



# Office of the City Controller

## HOUSTON INFORMATION TECHNOLOGY SERVICES DEPARTMENT

### Follow-Up Audit



**Chris Brown**  
City Controller

**Report # 2022-02**

**Courtney Smith**  
City Auditor



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

**CHRIS B. BROWN**

July 16, 2021

The Honorable Sylvester Turner, Mayor

**SUBJECT: Report #2022-02  
Houston Information Technology Services Department (HITS) – Follow-Up  
Audit Process Report**

Mayor Turner:

The Office of the City Controller's Audit Division has completed follow-up procedures on remediation efforts performed by the management of HITS, as they relate to Audit Report #2010-14, titled, "Parks Department *Audit of Disbursements Less Than \$75,000.*" Although these findings were included in an audit of the Parks Department, they are related to information technology issues associated with SAP. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we performed follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

The Audit Division follow-up audit 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.<sup>2</sup>

- There was a total of three (3) findings issued under Audit Reports **2010-14** that were the responsibility of HITS; Two (2) findings were remediated and closed based on actions taken by management to address each. One (1) finding will remain open until management identifies and implements processes to mitigate the risk. See Exhibit 1 for the detailed remediation assessment.

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<sup>1</sup> IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that "... captures the relevant observations, agreed corrective action and current status."

GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

<sup>2</sup> See Exhibit 1 for the Detailed Remediation Assessment



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- In reviewing the department's remediation processes associated with the three (3) findings, we concluded the overall assessment to be **Adequate**.

We would like to thank the Houston Information Technology Services Department for their proactive approach to risk management and cooperation during the follow-up audit process.

Respectfully submitted,

Chris B. Brown  
City Controller

xc: City Council Members

Lisa Kent, Director, HITS

Chris Mitchell, Chief Information Security Officer, HITS

Summer Xiao, Deputy Director, HITS

Marvalette Hunter, Chief of Staff, Mayor's Office

Shannan Nobles, Chief Deputy City Controller

Courtney Smith, City Auditor, Office of the City Controller

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## Background

The Office of the City Controller's Audit Division (The Division) has completed its FY2021 follow-up procedures related to remediation efforts performed by management of the Houston Information Technology Services (HITS). The findings were related to Audit Report # 2010-14, titled, "*Parks Department Audit of Disbursements of Less than \$75,000,*". Although these findings were included in an audit of the Parks Department, they are related to information technology issues associated with SAP. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we performed follow-up audit procedures to ensure that corrective actions are taken related to issues reported from previous audits<sup>1</sup>.

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## Audit Scope and Objectives

The objectives of our follow-up audit were to determine:

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

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## 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.

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<sup>1</sup> IIA Standard 2500 Implementation Guidance - stresses the importance of having a process that "... captures the relevant observations, agreed corrective action, and current status."

GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08.

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## Conclusions

Based on the procedures performed, 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 was a total of three (3) findings issued under Audit Report 2010-14 that were the responsibility of HITS; Two (2) findings were remediated and closed based on actions taken by management to address each. One (1) finding will remain open until management identifies and implements processes to mitigate the risk. See Exhibit 1, for the Detailed Remediation Assessment.

### CONCLUSION 2 - (AUDIT OBJECTIVE 2)

In reviewing the department's remediation efforts associated with the three findings, we concluded the overall assessment to be **Adequate**.

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## Follow-up Approach

The Division's follow-up audit process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates
- Audit Testing/Verification

### MANAGEMENT STATUS UPDATES:

Our continuous follow-up audit 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.

## FIELDWORK/TESTING VERIFICATION:

A status update which indicates that a finding has been remediated is tested/verified by the follow-up auditor prior to being closed.

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.

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## Audit Standards

We conducted follow-up audit 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 (IIA). 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.

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## Acknowledgement

We would like to thank the Houston Information Technology Services Department for their proactive approach to risk management and cooperation during the follow-up audit process.

