



Office of the City Controller

ENTERPRISE RISK ASSESSMENT

FY 2020 Update



Chris Brown
City Controller

Report # 2020-09

Courtney Smith
City Auditor



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

CHRIS B. BROWN

June 29, 2020

The Honorable Sylvester Turner, Mayor

**SUBJECT: REPORT #2020-09
CITY OF HOUSTON – 2020 ENTERPRISE RISK ASSESSMENT**

Mayor Turner:

I am pleased to submit to you the Enterprise Risk Assessment (ERA) performed by the Controller's Office, Audit Division during Fiscal Year (FY) 2020. This is a process that supports our efforts in developing the FY2021 Annual Audit Plan and deploying the necessary resources to execute.

The risk assessment process is performed annually by updating departments on a rotational basis each fiscal year. This approach provides full coverage of all City Departments over a four to six-year period, rather than re-perform the entire process every year. Our methodology is consistent with professional standards and considers available resources, cost-benefit, and allows us to advance the quality of the assessment each cycle.

In selecting the departments to update, we identified and considered several factors, including "Notable Changes since the Previous Risk Assessment" and the last time included in a Risk Assessment. Based on this, the three departments selected and updated for the FY2020 ERA were:

- City Secretary (CSC)
- Legal Department (LGL)
- Office of Business Opportunity (OBO)

The ERA Report contains a general report section that provides information on the risk assessment process and methodology and a section detailing the updated Risk Profiles organized by key business processes within each department under review. There are two primary perspectives that are graphically presented and shown in detail within each Risk Profile. These perspectives are described as follows:

KEY BUSINESS PROCESSES – analyzed by common functions performed across the organization, which can reveal potential efficiencies, overlap, redundancies, synergies, and leverage of resources. This perspective is looking at activities that the City performs without consideration of its organizational structure; and

DEPARTMENTAL - analyzed in terms of the impact and likelihood of risk associated with the organizational design in executing the City's overall mission and objectives.



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TEXAS**

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We appreciate the cooperation and professionalism extended to the Audit Division during the project by personnel from CSC, LGL and OBO.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Department Directors
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

TABLE OF CONTENTS

Transmittal Letter	i
Enterprise Risk Assessment (ERA) Report	
Introduction	1
Background and Methodology	1
Annual ERA Process Components	2
Notable Changes Since the FY2019 ERA	2
Significant Events and Operational Changes	2
Structural Changes to the Risk Universe	5
Consideration of Significant Information Systems	7
Department Risk Profile Update Process	7
Key Business Processes	8
ERA Risk Criteria	9
Output	10
Graph 1 - Operation Risk Profile by Department	10
Graph 2 - Operational Risk Profile By Key Business Process	11
Acknowledgement	11
Updated Department Risk Profiles	
City Secretary	13
Legal Department	15
Office of Business Opportunity	22
City of Houston Departments Date of Last Risk Assessment	28
Glossary of Terms	29

Introduction

The Audit Division, a Division within the Office of the City Controller, adheres to professional standards issued by the Government Accountability Office (GAO's *Yellow Book*) and the International Standards of the Professional Practice of Internal Auditing (*Red Book*) per the Institute of Internal Auditors (IIA). Both sets of standards require a risk-based approach to identify the scope and objectives of the audit planning and to properly design audit procedures. The *Red Book* specifically requires an Enterprise Risk Assessment (ERA) process be performed annually, as a primary driver to support the annual audit plan, while the *Yellow Book* requires that risk be considered at the engagement/process level.

In adherence to these Standards, the Audit Division applies risk-based methodology in the following manner:

- Annual ERA on all major processes within three to seven departments, to provide a basis for input to the Audit Plan;
- Risk Assessment procedures at the Engagement/Audit project level; and
- Risk Consideration in rendering conclusions and determining the impact and magnitude of findings and preparing the final audit report.

Background and Methodology

The Audit Division conducts an annual process to update the ERA. Departments are selected on a rotational basis for efficiency and to ensure full coverage of all City Departments over a four to six-year period. The 2020 ERA process includes other considerations, in addition to length of time since the previous assessment. The process begins with preliminary planning, a review of prior risk assessment reports, consideration of Audit Reports issued since the departments under review were last updated, and the three components listed on page 2, as impacted during the fiscal year. A definition of terms contained in this report are listed in the Glossary of Terms on page 29.

Departments selected for the ERA updates in FY2020 are shown in Table 1.

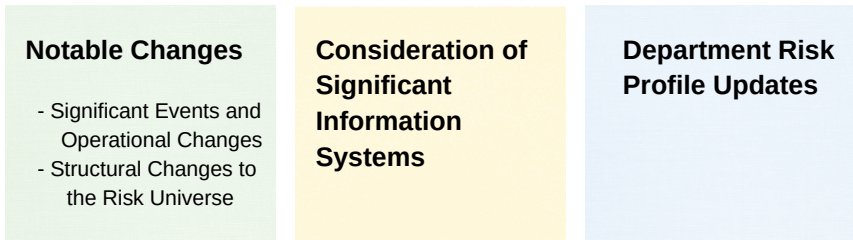
TABLE 1

FY2020 ERA Update Selections	
Department Name	Last Assessed
City Secretary	FY2015
Legal Department	FY2015
Office of Business Opportunity	FY2015

Departmental assessment update candidates are selected and structured based on available resources, time constraints, and cost-benefit considerations. The departmental portion of the ERA performed during FY2020 utilized three professional staff from the Audit Division, who performed reviews of the selected Department's responses from prepared questionnaires, applicable follow-up questions, and interviews with key operational and management personnel from the City Departments selected for this update.

Annual ERA Process Components

There are three (3) basic components of the annual ERA process:



Notable Changes Since the FY2019 ERA

To apply the risk-based methodology noted in the introduction, the Audit Division considers significant changes of events, operational and/or business processes, as well as changes in departmental leadership that have occurred since the last risk assessment update. These changes, whether individually or collectively, may have an effect on the way the City conducts business operationally and the resources available. The Audit Division considers these factors when preparing the Annual Audit Plan.

Significant Events and Operational Changes

- On June 25, 2019, the Court of Appeals for the First District of Texas affirmed the decision of the trial court of four-year terms for elected City officials.
- On August 2, 2019, Houston Municipal Courts opened two new courtrooms built in collaboration with the City's General Services Department for \$1.49 million.
- On August 2, 2019, FEMA awarded the first set of federal grants totaling \$7.1 million to the City for two large-scale flood mitigation projects in areas hit by the record-high rainfall.

