EXHIBIT 1	4-8
DETAILED REMEDIATION ASSESSMENT	5-8

EXECUTIVE SUMMARY

BACKGROUND

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2016 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.

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

- Management Status Updates and
- Audit Testing/Verification.

MANAGEMENT STATUS UPDATES:

Prior to the issuance of audit reports, findings are ranked according to three levels of risk to the Department 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 considering (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. This could be demonstrated by findings being completely remediated (if the finding is Closed) or the department exhibiting progress in their 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.



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;
- 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 Professional 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.

CONCLUSIONS

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

- There were a total of six (6) open findings issued under audit reports 2014-02 and 2015-07. Our test work determined that five (5) of the open findings had been Closed/Remediated (Objective 1).
- In reviewing the department's remediation process associated with the six (6) findings, we concluded the overall assessment to be Adequate (Objective 2).

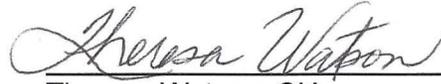


ACKNOWLEDGEMENT AND SIGNATURES

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



Scott Haiflich, CGAP
Lead Auditor



Theresa Watson, CIA
Audit Manager



Courtney E. Smith, CPA, CIA, CFE
City Auditor

EXHIBIT 1

**Exhibit 1
Detailed Remediation Assessment, 2016 Audit Follow-Up Procedures**

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2014-02	HR is not reconciling City data files to CIGNA's active coverage file resulting in CIGNA covering ineligible employees, spouses, and dependents	<p>1. HR Benefits does not perform reconciliations between the City's records of eligible employees and CIGNA's file of covered individuals.</p> <p>CIGNA provides two bi-weekly reports to HR Benefits; the Error Report and the Default Cancel Candidates. The reports are run after HR transmits the latest bi-weekly payroll file and monthly pension files to CIGNA for uploading into their system. Records that do not agree or create a conflict between the two systems generate these reports. The Default Cancel Candidates report lists individuals that did not appear on the latest City file and, if CIGNA is not told otherwise by HR Benefits, the individuals will automatically lose coverage within 30 days. Rather than perform a reconciliation HR Benefits has relied on these reports to detect discrepancies between the systems.</p> <p>The Default Cancel Candidates report for December 3, 2012, was reviewed to determine if any of the 73 ineligible employees, spouses, and dependents noted in "a." below (Table 1) were on the report. They were not on the report.</p> <p>2. Based on the Audit Division's reconciliation and testing of the 146 variances, 82 discrepancies not related to normal timing issues were noted. They are separated into two groups. The first are employees that were on CIGNA's file as being actively covered as of February 26, 2013, but were not currently paying health insurance premiums or had missed payments. (Table 1 - See Audit Report 2014-02) The second are employees/retirees who were currently paying premiums but were not shown on CIGNA's file as being covered for health insurance. (Table 2 - See audit Report 2014-02)</p> <p>a. Four of the 50 employees were covered from May 1, 2011 to February 26, 2013 but had never had a payroll deduction for health insurance. The others ranged from 575 to 11 days of coverage without employee contribution. The estimated monetary impact to the Capitated and Admin fees for covering the 73 individuals during the period of May 1, 2011 through February 26, 2013 was \$67,000.</p> <p>b. Per A.P. 3-4, individuals who do not make a contribution are to have their benefits temporarily suspended until they reimburse the City.</p> <ul style="list-style-type: none"> - One of the 10 employees was eligible for coverage on February 16, 2013, however, they did not have a payroll deduction for health insurance taken until March 20, 2013. - Another employee who has missed some contributions was paying coverage for themselves and their family, yet CIGNA was only covering the employee and spouse. Per HR the employee did not drop the dependents until May 1, 2013. - Additionally, an employee was paying LWOP rates for three months when they should have been paying COBRA rates. <p>c. Three individuals were listed twice on CIGNA's active coverage file. One of the individuals was also charged the rate of Retiree + Spouse, when they should have been charged for Spouse Only Coverage.</p> <p>d. Four employees overpaid on their insurance premiums and were not reimbursed.</p> <ul style="list-style-type: none"> - Two employees had passed away. Their health insurance deduction was not stopped prior to their last paycheck. They effectively paid for insurance for the period after they had passed away. Their health insurance deduction was not stopped prior to their last paycheck. They effectively paid for insurance for the period after they had passed away. - Two other employees turned 65 years of age and transferred from CIGNA to a Medicare supplemental plan. Their spouses remained on CIGNA's coverage. Their deductions for CIGNA coverage did not change from Employee +Spouse to Spouse or Dependent Only. 	Carla Coleman (9/11/2015): Please see attached file – Capitation Reconciliation along with written procedures of eligibility reconciliations implemented. The implementation of this process has reduced discrepancies to less than .05%.	Closed - HR provided their Standard Operating Procedure HRFIN-0001, <i>HR Finance Eligibility Reconciliation Process</i> and the Cigna Capitation Discrepancies Report for May 2016 (monthly reconciliation).	Adequate