City of Houston  
Office of the City Controller - Audit Division  
Project: 2021-01: FY2021 Follow-Up HITS  
Houston Information Technology Services Department - FY2021 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2021 Audit Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-14	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).	<p>Updated Response 4/29/2021:</p> <p>Currently, COH business uses the SAP Business Objects report on Vendor LATE PAYMENT reports to determine if vendors have late payments. A screen shot was provided of the report, which shows it is built based on Payment Terms.</p> <p>Original Management Response:</p> <p>The Controller's Office Operations and Technical Services Division has been working in conjunction with the ERP team to design and implement functionality that standardizes and clarifies the accurate input of date-sensitive information. One of the results is the ability to implement Late Payment Interest Calculations. This is tentatively planned to be completed during the calendar year 2010.</p>	<b>Closed</b> - This finding was closed by the Audit Division, after review of a manual monitoring system, which utilizes a report from SAP of late invoice payments. Management remediation procedures were adequate to close this finding.	<b>Adequate</b>
2010-14	EFFICIENT VENDOR PAYMENT SCHEDULING	<p>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).</p> <p>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.</p>	<p>Updated Response 4/29/2021:</p> <p>Effective July 28, 2014, Accounts Payable staff can expect transaction codes associated with entering logistics invoices (MIRO, MIR7, MIR6, FB02, MIR4, and FB03) to have the payment term and payment block fields "grayed out" similar to the screenshot provided.</p> <p>Additionally, the payment term will populate automatically from the purchase order while the payment block will be populated from the system as needed. Accounts Payable users who need the payment term changed should park the document and refer it to the department's Accounts Payable manager for review. If the Accounts Payable manager is unavailable, the Controller's Office can be consulted for assistance. The ERP bulletin from 2014 communicating change internally to COH to users of COH SAP regarding AP- Payment Terms and Payment Block Override. was provided.</p> <p>Original Management Response:</p> <p>The Controller's Office Operations and Technical Services Division has been working in conjunction with the ERP team to implement functionality and business processes that freeze the payment terms inherited from the purchase order by not allowing the departments to modify them. The change will result in the application and use of default payment terms being Net 30, unless otherwise indicated in a related contract. This enhancement is expected to be implemented by the end of calendar year 2010. The ERP team emphasized that to successfully adopt this functionality, contract payment terms that are different than "Net 30", must be entered accurately because the associated POs that are created will utilize those terms. Any errors in data entry will require additional detective controls within the Controller's Office to override payment terms.</p>	<b>Closed</b> - This finding was closed by the Audit Division after observation of SAP end users verifying that the HITS ERP Applications team made the necessary changes so that end users of SAP are unable to change payment terms for vendor invoices without management approval. Management remediation procedures were adequate to close this finding.	<b>Adequate</b>

**City of Houston**  
**Office of the City Controller - Audit Division**  
**Project: 2021-01: FY2021 Follow-Up HITS**  
**Houston Information Technology Services Department - FY2021 Follow-Up Procedures**

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-14	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.	<p>Updated Response 4/29/2021:</p> <p>As part of the Procure to Pay initiative started during Fiscal Year 2014, the City has reaffirmed its intention to pay vendors in a timely manner while still complying with the City's standard payment term of net 30.</p> <p>To assist departments in this endeavor, a set of reports have been made available to provide analytical information about their performance. Analytical reports are intended to provide accurate information in the aggregate, but various system level nuances may not make the reporting suitable for auditing. These reports are largely focused on logistic-based invoices (PO-based invoices/RE invoices) that are for general vendors.</p> <p>Payment terms "flow" through SAP. Payment terms are initially set on the vendor master – which has a payment term for each purchase organization. The payment term then flows to the Outline Agreement or Purchase Order. When an invoice is created against a PO, the payment term is automatically set on the invoice and the payment term on the posted invoice flows to the accounting document that ultimately drives disbursement to the vendor.</p> <p>Original Management Response:</p> <p>As part of the Vendor Payment Scheduling effort (Section V), the Controller's Office Operations and Technical Services Division has been working with the ERP team to design and implement functionality that standardizes and clarifies the accurate input of date sensitive information. This is tentatively planned to be completed during the calendar year 2010.</p>	<p><b>Ongoing</b> - This finding will remain open due to significant exceptions noted in the follow-up testing procedures. A review of 22 invoices revealed 32% (7 of 22) of the selections contained exceptions related to either accuracy and/or timeliness of data input into SAP. Although HITS provided training to some end-users, the training was not recent and did not include the employees observed during the testing procedures. Based on the number of exceptions in the sample selection, it does not appear that the training provided by HITS adequately improved the accuracy and timeliness of data entry into SAP. Management remediation procedures were not adequate to close this finding.</p>	<p><b>Inadequate</b></p>

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**Audit Team**

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Audit reports are available at:

<http://www.houstontx.gov/controller/audit/auditreports.html>