- On August 29, 2019, the City selected a firm to repurpose a 240-acre former landfill in Sunnyside to construct one of the largest urban solar farms in Texas. This solar farm will improve the economy in this area of the City and make Houston a part of the international energy transition team, that is using clean, renewable energy and reducing pollution.
- On October 4, 2019, the State announced that Houston is scheduled to receive \$2 billion in federally mandated funds for the Flood Mitigation Plan.
- On October 11, 2019, the Mayor announced that FEMA has approved initial funding of the largest storm disaster prevention endeavor in Texas for the City's proposed \$131 million North Canal flood mitigation project.
- On October 31, 2019, the City officially acquired the 28-acre Shell Research facility property near the Willow Waterhole to help mitigate flooding in the Westbury Community.
- On November 4, 2019, the City, Houston Parks and Recreation Department, and the Astros Golf Foundation celebrated the completion of Phase 1, of a \$18.5 million renovation of the Memorial Park Golf Course, which will bring a world-class golf course for all Houstonians and the return in 2020 of the PGA Tour's Houston Open to Memorial Park for the first time since 1963.
- On November 12, 2019, the Mayor announced that the U.S. Department of Transportation awarded a \$25 million grant for upgrades to the Shepherd Drive/ Durham Drive corridor.
- On November 26, 2019, the Imelda Assistance Fund announced its first round of grants totaling \$310,000 to six experienced, local non-profit organizations to provide services and support to Tropical Storm Imelda flood victims.
- On January 24, 2020, a massive explosion of Watson Grinding and Manufacturing Company affected nearly 450 structures, including significant damages to area homes and two employee fatalities.
- On February 27, 2020, a break in a major water line that supplied 50% of Houston's water resulted in major flooding and closure of schools, universities, restaurants, and other businesses.

- On April 15, 2020, the Mayor and City Council approved the Hotel Ordinance to Combat Human Trafficking.
- On April 30, 2020, the City of Houston commits to 100% Renewable Energy through a renewed partnership with NRG Energy. The City is estimated to see a \$9.3 million reduction in its annual electricity bill.
- On June 10, 2020, Houston City Council unanimously approved the Mayor's 2021, \$5.1 billion budget, which addressed a \$169 million budget crisis, caused in part to a decline in sales tax revenue during COVID-19; without mandatory furloughs of City employees.

COVID-19 RELATED EVENTS

- On March 5, 2020, The Houston Health Department announced the first presumptive positive case of the coronavirus disease 2019 (COVID-19) in the City of Houston.
- On March 11, 2020, Mayor Turner and Harris County Judge Hidalgo declared a Public Health Emergency due to COVID-19, resulting in the cancellation of the Houston Livestock and Rodeo; and other local events.
- On March 12, 2020, the Mayor suspends water service disconnections to help protect citizens from COVID-19.
- On March 23, 2020, the Mayor implemented new guidelines for Houston City Council meetings to comply with social distancing requirements to slow down the progression of COVID-19.
- On April 20, 2020, the Mayor named the City's COVID-19 Relief and Recovery Czar to work with business leaders, chambers of commerce, employee groups, and nonprofit organizations on a plan to safely and responsibly restart Houston's economy.
- On May 3, 2020, the City partnered with several local organizations to provide support, create a COVID-19 Hotline, and Testing Program for the Homeless Population.
- On May 6, 2020, City Council approved the Mayor's proposed \$15 million Rental Relief fund to help Houstonians make their payments amidst the COVID-19 public health crisis.

- On May 15, 2020, The City announced Public Participation Guidelines for Virtual City Council Meetings starting on May 19, 2020.

Structural Changes to the Risk Universe

Changes to the Risk Universe are considered, when for example: there are Departmental and/or management structure changes; functions/responsibilities/processes are added, or eliminated; and consolidation, centralization or decentralization occurs between Departments or on a City-wide basis. In addition, the Audit Division must consider the number of Local Government Corporations (LGC) being created on the City's behalf, as well as other forms of Component Units.

Auditable Entities

Changes that occurred in the City's risk universe in FY2020 included the Mayor's appointment of new Directors for the Planning and Development Department (PDD), the Office of Business Opportunity (OBO), Mayor's Office for People with Disabilities, and Mayor's Communications Divisions. Additionally, an Interim Director was appointed for the City Secretary's Office. The new position of Chief Transportation Planner was also established in PDD.

Component Units

Most Component Units of the City are responsible for obtaining and issuing audited financial statements, which are submitted to the City for reporting purposes. Component Units are reported in the City's Comprehensive Annual Financial Report (CAFR). Blended component units (although legally separate entities) are, in substance, part of the City's operations and they provide services exclusively or almost exclusively for the City. In addition, both discretely presented component units - governmental and business-type are presented in the CAFR.

In determining whether a legally separate entity is a component unit of a primary government, there are three specific tests that involve:

- Appointment of the unit's governing board;
- Fiscal dependence on the primary government; and
- The potential that exclusion would result in misleading financial reporting.

A Component Unit is considered major, thus presented discretely, if assets, liabilities, revenues or expenses exceed 10% of that Component Unit's class and exceed 5% of all Component Units combined.

There were no new component units created in FY2020.

Policy and Procedure Changes

The City Charter, Article VI gives the Mayor power and the duty to exercise administrative control over all departments of the City, which include the authority to sign into effect Administrative Policies, and Procedures (APs), Executive Orders (EOs), and any Mayor's Policies (MPs). The Code of Ordinances states that the Administration and Regulatory Affairs Department (ARA) has been designated by the Mayor as having the responsibility for the development and implementation of City-wide policies, regulations, and procedures.

Policy audits are considered when developing the annual Audit Plan.

Five new EOs were established and implemented in FY2020, most notable to include:

- 1-60, "Vision Zero Houston", which focuses on ending traffic-related fatalities and serious injuries occurring on Houston streets;
- 1-64, "Living Wage Air Carrier", which ensures that prospective negotiation of contracts with airlines and concessionaires includes enabling workers to make the minimum "living wage" of \$12 per hour by 2021; and
- 1-67, "Policing Reform: Use of Force", which applies to police officers in the Houston Police Department.

The Mayor also approved five APs; 3-35, "Seeking Elective Office" in January 2020 and four others in response to the global pandemic caused by COVID-19 to include 3-36, "Emergency Telecommuting Policy in March 2020; 3-37, "Emergency Paid Sick Leave, 3-38, "Emergency Family and Medical Leave", both in April 2020; and 3-39, "Access to City Buildings or Facilities During a Medical Epidemic or Pandemic" in June 2020.

Consideration of Significant Information Systems

Utilizing a risk-based approach as required by the standards, the Audit Division considered the City’s information technology systems that have been implemented, as well as the technology initiatives that are being developed, which affect operational/business processes. The Audit Division took into consideration Information Technology projects and initiatives being developed for City-wide and departmental use. Projects and initiatives in various stages of development are:

- Network Infrastructure refresh
- Border Firewall refresh
- Cyrus One Data Center Upgrade
- Contact Center Upgrade
- Infor IPS Permitting and Inspection for HFD and ARA
- SharePoint Online
- SAP On-Premise Infrastructure Refresh
- DUO Authentication
- Houston Housing and Community Development Department IMS system

Department Risk Profile Update Process

Departmental Risk Profile updates are performed using three basic process components: Data Gathering, Analysis, and Output. Details about each component of the update process are represented in Table 2.