Exhibit 1
Detailed Remediation Assessment, 2016 Audit Follow-Up Procedures

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2014-02	HR is not reconciling City data files to CIGNA's active coverage file resulting in CIGNA covering ineligible employees, spouses, and dependents (Continued)	<p>(Finding Continued:)</p> <p>e. Employees were current on their health insurance contributions yet they were not covered by CIGNA.</p> <p>f. Employees had missed some contributions in the past, but they had health insurance deductions from their paycheck on February 22, 2013. These employees were not covered by CIGNA. This is the opposite of "b" above in which 10 employees had missed contributions and did not have a deduction on February 22, 2013, but were covered by CIGNA.</p> <p>g. Employees had either canceled their CIGNA coverage or had switched to a Medicare supplement Plan, yet they were charged for CIGNA coverage on their February 2013 pension checks.</p> <p>h. An employee and her husband were both retired City employees. After one retiree passed away the spouse began to receive both pension checks. Health insurance premiums were deducted from both checks.</p> <p>3. HR Benefits is not in compliance with Administrative Policy 3-4 Termination of Health Benefits Coverage.</p> <p>- When employees miss a health insurance contribution their coverage should be terminated. This is an internal control that is intended to minimize the City's potential liability for unpaid contributions and ineligible expenses. The risk for paying ineligible expenses increase if policies and procedures are not followed.</p>			
2014-02	Ineligible spouses and dependents are covered under the City's health care plan due to missing supporting documentation	<p>1. There was no supporting documentation to verify that some dependents or spouses were eligible for insurance coverage based on the City's requirements.</p> <p>a. Four (4) of 96 (3%) dependents had no birth certificates.</p> <p>b. Two (2) of 27 (7%) spouses had no marriage certificates.</p> <p>c. Four (4) of 15 (27%) employees did not sign the required Affidavit of Financial Support.</p> <p>2. Two of 12 (17%) of grandchildren did not have birth certificates showing their lineage back to the employee. HR is not consistently following their policy for identifying dependents as either grandchildren or step-grandchildren. Each instance was handled differently by HR:</p> <p>a. The birth certificate of one mother was amended so that the employee was listed as her father, thus making the grandchildren his biologically and providing them health insurance. The application for an amended birth certificate was in the file, but the actual amended one was not.</p> <p>b. Another grandchild was classified as a biological grandchild without requiring the mother's birth certificate to be amended so that the employee was listed as her father.</p> <p>3. Two grandchildren were covered under the City's policy by court order. The grandmother is a City employee. The court order mentioned the grandmother, but it specifically stated that the grandfather was to provide health insurance. The grandfather has health insurance through his employer. Because HR does not require birth certificates for dependents under court orders it cannot be determined if these were the biological grandchildren to the employee. By accepting the liability for health care coverage when the court order did not specifically create the same liability for the employee and lack of birth certificates to show lineage to the employee, the City is accepting additional health care expense that it might otherwise not be liable for.</p> <p>4. An employee covered their ineligible ex-spouse for one year after he had remarried.</p>	Carla Coleman (04/07/2016): The HR Health Benefits Division has engaged Gallagher Benefit Services, Inc. to conduct an independent assessment of Cigna's medical and prescription drug plan claims administration services provided between May 1, 2014 and April 30, 2015, to determine quality of services rendered. The assessment is targeted to be completed by August 2016. The next assessment for services between May 1, 2015 and April 30, 2016 is scheduled for completion in August 2017.	Closed - HR provided a report issued by Gallagher Benefit Services, Inc. in July 2015 entitled, <i>Performance Evaluation of Cigna's Medical Plan Claims Administration and Pharmacy Benefit Management Between May 1, 2013 and April 30, 2014</i> . Included in the stated audit objectives was verification of claimant and provider eligibility verification. The report did not reveal any issues related to ineligibility.	Adequate

