

OFFICE OF THE CITY CONTROLLER



**FISCAL YEAR 2018
UPDATED AUDIT PLAN**

**Chris B. Brown, City Controller
Courtney E. Smith, City Auditor**



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

CHRIS B. BROWN

July 19, 2017

The Honorable Sylvester Turner, Mayor
City Council Members

SUBJECT: Office of the City Controller
Updated Fiscal Year 2018 Audit Plan

Mayor Turner and Council Members:

I am pleased to submit to you the Fiscal Year 2018 Audit Plan. The basis of this year's Annual Audit Plan (Audit Plan) was an Enterprise Risk Assessment (ERA) performed by the Audit Division as required by the applicable professional auditing standards (ERA report to be issued separately). The Audit Plan also considered input from your offices, City Council Members, and Department Directors. This document will serve as the primary work plan to carry out the audit responsibilities in an efficient and effective manner. To enhance our effectiveness, our approach is balanced by conducting the audits using, in-house staff and by co-sourcing or outsourcing some projects requiring certain technical or specialized skills.

This Audit Plan includes performance, compliance/contract, monitoring, continuous auditing, and unannounced audits. Additionally, the plan provides for follow-up procedures and special projects.

We post the status of progress in executing our audit plan on a quarterly basis on the Audit Division webpage within the Office of the City Controller website.

Respectfully submitted,

Chris B. Brown
City Controller

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Kelly Dowe, Chief Business Officer, Mayor's Office
Harry Hayes, Chief Operating Officer, Mayor's Office
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Department Directors



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BACKGROUND AND AUTHORITY –

The City Controller is an independently elected official who is granted authority through Article VIII of the City Charter. Article VIII, Section 7, *Audits*, requires the City Controller to “... be responsible for conducting internal audits, in accordance with professionally recognized auditing standards, of the operations of all City departments, offices, agencies and programs. The scope of internal auditing shall encompass an objective and systematic examination of evidence to provide an independent assessment of the efficiency and effectiveness of the city's system of internal controls and the quality of performance based on quantifiable criteria in meeting objectives....”. The City Controller assigns this responsibility to the City Auditor (through appointment) to be the executive in charge of the Audit Division, whose scope of work is contained under a separate Charter (Audit Division Charter¹). Audit results are issued to the Mayor, City Council Members and Department Directors.

AUDIT DIVISION ORGANIZATION –

At the end of FY2017, the Audit Division had a total headcount of 11, consisting of 9 professional audit staff, one support staff, and the City Auditor. Audit Division staff provide audit related services as their primary focus. Additional training, certifications, and experience will enhance staff ability to provide services.

The Controller's Office uses internal and external audit resources to execute our mission and objectives and meet the needs and requests of our varied stakeholders. We currently have 9 professional service firms under contracts which will expire July 2021.

APPROACH AND METHODOLOGY –

The Audit Division adheres to: 1) the *Government Auditing Standards* (GAS – commonly referred to as the “Yellowbook”) as promulgated by the Government Accountability Office (GAO) and 2) the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA – known as the “Redbook”). To assure compliance with these professional standards, the Audit Division undergoes a peer review every 3 years. The most recent peer review was completed November 18, 2016.²

The Annual Audit Plan is a *flexible* commitment of the Audit Division within the Office of the City Controller which establishes areas that will be prioritized for audits in accordance with the responsibility and authority identified in the City Charter. The Audit Plan, approved by the City Controller, serves as a working document that considers items such as; the Enterprise Risk Assessment (ERA), input from the Mayor, City Council, Department Management, and results from previous audits. Due to continual requests for audit services, the increasing demand for non-audit services, and the required testing for planned activities, the Audit Plan will be monitored and revised as necessary throughout the year.

The professional standards noted previously require that the Audit Plan be grounded in risk-based methodology. An Enterprise Risk Assessment (ERA) is conducted annually on selected Departments on a rotational basis for efficiency and to ensure full coverage of all City Departments over a 4-5 year period³.

Evaluation of these factors provides indicators for prioritizing 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 (see Audit Resource Allocation section below).

¹ See Audit Division Charter at www.houstontx.gov/controller/audit/charter.pdf

² See 2016 Peer Review reports at www.houstontx.gov/controller/audit/peerreview.html

³ See Report No. 2017-11 - FY2017 ERA Update



AUDIT RESOURCE ALLOCATION –

Annually, the Audit Plan prioritizes the Audit Division's limited resources of budgeted staff and funds based on the ERA. The Audit Plan, therefore prioritizes expending efforts on either common Key Business Processes or Departments having a perceived high or moderate risk profile rating. Specific risk factors related to internal controls, estimated liability, and levels of exposure are used to identify and prioritize risks. As such, the City's audit function serves as a risk evaluation resource.