TABLE 2

DATA GATHERING	ANALYSIS	OUTPUT
<ul style="list-style-type: none"> • <i>Previous Risk Assessments</i> • <i>Changes to the Dept Structure/Operating Unit Process since Last ERA</i> • <i>Mission Statement</i> • <i>Organizational Structures</i> • <i>Business Objectives</i> • <i>Develop Questionnaires</i> • <i>Financial Data</i> • <i>City and Department Websites</i> • <i>Interviews</i> 	<ul style="list-style-type: none"> • <i>Analyze Questionnaire responses and follow-up with questions/interviews/discussions</i> • <i>Identify Key Business Processes and related changes</i> • <i>Identify Potential Risks</i> • <i>Identify Risk Management techniques as stated by management</i> • <i>Map identified risks to stated risk management techniques</i> • <i>Evaluate process significance to the Department and overall City operations</i> • <i>Perform Department-level risk assessments and validate with management</i> 	<ul style="list-style-type: none"> • <i>Updated City-wide business risk profile</i> • <i>Audit Division Planning tool</i>

The ERA considered primarily inherent risks, with limited identification of control risk, as self-reported by management. We did not test specific management controls and therefore, do not render an opinion on the effectiveness of design nor the efficiency in implementation or existence. The ratings do not imply a judgment on how management is addressing risk and thus is not a specific assessment of management performance nor concludes on 'Residual Risk'.

The actual projects (audits, reviews, monitoring, and other ongoing procedures, etc.) performed will allow us to test comprehensively, where necessary. Additionally, as we continue the annual ERA, we will be able to bring the assessment to a deeper level, and thus help us to effectively adjust our course and focus our efforts.

Key Business Processes

The initial City-wide analysis identified 145 total key business processes, however, further detailed analysis revealed 19 *common* processes throughout most Departments, so they were grouped together for more efficient analysis.

Common Key Business Processes are identified in Table 3 below:

TABLE 3

Common Key Business Processes (KBPs)	
• Administration	• Inventory/Materials Management
• Communications	• Information Technology
• Compliance	• Payroll
• Customer Services	• Procurement
• Disaster Recovery	• Project Construction Management
• Facilities Management	• Public Safety
• Financial Management	• Records Management
• Fleet Management	• Revenue Generation (and Collections)
• Grant Management	• Specific Operational*
• Human Resources	

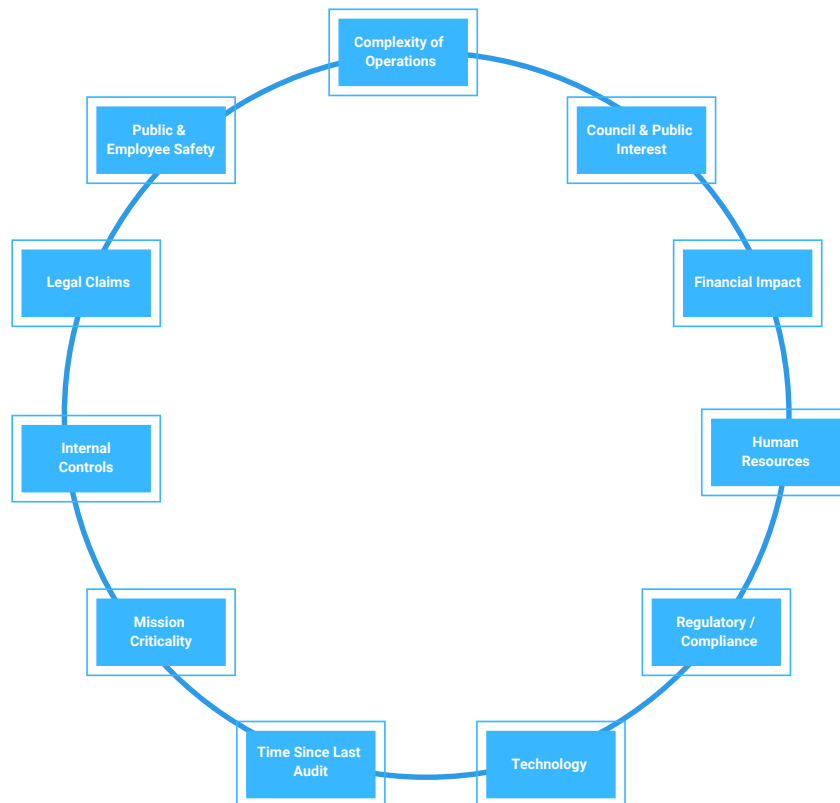
***NOTE: 'Specific Operational'** is made up of processes that are unique to the operations of the various Departments (e.g. "Call-Taking" for the Houston Emergency Center (HEC), "Certification" of Minority, Women, and Disadvantaged Business Enterprise (MWDBE) for the Office of Business Opportunity (OBO), "Collection" for Solid Waste Management, etc.). For purposes of the report 'Security' was combined primarily within 'Public Safety'.

ERA Risk Criteria

It is important to clarify the factors used in determining the levels of risk, as presented in the departmental risk assessments. For audit purposes, risk is evaluated by distinguishing between types of risk.

The ratings were determined by applying each Key Business Process within each Department to the weighted criteria identified below. A “High” rating indicates that an occurrence of the risk(s) may trigger conditions and events which prevent the City from achieving its objective within that process and could have a significant impact. The impact is measured in terms of disruption to essential services, financial loss, ability to protect public health and safety, impediments to economic development, or negative perception. In contrast, a “Low” rating indicates that the impact of such an occurrence or aggregated occurrences of the risk would be minimal.

The Audit Division used the risk criteria shown below to risk rate each department's key business processes to determine the operational risk exposure in each.