Exhibit 1
Detailed Remediation Assessment, 2016 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>Carla Coleman (9/12/2015): Employees' adherence to paying the tobacco surcharge is voluntary, allowing employees to have voluntarily stopped paying it during an annual enrollment. Currently, Benefits comprehensively communicate eligibility rules to employees and retirees.</p> <p>Benefits exercises strict adherence to rules for adding a dependent. However, the Human Resources Director may recommend implementing an Administrative Procedure that commits penalties, including termination of dependents' coverage and termination of employees' employment, if active employees and retirees do not provide relationship documents. The Administrative Procedure will be especially punitive to employees (some now retired) hired before Human Resources executed stricter rules (1999-2000) for covering dependents.</p>	Ongoing - This finding remains open pending the implementation of an Administrative Procedure establishing penalties for violating City policy related to spouse/dependent Eligibility.	Inadequate
2014-02	HR'S record management systems do not always agree to SAP	<p>1. Choicelinx was populated with historical data that was inaccurate. Instead of transferring employee's healthcare applications from I-Enroller HR transferred the historical data from SAP. SAP did not always agree to I-Enroller therefore Choicelinx began with inaccurate records.</p> <p>2. HR Benefits does not perform reconciliations between Choicelinx and SAP. Reconciliations are an internal control that would catch the variances between the two systems and ensure manual changes made in SAP were properly supported.</p> <p>3. The City paid \$136,953.00 for Choicelinx, which they did not use for nine and a half (9 ½) months. During Open Enrollment in 2012 it was determined that there were issues with the rules defined in Choicelinx that caused issues with loading the data into SAP. Due to this HR Benefits returned to paper applications. The rules were not updated until February 2013.</p>	<p>Carla Coleman (03/25/2016): The City of Houston (COH) Human Resources Information Services Section and Central IT implemented new business processes into the SAP environment. The new business processes implemented with the internal controls eliminated the requirement of conducting reconciliations. The new processes implemented allows COH SAP system to receive data in real-time from the COH ESS interface used by the employees. The delivery of the connections between the ESS interface allows COH to maintain a single source of information. Data integrity is limited to prevent unauthorized changes to the data by restricting access via the ESS portal to the respective employee using dual-factor authentication for internal users only. Prior to deployment unit integration, stress and performance testing were completed.</p>	Closed - As indicated in the HR's status update, the necessity for performing reconciliations was eliminated with the implementation of the new business processes which discontinued the use of Choicelinx in favor of the ESS/SAP interface.	Adequate

**Exhibit 1
Detailed Remediation Assessment, 2016 Audit Follow-Up Procedures**

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2015-07	Leave Time Monitoring	<p>FMLA Leave administration is a complex, paper intensive process, which requires strengthened internal controls over leave tracking, including improved system generated reports to enable error conditions to be identified and corrected on a timely basis. We noted errors such as the following:</p> <p>FMLA time was coded in the payroll system although leave was not approved; FMLA time in the payroll system exceeded the total allowable FMLA benefit for the City's benefit year; and FMLA leave extended beyond the approved leave term.</p>	<p>Concur. All three bullet points relate back to the supervisors and managers of the employee on FMLA. The timekeeping responsibility of FMLA is currently incumbent upon the supervisor, not the FMLA Coordinator.</p> <p>HR will establish departmental supervisors and managers refresher training on recording FMLA time for the employee. HR is in the final implementation stages of FMLA citywide web based training.</p> <p>Furthermore, HR is near the end of configuration of the Leave Module in KRONOS for FMLA. This will alleviate employees exceeding the 480 hour allotment as it will track it and stop at 480 for the defined benefit year.</p> <p>In addition, we will request all new supervisors and managers attend CAPS (City Accredited Program for Supervisors) where FMLA is a subject of instruction.</p>	<p>Closed - HR provided the following: - Presentation materials for their Supervisor and managers refresher training with the corresponding attendee sign-in sheets, - Course materials for online FMLA training, - The Kronos Family Medical Leave Administrator Course Guide, and - Sign-in sheets to the Kronos Leave Module training.</p>	Adequate
2015-07	Fitness for Duty	<p>Return to work documentation including the health care provider's certification of the employee's fitness for duty was not consistently obtained and verified by the FMLA coordinators. Although supervisors are responsible for obtaining and submitting the medical release to the coordinator, we noted the following potential issues:</p> <p>No fitness for duty certification was available; Employees returned to work prior to the fitness for duty certification date; Employees remained on FMLA leave after the fitness for duty certification date; and Intermittent FMLA leave requires no fitness for duty release, however the leave appeared to be a continuous type leave.</p>	<p>Concur. Return to duty can occur with the proper "Fitness for Duty" certification. In some cases, employees will submit the required documentation to supervisor; who will fail to submit said documents to FMLA coordinator.</p> <p>As a solution, the FMLA Coordinators will monitor their leave cases more closely to insure each return to duty has the proper documentation.</p> <p>Estimated Implementation Date: Directives will be communicated by no later than May 15, 2015 to all FMLA Coordinators to insure that all approved cases mandating a "Fitness for Duty" certification is currently in file.</p>	<p>Closed - - HR provided the following: - Email correspondence to FMLA Coordinators regarding HR's Web based course, - Online training materials, - FMLA Quarterly Meetings Presentation with corresponding attendee sign-in sheets, - The Kronos Family Medical Leave Administrator Course Guide, and - Sign-in sheets for the Kronos Leave Module training.</p>	Adequate