The number of projects that are proposed is based on consideration and an evaluation of:

- Current headcount within the Audit Division;
- Average number of hours used on a typical audit engagement⁴;
- Other types of ongoing services that the Controller's Office provides; and
- Unplanned requests from Mayor, City Council, or other Department Management,

USE OF PROFESSIONAL SERVICES FIRMS

For projects that involve circumstances where; 1) The use of experts/specialists is required; 2) The independence of the Audit Division as an organization is impaired; or 3) There is the potential for significant political sensitivity, the Office of the City Controller may elect to use external consultants. NOTE: A budgeted dollar amount is approved for the use of these resources.

AUDIT PROGRAMS –

Upon the City Controller's approval of the Audit Plan, specific audit programs will be developed for each activity to be audited within the fiscal year ending June 30, 2018. The audit programs will be designed with regard to business services, compliance and other requirements, performance considerations, management input, and specialized skills in order to meet the specific audit objectives of each project. All audit programs, workpapers, and reports will be prepared in accordance with:

- Relevant standards issued by the American Institute of Certified Public Accountants;
- Government Auditing Standards (*Yellow Book*); and
- The Institute of Internal Auditor's International Standards for the Practice of Internal Auditing (*Red Book*).

Where applicable, disclosure of nonconformance will be provided.

STATUS AND UPDATES TO ANNUAL AUDIT PLAN –

The specific projects conducted throughout the year may be a sub-set of the list provided in the Audit Plan. The nature, extent, and timing of audit activities will vary as a result of the differences in the nature of operations, organizational structure, and resource availability.

The Audit Division will also provide any assistance to City management or City Council when they request special projects (*assuming the available resources exist, and depending on the context and priority of the assignment as it relates to risk, exposure, fraud, waste and/or abuse*). These special projects will normally be performed in addition to planned audit work. If the assistance requires the use of external consultants, additional funds may need to be provided by the appropriate departments and/or City Council.

⁴ The Audit Division is a member of the Association of Local Government Auditors (ALGA), which provides aggregated data on internal auditing for local governments, including resource utilization (average number of hours per project).



Executing the Audit Plan involves an update and status process that is scheduled weekly between the City Auditor and the City Controller. Additionally, the Audit Division posts a high-level status report on the Audit Division's website, accessible from the City Controller's Webpage. Feedback to the Division in the form of Post-Audit Surveys and Requests for Audit Services is also available from the Audit Division's website.⁵

ANTICIPATED BENEFITS OF AUDIT ACTIVITIES –

Compliance



Improve Accountability



Cost Savings



Improve Risk Management and Internal Controls



Improve Financial Reporting



Improve Efficiency



⁵ The Audit Division has a website accessible from the Controller's website, which post results of audits, follow-up procedures, and status of progress. See: <http://www.houstontx.gov/controller/audit>



FISCAL YEAR 2018 PLANNED ACTIVITY (PROJECTS)

The following is a list of projects for the FY 2018 Annual Audit Plan. The Audit Process is often thought to be linear in nature however it is a dynamic process and adjusts to evidence, impact, and magnitude of discovery as it occurs during the engagement process. The list provided is the population of projects from which the Audit Division will execute. The status/progress of projects on the Annual Audit Plan is posted on the Audit Division website. In addition, the Audit Division personnel meet with the City Controller weekly to provide a level of transparency and accountability for meeting our goals and objectives.

COMPLIANCE/PERFORMANCE/FINANCIAL AUDITS AND PROCESS REVIEWS

The following projects are planned to begin during FY2018:

ADMINISTRATION AND REGULATORY AFFAIRS (ARA)

PERFORMANCE/COMPLIANCE AUDIT – BARC PROCUREMENT COMPLIANCE

DESCRIPTION: BARC manages the City's animal shelter and adoption facility and provides veterinary care to animals brought in to the shelter. The audit will evaluate compliance with applicable policies, procedures, legislative and regulatory requirements.

CITY-WIDE SPECIAL REVENUE FUNDS

PERFORMANCE/PROCESS REVIEW – SPECIAL REVENUE FUNDS

DESCRIPTION: The City of Houston has approximately 77 Special Revenue Funds (SRF). SRFs are designated as budgeted or unbudgeted. The audit will review processes and evaluate compliance with applicable policies, procedures or regulatory guidance.

FLEET MANAGEMENT DEPARTMENT (FMD) –

PERFORMANCE/COMPLIANCE AUDIT – TAKE HOME VEHICLES

DESCRIPTION: Fleet Management provides City-wide fleet services. The audit team will review policies and processes and related internal controls for take home vehicles to determine compliance.