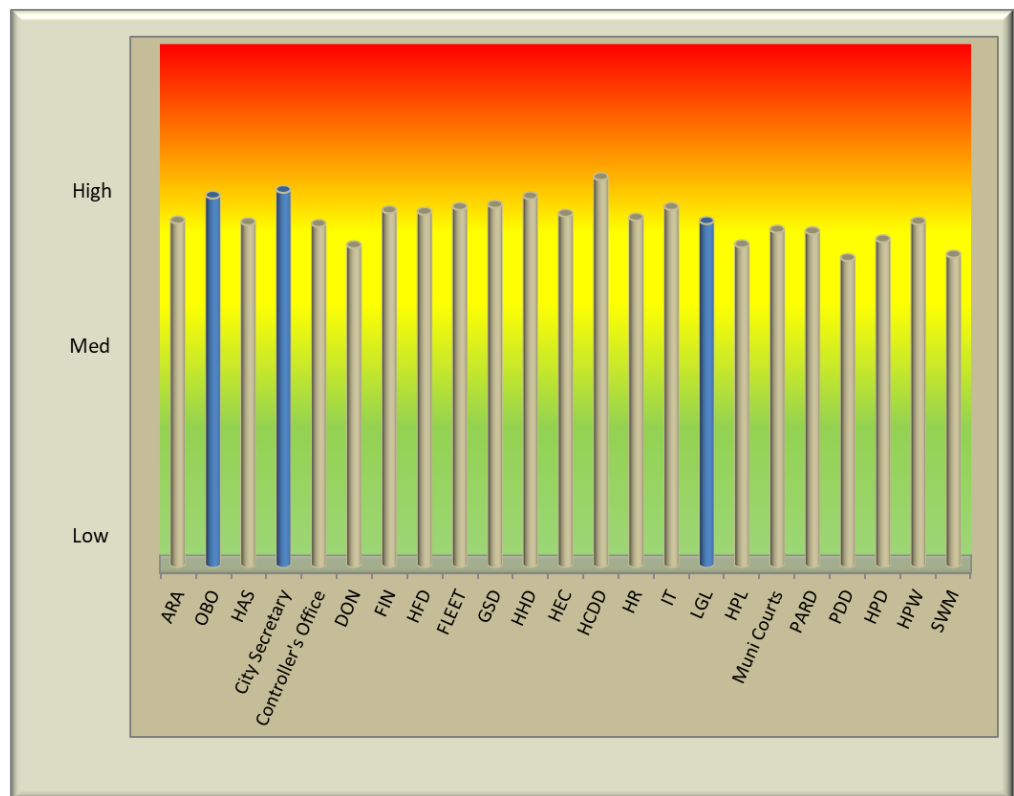


Output

The primary output of the ERA is to use the risk profiles generated as one of the catalysts in designing the Controller's Office Annual Audit Plan. As the risk profile of the City changes, it is reflected in the selection of some of the audits included in the Plan for FY2020. Projects that the Audit Division will audit from the Annual Audit Plan include high risk business processes identified through the ERA process, for example: Fleet Management which resides within the Fleet Management Department; Grant Management, and Public Safety, which reside within the following Departments: Airport, Finance, Fire, General Services, Houston Emergency Center, Houston Health, Housing and Community Development, Human Resources, Municipal Courts, Parks, and Police.

The following graphs summarize the results of the Audit Division's updated assessment of risk from two different perspectives: Graph 1 presents risks from the department perspective and Graph 2 shows the risk level from a Key Business Process (KBP) perspective.

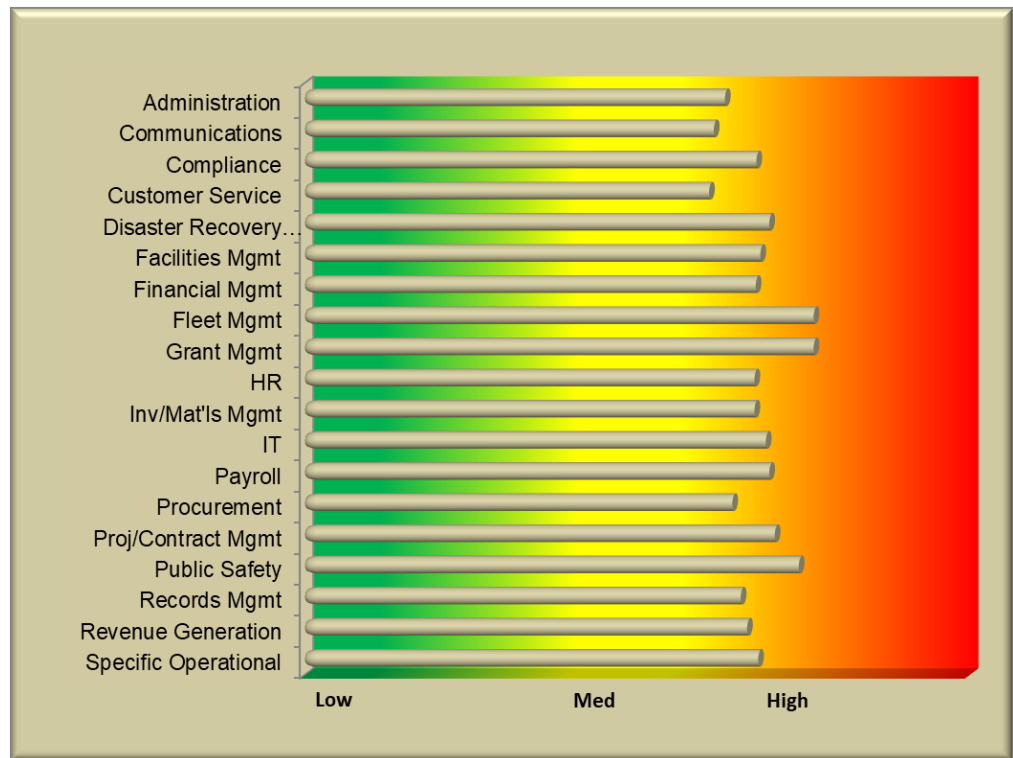
Graph 1 - Operational Risk Profile By Department¹



¹ The blue vertical bars represent the 3 departments updated for the FY2020 ERA.

Graph 2 provides a perspective to see potential efficiencies, overlap, redundancies, synergies, and leverage of resources when looking at activities, that the City performs without consideration of its organizational structure. The risk assessment revealed that the areas of Fleet Management, Grant Management, and Public Safety fall within the high-risk category.

Graph 2 - Operational Risk Profile By Key Business Process



The evaluation of all these factors provides indicators on prioritizing the potential projects for the upcoming year. In other words, this points us in the direction of "what" to audit. We then identify the available resources to determine the volume of activity to include in our plan.

Acknowledgement

The Project Team would like to express our appreciation to the participating Departments and their representatives, who gave their time and efforts. Their input was and is critical to the success of this annual assessment by actively responding to questionnaires, interviews, discussions, and review of data presented in this report. It was evident throughout the process that the City continues to have a significant number of qualified professionals, who serve the constituency by providing quality services in an economically challenged environment and who are proud of the work that they do.

UPDATED DEPARTMENT RISK
PROFILES

Mission and Objectives

The City Secretary keeps, records, and preserves the minutes and proceedings of the City Council, which is the governing body of the City of Houston (the “City”).

Notable Changes Since the Previous Risk Assessment

A previous risk assessment of the Office of the City Secretary took place in fiscal year 2015. Since that assessment, no significant changes have been made to the operations of the City Secretary. However, the long-standing City Secretary, Anna Russell, passed away in February 2020 and Mrs. Pat Jefferson-Daniel has been named the Interim City Secretary.

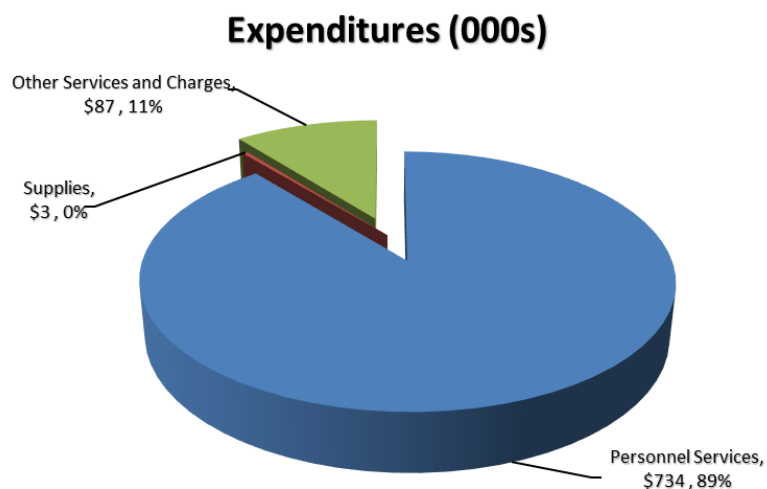
Significant Activities

This department acts as reading and recording clerk to City Council and is subject to regulations and guidelines, as stated in the City Charter, Code of Ordinances, Texas State Law and the Texas Election Code. Significant activities for calendar year 2019 include:

- Prepare City Council meeting agendas;
- Record and preserve the minutes of City Council proceedings;
- Administer City elections;
- Processed 645 City Council motions, 37 resolutions, and 1,039 ordinances;
- Processed all authorized documents such as deeds, easements, 600 contracts, etc.;
- Received and compiled campaign filings and 402 campaign contribution reports;
- Received over 850 sealed bids; and
- Processed over 1,200 Texas Alcoholic Beverage Commission (TABC) Applications.

