

OFFICE OF THE CITY CONTROLLER



**HOUSTON AIRPORT SYSTEM (HAS)
AUDIT FOLLOW-UP PROCESS REPORT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor

Report No. 2018-10



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

CHRIS B. BROWN

June 7, 2018

The Honorable Sylvester Turner, Mayor

**SUBJECT: REPORT #2018-10
HOUSTON AIRPORT SYSTEM (HAS) – AUDIT FOLLOW-UP PROCESS**

Mayor Turner:

The Office of the City Controller's Audit Division has completed its follow-up procedures related to remediation efforts performed by HAS management, as they relate to Audit Report #2010-16 titled *Houston Airport System – Limited Scope Contract Compliance Audit with HAS Development Corporation (HASDC)*. 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 believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.²

- There were a total of three (3) findings issued under audit report 2010-16. Compliance has been achieved with the remediation and closing of all three (3) findings.

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, 2018 Audit Follow-Up Procedures



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TEXAS

CHRIS B. BROWN

- 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 Management of the Houston Airport System for their cooperation during the audit follow-up process.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Mario Diaz, Director, HAS
Kertecia Mond, Deputy Assistant Director, HAS
Marvalette Hunter, Chief of Staff, 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



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 follow-up procedures related to remediation efforts performed by Houston Airport System's (HAS) management, as they related to Audit Report #2010-16, titled, "Houston Airport System – Limited Scope Contract Compliance Audit with HAS Development Corporation (HASDC)". 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

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..."



(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; 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 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 three (3) findings issued under audit report 2010-16. The three (3) findings were remediated and closed based on actions taken by management to address each. See Exhibit 1 for the detailed remediation assessment.

Conclusion 2 – (Audit Objective 2)

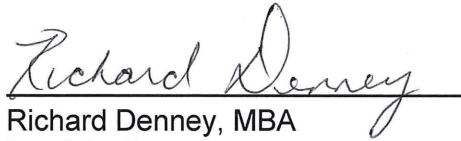
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Audit Division

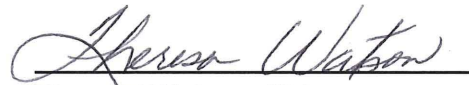



In reviewing the department's remediation efforts, we concluded that the processes implemented by them to remediate the three (3) open findings were **Adequate**.

ACKNOWLEDGEMENT AND SIGNATURES

We would like to thank the Houston Airport System for their proactive approach to risk management and their cooperation during our follow-up process.


Richard Denney, MBA
Lead Auditor


Theresa Watson, CIA
Manager


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

City of Houston
Office of the City Controller - Audit Division
Project: 2017-05
Houston Airport System - 2018 Follow-Up Procedures
Prepared By: Richard Denney

Exhibit 1 - Detailed Remediation Assessment, 2018 Audit Follow-Up Procedures

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-16	Unbilled Business Development	One of the substantive tests performed was to review employee requests for 10 travel advances planned to be funded by HASDC. The audit objective was to determine if time spent by HAS employees attributable to HASDC was properly billed. The time spent on these trips could not be traced to the monthly billings. It was determined by HAS management that 6 of these were for trips that had been cancelled, with no advances being paid to the employees. HAS also determined that time spend on the other 4 trips was considered business development and therefore did not bill this time to HASDC. We performed an estimate of the potential unbilled services from our test population and noted approximately 56.5 hours or \$3,183 of potential unrecovered employee costs.	<p>Original Management Response: Since the inception of this audit, HAS wrote and adopted Organizational Policy and Procedure (OPP I-188) that requires billing for all time worked on HASDC projects, including HASDC marketing or business development.</p> <p>Updated Response: Actions Taken: OPP1-188 requires billing time spent for business development.</p> <p>Updated Response 5-31-12: Actions Taken: OPP1-188 requires billing time spent for business development.</p> <p>Updated Response 5-31-13: Actions Taken: There is a draft revised policy related to HASDC. It is still in review by Senior Staff</p> <p>Date Completed/To Be Completed: 7/31/2013 Supporting Documentation: OPP No. 188</p> <p>Updated Response 01-26-2018: Management decided not to update the policy, instead they dissolved their relationship with HASDC Supporting Documentation: letter from the HAS Director substantiating the dissolution between HAS and HASDC</p>	Closed - Audit obtained and reviewed a letter from the Director of HAS documenting that they no longer provide business development services to HASDC. It was determined that management's remediation procedures were adequate to close this finding.	Adequate

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Project: 2017-05
Houston Airport System - 2018 Follow-Up Procedures
Prepared By: Richard Denney

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-16	Undistributed Net Revenues	Since the time HASDC was incorporated in December 2001, minimal Net Revenues have been distributed to HAS (\$45,829). As of the last audited financial statement (calendar year 2008), HASDC shows a cash balance of over \$1M dollars on hand.	<p>Original Management Response: As of Feb 28, 2010 HASDC had cash/receivables of \$1.1 million, of which \$586,020.96 was 'unrestricted' cash. HASDC management presented the BOD with three scenarios in the 2010 Budget of cash needs depending on how and when the HAS support and Quito Political issues are resolved as well as the continuation of extraordinary expenses associated with the 'reviews' and incorporation of the impact of the new HAS Operations Order revoking marketing support of HASDC.</p> <p>Updated Response: Actions Taken: HASDC will review the financial position, budget, and future needs with the Board of Directors on November 23, 2010 to determine if a distribution is appropriate.</p> <p>Updated Response 5-31-12: Actions Taken: HASDC will review the financial position, budget, and future needs with the Board of Directors on November 23, 2010 to determine if a distribution is appropriate.</p> <p>Updated Response 12/26/2017: Action Taken: HAS found the BOD meeting minutes that discussed the need to keep such a large amount of reserves.</p>	Closed: Audit obtained and reviewed the HASDC Board of Directors meeting minutes where it was discussed and agreed upon to keep 1 Million dollar in reserves. It was determined that management's remediation procedures were adequate to close this finding.	Adequate
2010-16	Lack of Policies and Procedures Over Internal Control	When reviewing support for the monthly billings by HAS for these services, it was noted that there was no support for the total hours worked and billed by HAS employees on behalf of HASDC. Upon further inquiry, it was indicated that HAS had no formal polices or procedures in place to document/record/retain records signifying the number of employee hours spend on HASDC related business. However in Oct 2009, HAS management (in charge of HASDC work) started vouching (attesting) and signing-off (approving) billable hours. According to HAS, the billings were prepared based on the amount of employee work hours provided by HASDC to HAS. The customer (HASDC) should not trigger billing itself based on self-reported consumption of vendor's services.	Since the inception of this audit, HAS wrote and adopted Organizational Policy and Procedure (OPP I-188) that requires; customer requisition for services, proper approval and documentation of all work by its (HAS) employees, including preparation of timesheets (to include expenses) when an employee performs work for HASDC.	Closed: Audit obtained and received Policy OPP I-188 that was written and adopted to include documenting/recording/retaining records of all work by HAS employees. It was determined that management's remediation procedures were adequate to close this finding.	Adequate

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