GENERAL SERVICES DEPARTMENT (GSD) –

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – COMFORT SYSTEMS USA

DESCRIPTION: The General Services Department provides maintenance, repair and renovation for client departments. The City has entered into contracts totaling just over \$37 million with Comfort Systems USA for heating, ventilation, and air conditioning (HVAC) services. The audit team will review and validate compliance with key terms and conditions of the contract.



HOUSTON FIRE DEPARTMENT (HFD)

PERFORMANCE/COMPLIANCE AUDIT – ARSON BUREAU

DESCRIPTION: The Arson Bureau serves as the investigative arm of the Houston Fire Department. The unit investigates incendiary fires, multiple alarm fires, fire deaths, bombings and any fires associated with suspected criminal or terrorist activity. The audit team will assess internal controls, structure, operational and management practices within this area of the Fire Department.

HOUSTON FIRST CORPORATION

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – CONTRACT COMPLIANCE

DESCRIPTION: Houston First Corporation, a local government corporation, operates convention and fine arts venues and parking garages with the mission to enhance quality of life and advance economic development for the City of Houston. The audit will review and evaluate key provisions of agreements with the City to ensure compliance with contract terms.

HOUSTON HEALTH DEPARTMENT

PERFORMANCE/PROCESS REVIEW – REVENUE CYCLE

DESCRIPTION: The Houston Health Department offers a variety of services to protect the health and social well-being of Houstonians. The audit team will review the revenue cycle and internal controls in place related to revenue generated from client services.

HOUSTON POLICE DEPARTMENT (HPD)

PERFORMANCE/COMPLIANCE AUDIT – ASSET FORFEITURE

DESCRIPTION: Chapter 59 of the Texas Code of Criminal Procedure allows the forfeiture of property under certain conditions. The Houston Police Department facilitates this process for the City of Houston. The audit will evaluate compliance with the state statute and ordinances, as well as controls over property seized and proceeds received through the judicial process.

HOUSTON POLICE DEPARTMENT (HPD)

PERFORMANCE/COMPLIANCE AUDIT – AUTO DEALERS DETAIL

DESCRIPTION: The Houston Police Department Auto Dealers Detail is responsible for licensing and regulation of automotive related businesses. The audit will review processes in place, assess operational compliance and effectiveness of applicable ordinances, regulations, guidelines and contracts.

HUMAN RESOURCES (HR)

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – TEMPORARY SERVICES

DESCRIPTION: HR manages contracts related to temporary personnel services for the City. Citywide expenditures range from \$13 million to \$17 million. The audit will focus on compliance with contract rates and terms, billing accuracy, and change order processes.



OFFICE OF BUSINESS OPPORTUNITY (OBO)

PERFORMANCE/COMPLIANCE AUDIT – CERTIFICATION

DESCRIPTION: The Office of Business Opportunity has the responsibility of promoting the growth and success of local small businesses by ensuring their meaningful participation in the government procurement process. The audit will review the process used in the certification process and focus on commercially useful function classification to ensure compliance with statutory and regulatory requirements.

PUBLIC WORKS AND ENGINEERING (PWE)

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – AUTOMATION NATION

DESCRIPTION: The City has a contractual agreement for the marketing and sale of heat dried bio-solids for Public Works and Engineering. The audit team will review and validate compliance with key terms and conditions of the contract.

CARRYOVER AUDITS FROM FY2017 AUDIT PLAN COMPLETION ORDER

The following projects were in progress during FY2017 and are being completed in FY2018:

CITY-WIDE POLICY FRAMEWORK

PERFORMANCE/COMPLIANCE AUDIT AND EFFICIENCY OF DESIGN REVIEW – CITY WIDE ADMINISTRATIVE PROCEDURES, EXECUTIVE ORDERS, AND MAYOR’S POLICIES

DESCRIPTION: Policy and procedures are created by management to outline a framework to direct behavior in alignment with mission and objectives significant to the operations as it defines the internal controls to mitigate risks associated with processes, resources, laws and regulations. The Audit Team has developed a strategy to gain coverage of auditing for compliance and the overall design as it pertains to management objectives.

ECONOMIC DEVELOPMENT (MYR)

PERFORMANCE/COMPLIANCE AUDIT – CHAPTER 380 PROGRAM REVIEW

DESCRIPTION: The Texas State Legislature passed Chapter 380 of the Texas Local Government Code, which authorizes municipalities to establish Chapter 380 Programs. The City of Houston has executed several Chapter 380 agreements. The Audit Team will review the collective status of the agreements and select specific agreements for further independent review.