Fiscal Year 2019 Financial Data

During Fiscal Year 2019, the City Secretary’s Office managed a budget of \$968 thousand and had expenditures totaling \$824 thousand, all of which is funded through the General Fund. Graphical representation of the expenditures depicts the amount and source of each.



Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Communication	<ul style="list-style-type: none"> ▪ Insufficient resources ▪ Lack of knowledge ▪ Untimely / inaccurate communication ▪ Computing system / server failure ▪ Non-compliance with City Charter or City Ordinances 	<ul style="list-style-type: none"> ▪ Meeting dates and deadlines are communicated ▪ City Secretary attends Agenda Meetings ▪ Meeting Agendas are posted on the City's website and SharePoint ▪ Motion numbers are assigned to Agenda Items ▪ Meetings are recorded ▪ Meeting minutes are archived ▪ In-house training for staff 	High
Elections	<ul style="list-style-type: none"> ▪ Lack of resources ▪ Non-compliance with local, state, or federal election regulations ▪ Untimely or non-receipt of Election Results 	<ul style="list-style-type: none"> ▪ Election administration is co-sourced ▪ Staff trained on election administration requirements ▪ Election results are verified by the department and City Legal 	Medium
Records Management	<ul style="list-style-type: none"> ▪ Non-compliance with local, state or federal regulations ▪ Inability to safeguard records ▪ Inability to access archived records ▪ Loss of data ▪ Natural disaster or other catastrophic event ▪ Lack of records management system ▪ Unauthorized use of City Seal ▪ Duplication of ordinance and motion numbers ▪ Prohibited contractors make donations to campaigns ▪ Inadequate review of liquor license certifications 	<ul style="list-style-type: none"> ▪ Sealed bids opened in the presence of witnesses ▪ Records stored in secure facilities ▪ Only department personnel allowed access to records ▪ Motions, Ordinances, and Resolutions are digitally scanned and archived to network drive ▪ HITS backup network drive and software ▪ HITS supports all department IT systems/software ▪ Prohibited Contractors' List is updated weekly ▪ Review prior to signing-off on liquor license certifications 	Medium

Mission and Objectives

The City of Houston (the “City”) Legal Department is the City’s law firm and as such, strives to provide the highest quality municipal legal services to the City, its elected and appointed officials, and its employees in the most efficient manner feasible through adherence to the following guiding principles:

- Quality and Service – Achieving high customer satisfaction as judged by our clients;
- Partnership and Teamwork – Working cooperatively internally and with our clients to achieve the City’s goals;
- Integrity and Candor – Acting with a commitment to honesty and ethical behavior;
- Dignity and Diversity – Demonstrating esteem for the worth of each individual; and
- Innovation and imagination – Seeking novel and creative approaches to achieving the City’s objectives.

Notable Changes Since the Previous Risk Assessment

A previous risk assessment of the Legal Department took place in fiscal year 2015. Since the 2015 ERA, the Legal Department combined General Litigation and Labor and Civil Rights into a new Section, entitled “Torts/Civil Rights”. Consequently, the Labor and Employment Section was renamed “Labor Employment and Civil Service”. Additionally, a new legal practice section, “Disaster Recovery”, has been added to the Department in the Transactional Division.

In addition, Randy Zamora was elevated from Section Chief to First Assistant City Attorney, and Asmara M. Tekle joined the department’s leadership as First Assistant City Attorney. In April 2016, Mayor Sylvester Turner, appointed Ronald C. Lewis as City Attorney.

Significant Activities

Attorneys in the Legal Department represent the City in a wide range of matters including transactional/governmental affairs, litigation, and municipal prosecution. Significant activities of the Department include, but are not limited to:

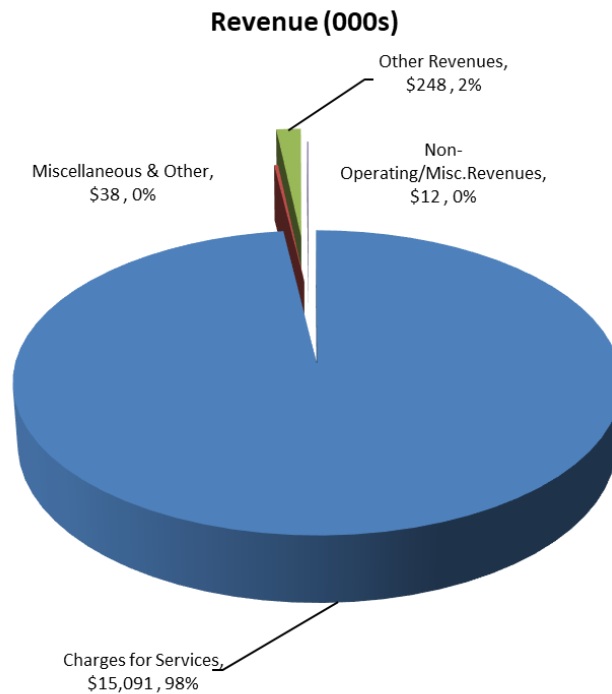
- Render opinions and advice to the Mayor and City Council upon any legal matter affecting municipal affairs;
- Render opinions and advice to City boards, commissions or directors of City departments upon any legal matter affecting their affairs;
- Represent the City in all actions and proceedings before any court, commission, board or other judicial or administrative authority;
- Defend the City in personal injury, wrongful death, civil rights, inverse condemnation, labor and employment litigation, and contract/vendor disputes;
- In 2019, Claims & Subrogation handled over 1,200 claims; with 73% resolved favorably; and collected a total of \$2,593,963 over the last five calendar years;
- In 2019, the Contracts section handled over 1,100 contracts;
- General Counsel handled 638 legal matters in FY2019 and over 300 in FY2020;
- General Litigation has seen a significant increase in litigation since 2014, up almost 300%; similarly appeals have increased by 22% over the last four years;

Significant Activities (cont.)

- Equal Employment Opportunity Commission (EEOC) claims decreased by 28% and grievances by 41% over the last five years;
- Neighborhood Services (NS) collected over \$1.7 million in settlements, adding to HPD's Human Trafficking Abatement Fund;
- NS obtained the repair and securing or demolition of approximately 180 dangerous buildings; and
- The Office of Inspector General processed over 350 claims during Fiscal Year 2019.

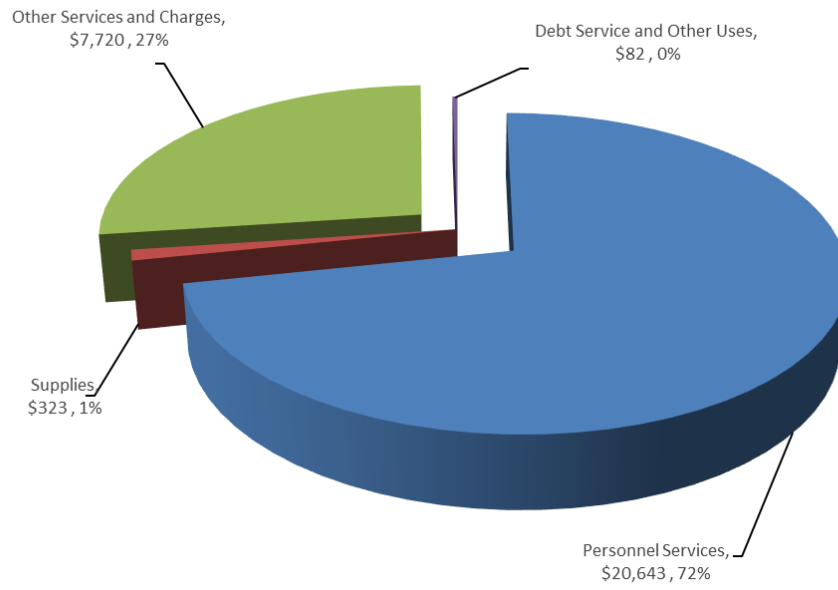
Fiscal Year 2019 Financial Data

During fiscal year 2019, the Legal Department's total revenue was \$15.4 million with expenditures for the same period totaling \$28.7 million. Revenue collected goes into the General Fund. Graphical representations of the revenues and expenditures below depict the amount and source of each.



Legal Department

Expenditures (000s)



Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
<p>Case Management</p>	<ul style="list-style-type: none"> ▪ Increased litigation ▪ Ineffective litigation strategies / tactics ▪ Personnel lack specific skills/training ▪ Litigation errors or malpractice ▪ Inadequate staffing ▪ Inadequate case preparation ▪ Loss of computer access to applicable databases ▪ Access to documents ▪ Inappropriate access to data and/or data breaches ▪ Engagement of outside counsel without appropriate credentials ▪ Inadequate case management system 	<ul style="list-style-type: none"> ▪ Cases are analyzed and evaluated by Section Chiefs ▪ Continuing education and training ▪ Legal seminars & conferences ▪ Actively attracting and retaining attorneys ▪ File management system used to track cases ▪ Scheduling process monitored ▪ Backups performed on server data ▪ Restricted access and password protected files ▪ Appropriate vetting of outside counsel/RFQ procedures ▪ Periodic updates to case management system 	<p>Medium</p>
<p>Financial Management</p>	<ul style="list-style-type: none"> ▪ Inadequate cost benefit analysis prior to engagement of outside counsel ▪ Overcharging by outside counsel ▪ Unfunded mandates ▪ Uncollected revenues ▪ Total payments for claims/lawsuits are not received ▪ Inadequate staffing ▪ Noncompliance with grant requirements ▪ Inadequate funding ▪ Failure to analyze financial lawsuit impacts ▪ Lack of Follow-up and analysis ▪ Failure to advise on legal obligations 	<ul style="list-style-type: none"> ▪ City Attorney approval for outside counsel ▪ Limiting use of outside counsel ▪ Funding allocations accompany each Federal Register ▪ Daily or monthly monitoring of budgets ▪ Monitoring until monies are received; Liens placed and abstract of judgment, if funds are not collected ▪ Continuing education and seminars/ conferences ▪ Support staff attend training on the City's official financial system ▪ Verify federal regulations 	<p>Medium</p>

Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Financial Management (cont.)		<ul style="list-style-type: none"> ▪ Work closely with City Housing Department grant personnel ▪ Review billing/invoice process ▪ Analysis and Variance Reports provided 	
Investigations	<ul style="list-style-type: none"> ▪ Lack of Independence ▪ Inadequate staffing ▪ Lack of cooperation ▪ Budget constraints ▪ Lack of adequate expertise ▪ Untimely subpoena request ▪ Investigations not conducted within statute of limitations ▪ Lack of follow-up and analysis ▪ Inappropriate access to data and/or data breaches 	<ul style="list-style-type: none"> ▪ Careful oversight ▪ Cross training ▪ Hiring practices ▪ Experience ▪ Constant communication with City Attorney ▪ Coordinate responses to subpoenas ▪ Docket control; staff meetings; electronic reminders ▪ Weekly attorney meetings/monthly reports ▪ Special firewall ▪ Locked cabinets for files 	Medium
Legal Enactment and Enforcement	<ul style="list-style-type: none"> ▪ Insufficient resources ▪ Invalid or loss of valid licensure for personnel ▪ Insufficient knowledge of laws ▪ Lack of monitoring for new/changes in laws and regulations ▪ City Ordinances contradict state/federal regulations ▪ Vague ordinances ▪ Ordinances may be inconsistent with other municipal laws ▪ Complex and varied deed restrictions ▪ Conflicts of interest 	<ul style="list-style-type: none"> ▪ Temporarily reallocate personnel to cover high volume areas ▪ State Bar license verified upon hire ▪ Continuing internal and external training ▪ Cross-training and communication ▪ Legislative analysis team ▪ Ordinance drafting manual and research files ▪ Research issues and draft new or amended ordinances ▪ Educate citizens regarding deed restriction requirements ▪ Internal conflicts team 	Medium

Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
<p>Preemptive Legal Services</p>	<ul style="list-style-type: none"> ▪ Provide inaccurate or incomplete legal advice ▪ Insufficient resources to provide preventive training and counsel ▪ Lack of knowledge of federal and state laws ▪ Inadequate understanding of specialized contract terms ▪ Inadequate drafting and review of contract terms or ordinances ▪ Inadequate contract negotiation ▪ Ineffective representation of City's interest in labor negotiations ▪ Conflicts of interest 	<ul style="list-style-type: none"> ▪ Robust shared drive and resource files ▪ Provide training opportunities for staff and attorneys on compliance matters ▪ Educate the City's personnel, boards, commissions, and committees on compliance issues ▪ Annual Continuing Legal Education (CLE) requirements and specific training areas ▪ Standard contract forms ▪ Contracts undergo multiple reviews ▪ Coordinate responses to subpoenas and open records requests ▪ Constant communication with City departments ▪ Advise City departments in negotiations ▪ Internal Conflicts Team 	<p>Medium</p>
<p>Records Management</p>	<ul style="list-style-type: none"> ▪ Diverse retention periods for various document types ▪ Record retention periods not established ▪ City personnel unaware of retention periods ▪ Inability to locate records ▪ No comprehensive system to manage electronic data ▪ Limited access to documents ▪ Inappropriate or unauthorized access to data/documents ▪ Loss or theft of records or files ▪ Expired or invalid law licenses 	<ul style="list-style-type: none"> ▪ Educate personnel on retention period requirements ▪ Respond to all department inquiries regarding records management laws ▪ Use CSMART Case Management, Total Office ▪ Use Harris County Department of Education for records archiving ▪ Immediate scanning of documents ▪ Use of desktop scanners to store files 	<p>Medium</p>

Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
<p>Records Management (cont.)</p>	<ul style="list-style-type: none"> ▪ Sanctions against staff ▪ Conflicts of Interest ▪ Failure to provide complete and timely responses to open records requests 	<ul style="list-style-type: none"> ▪ Secure area, locked file cabinets, special firewall, login credentials, servers at City of Houston Data Center ▪ Use of locked shred bins ▪ Department pays personnel's annual membership dues for State and Federal Bar ▪ Verify license through State and Federal Bar Associations, when hired, and as needed ▪ Internal Conflict Team ▪ Attend Attorney Generals Open Government Conference (Open Records Request Training) 	

Mission and Objectives

The Office of Business Opportunity (OBO) is committed to creating a competitive and diverse business environment in the City of Houston by promoting the growth and success of small businesses, with a special emphasis on historically underutilized groups, by ensuring their meaningful participation in the government procurement process. OBO is committed to administering a reputable, accessible certification process that attracts qualified certification candidates, who once certified can leverage their certifications with other public and private agencies. In addition, OBO strives to ensure, with the assistance of all City Departments, that prime contractors consistently meet and exceed Minority, Women, and Small Business Enterprise (MWSBE) utilization goals on contracts. In furtherance of its mission, OBO provides the following:

- A suite of services that provides business development assistance to businesses in their start-up stage and to those in more mature stages to ensure sustainability and growth;
- A reputable and customer-friendly certification program that attracts qualified certification candidates;
- Assist with ensuring that certified companies regularly and successfully participate on City contracts and contracts with other public and private entities;
- Ensure that Prime contractors are compliant with MWSBE utilization goals and labor standards requirements on contracts; and
- Stellar customer service and training to ensure our internal customers, City Departments, are provided with the resources necessary to successfully comply with the MWSBE, Hire Houston First, and Pay or Play Program.

Notable Changes Since the Previous Risk Assessment

The most recent risk assessment of OBO took place in fiscal year 2015. Since that assessment, key management changes which occurred at the Executive Team level include the Mayor's appointment of Marsha E. Murray as Director of OBO and the addition of Lalla V. Morris, as Assistant Director.

Workforce Development was added to OBO's scope of work shortly after Mayor Turner's election in 2016. The two Workforce Development programs facilitated by the Office of Business Opportunity are Home Builders Institute (HBI) Acres Homes and Turnaround Houston. OBO partnered with the Home Builders Institute to design the HBI Acres Homes program to serve young men and women (ages 18-24) in the Acres Homes community. This program is free for the students and includes introductory construction skills and exposure to the industry and its opportunities.

Under Mayor Sylvester Turner's leadership, OBO launched Turnaround Houston to address the barriers to employment that many Houstonians face. Turnaround Houston offers access to job training, resume writing, tattoo removal, social service agencies, educational institutions, counseling, and intervention to help hard to employ Houstonians turn their lives around. Additionally, OBO has managed donations for Houston-area disasters, including Hurricane Harvey relief in 2016 – 2017 and currently for COVID-19 recovery.

Significant Activities

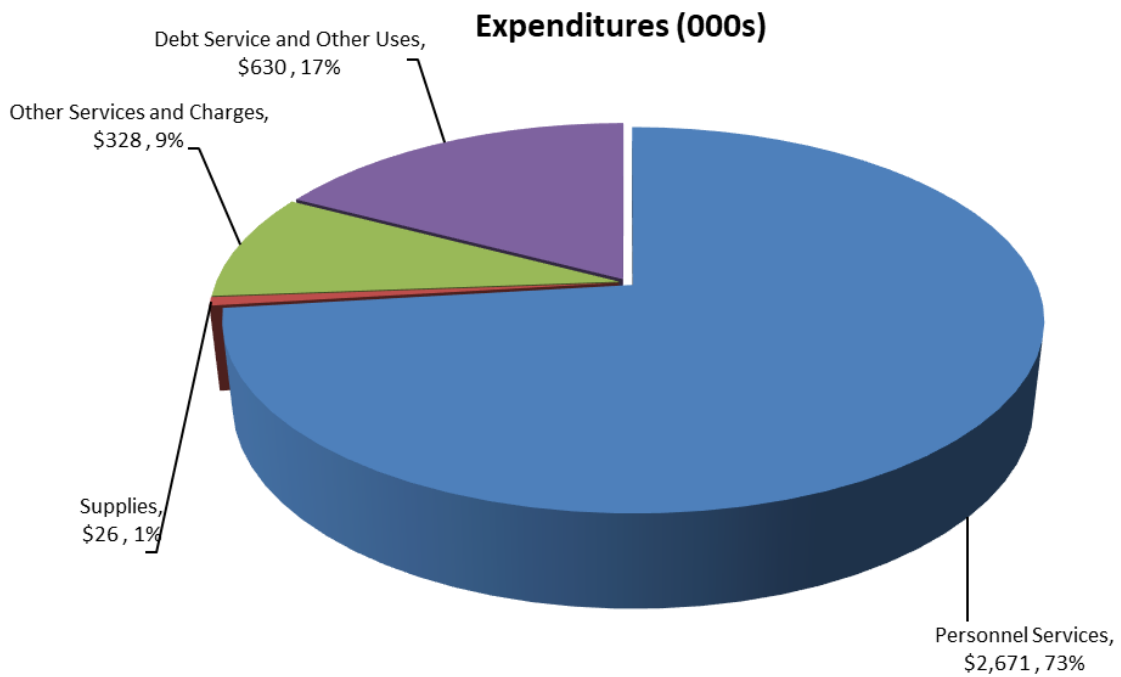
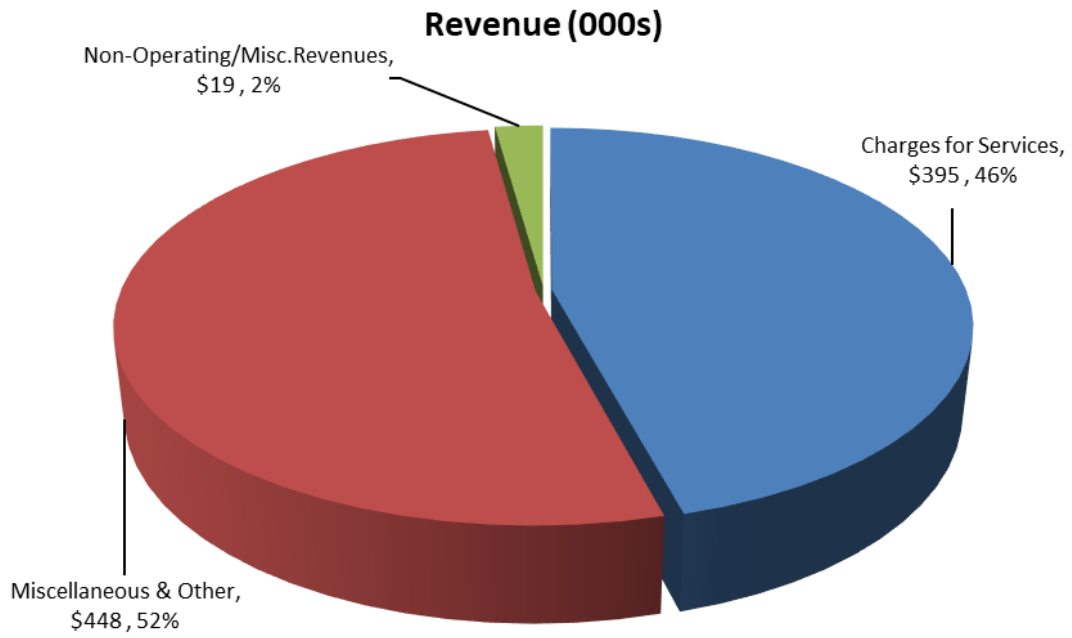
As set forth in Chapter 15, Article V, of the City of Houston Code of Ordinances, OBO has specific mandated responsibilities. In addition to the responsibilities mandated under the City Code of Ordinances, OBO administers a number of services which resulted in the following results in FY2019:

- Certified 280 businesses as minority, woman, or small business enterprises in FY2019;
- Responsible for maintaining an online register comprised of 3,603 certified businesses, as of June 30, 2019;
- Monitored utilization and payments totaling over \$4.3 billion for FY2019 to 1,144 small, minority, women, and persons with disabilities on 1,113 City contracts;
- Monitoring 349 City construction contracts, totaling over \$1.4 billion, to ensure compliance with equal employment opportunity and prevailing wage statutory requirements;
- Reviewed and monitored MWSDBE compliance participation goals related to 51 participation plans, 27 Pre-Bids, and 24 Pre-Award Good Faith Efforts;
- Administered and monitored the Hire Houston First program, which gave preference to 10 local companies, totaling \$35.6 million in awarded City contracts and 21,749 jobs created in FY2019, thereby, stimulating the local economy;
- Provided training to 85 businesses and citizens, city-wide through its Department Services Training Institute and community partners;
- Administered and monitored the City's Pay or Play Program, that included 1,062 contractors and 741 subcontractors, resulting in collection of \$448,318 in FY2019;
- Assisted 306 Disadvantaged Business Enterprises (DBEs) in removing barriers for eligibility and participation in department of Transportation (DOT) contracts;
- Provided 28 community outreach and networking initiatives to approximately 2,475 citizens; and
- Monitor City-wide goals set by City Council, resulting in 70% of departments attaining established goals.

Fiscal Year 2019 Financial Data

During FY 2019, the department collected total revenue of \$862,362. Revenues from Pay or Play totaled \$448,319 or 52%, while Charges for services and Miscellaneous Charges were \$395,234 (46%) and \$19 thousand (2%) respectively. By legislative statute, revenue from Pay or Play must be used for Pay or Play activities only. Expenditures for the same time period were \$3.7 million. Graphical representations of the revenues and expenditures depict the amount and source of each.

Office of Business Opportunity



Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Certification	<ul style="list-style-type: none"> ▪ Insufficient human resources ▪ Improper certification or denial of certification ▪ Program graduation candidates not detected ▪ Certification process not timely or consistent ▪ Non-compliance with city and federal guidelines ▪ Businesses receive incorrect / misleading information ▪ Loss of confidential / proprietary information ▪ Conflicts of interest ▪ Reputational Risks 	<ul style="list-style-type: none"> ▪ Provide ongoing staff training ▪ Implemented program efficiency Initiatives ▪ Generate and review quarterly and annual performance and utilization reports ▪ Set up to provide start-up business information, workshops, referrals, and licensing / permitting information ▪ Maintaining confidential / proprietary information on secured City servers ▪ Limiting access to confidential personnel ▪ Ongoing implementation of administrative and technological best practices ▪ Director approves outside employment ▪ Periodic review of updated list of firms that are suspended or debarred from federal transactions obtained from the Texas Federal Highway Administration 	High
Compliance	<ul style="list-style-type: none"> ▪ Non-compliance with city, state, federal regulations ▪ Non-compliance with privacy regulations ▪ Compliance monitoring not timely or accurate ▪ Lack of compliance monitoring ▪ Loss of federal funding ▪ Compliance measured against outdated data ▪ Insufficient Human Resources ▪ Conflicts of Interest 	<ul style="list-style-type: none"> ▪ Review state and federal regulations ▪ Review and update procedures, policies, and processes ▪ Provide listing of eligible contractors and subcontractors ▪ Quarterly staff meetings ▪ Frequently provide staff training ▪ Director approves outside employment 	High

Key Business Risk Areas

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Records Management	<ul style="list-style-type: none">▪ Loss of confidential / proprietary information (contractor payroll data)▪ Loss of training records▪ Natural disaster or other catastrophic event	<ul style="list-style-type: none">▪ Information kept in electronic form▪ Hard copies are shredded after use▪ Information is safeguard by program manager	Medium

DEPARTMENT RISK ASSESSMENT
DATES

FY 2020

RISK PROFILE UPDATE HISTORY

City of Houston Departments Date of Last Risk Assessment

DEPARTMENT NAME	LAST DATE ASSESSED
Administration & Regulatory Affairs	2018
City Secretary	2020
Controller's Office	2018
Finance	2016
Fire	2017
Fleet Management	2017
General Services	2019
Houston Health	2017
Housing and Community Development	2019
Houston Airport System	2018
Houston Emergency Center	2019
Houston Information Technology Services	2018
Houston Parks and Recreation	2018
Human Resources	2018
Legal	2020
Library	2017
Municipal Courts	2017
Neighborhoods	2017
Office of Business Opportunity	2020
Planning and Development	2016
Police	2016
Public Works and Engineering	2016
Solid Waste Management	2016

Glossary of Terms

Auditable Entities

Auditable Entities for risk assessment purposes are defined as areas upon which audits or reviews can be conducted by internal or external auditors. These functions or activities may also be considered key business processes or defined organizational structures.

Auditor Risk

The probability that the Auditor will render erroneous conclusions to the audit objectives based on; insufficient and/or inappropriate evidence, lack of reasonable auditor judgment, lack of proficiency or competency, lack of sufficient resources or tools to perform substantive procedures. This risk category comes into play during audits of Departments, Sections, Divisions, or Key Business Processes.

Component Units

Component Units are defined by the Governmental Accounting Standards Board (GASB) as a related entity whose leadership/management is controlled and/or appointed by a primary government (e.g. City of Houston) and who is dependent on the primary government financially or who would not exist if the primary government did not exist.

Control Risk

The perceived likelihood and impact of deficiencies in management controls put in place to ensure the achievement of objectives, protection of assets, financial reporting, etc. These are based on managerial decision-making, risk management techniques and strategy, which are generally within the accountability and control of operational management. Examples are structure of reporting lines and development of major processes to execute mission and objectives.

Inherent Risk

The perceived likelihood and impact associated with an entity or activity that exists simply from the perspective of its current environment. This assumes no significant actions taken by management to mitigate (address) those risks. For example, risks associated with geographic location, funding sources, population, global economy, structure of federal and state government, etc.

Glossary of Terms cont.

Key Business Processes

A Key Business Process (KBP) is a vital business procedure, function or activity on which a Department spends a significant amount of financial or personnel resources to perform, or an activity over which they have primary responsibility within the City.

KBPs also represent areas upon which audits or reviews can be conducted.

Residual Risk

The level of impact and likelihood of an adverse event occurring to impede the City, Department, and/or Key Business Processes from achieving success after identifying and testing of management (internal) control structure.

Risk Universe

All risks that could effect the City of Houston.

Audit Team

Theresa Watson, CIA, Audit Manager

Richard Denney, MBA, Lead Auditor

Aileax Barron, Staff Auditor

Merlin Daniel, Audit Intern

City Auditor

Courtney Smith, CPA, CIA, CFE

Audit reports are available at:

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