ECONOMIC DEVELOPMENT (HCDD/MYR)

PERFORMANCE/COMPLIANCE AUDIT – TAX INCREMENT REINVESTMENT ZONE (TIRZ) FUND

DESCRIPTION: Tax Increment Reinvestment Zones (TIRZs) are special zones created by City Council to attract new investment to a specific geographical area. The zones are designed to help finance the cost of redevelopment and encourage development in an area that otherwise would not attract sufficient market development. The audit team will review controls in place and determine if transactions in TIRZ Fund 2409 managed by HCDD, were made in accordance with the specific purposes allowed by applicable policies, laws, regulations and ordinances.



FLEET MANAGEMENT DEPARTMENT (FMD) –

PERFORMANCE/PROCESS REVIEW – PARTS INVENTORY MANAGEMENT

DESCRIPTION: In April 2016, Fleet Management assumed responsibility for auto parts inventory management. The audit team will review policies and procedures implemented to manage auto parts inventory for the City to facilitate evaluation of the effectiveness and efficiency of those procedures.

GENERAL SERVICES DEPARTMENT (GSD) –

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – AMERICAN MECHANICAL SERVICES LLP

DESCRIPTION: The General Services Department provides maintenance, repair and renovation for client departments. During 2014, the City entered into a \$4.2 million contract with American Mechanical Services LLP for plumbing services. The audit team will review and validate compliance with key terms and conditions of the contract.

HOUSTON INFORMATION TECHNOLOGY SERVICES (HITS)

PERFORMANCE/PROCESS REVIEW – CITYWIDE CLOUD APPLICATIONS

DESCRIPTION: Houston Information Technology Services (HITS) was created to improve the IT organization throughout the City and provide guidance in the wake of technological advances. The audit team will review the extent of cloud service use, internal controls, and safeguards in place to evaluate cloud applications and minimize cybersecurity threats to the City's networks.

HOUSTON INFORMATION TECHNOLOGY SERVICES (HITS)

PROCESS REVIEW – INFORMATION TECHNOLOGY PROCESSES

DESCRIPTION: Houston Information Technology Services (HITS) manages IT applications and infrastructure for the City. The audit team will review selected processes in place to determine their effectiveness. Selected processes may include backup and recovery, mobile device inventory management, and vendor contract monitoring.

HOUSTON PUBLIC LIBRARY (HPL)

PERFORMANCE/COMPLIANCE AUDIT – CASH HANDLING PROCEDURES

DESCRIPTION: Review and test internal controls over cash handling to ensure the appropriate processes are in place to safeguard City assets.

MUNICIPAL COURTS DEPARTMENT (MCD)

PERFORMANCE/COMPLIANCE AUDIT – CSMART APPLICATION AND CASH MANAGEMENT

DESCRIPTION: City of Houston Municipal Courts is one of the largest municipal court systems in the United States, adjudicating over 500,000 cases each fiscal year. The audit team will evaluate internal controls over collection processes for fines and fees, recording of payment activity, procedures for safeguarding cash collections, and the proper recording of non-cash transactions that result in final case dispositions.



OFFICE OF BUSINESS OPPORTUNITY (OBO)

PERFORMANCE/COMPLIANCE AUDIT – PAY OR PLAY

DESCRIPTION: The Office of Business Opportunity administers the Pay or Play (POP) program implemented through Executive Order 1-7. The program seeks to promote an environment that fosters a quality workforce for employees working on City contracts. The audit will evaluate whether funds are accounted for appropriately and deposited timely.

PUBLIC WORKS AND ENGINEERING (PWE)

PERFORMANCE/COMPLIANCE AUDIT – DRAINAGE AND PAVING IMPROVEMENT CONSTRUCTION

DESCRIPTION: The Construction Branch manages construction of PWE Capital Improvement Projects. The audit will determine project compliance with City ordinances, key contractual and regulatory terms and requirements, funding and accounting treatment including the use of Rebuild Houston funds, as well as the effectiveness of internal controls.

ALTERNATIVE AUDIT PROJECTS FY2018

The Audit Plan is flexible based on changes to scope, staffing, access to information and other factors. Time and resources permitting, the following projects may be substituted for or performed in addition to the previously identified projects.

ADMINISTRATIVE AND REGULATORY AFFAIRS (ARA)

PERFORMANCE /COMPLIANCE AUDIT – ASSET DISPOSITION

DESCRIPTION: ARA's Asset Disposition Division generates revenue for the City of Houston by selling used, obsolete, excess, and confiscated property. The audit will evaluate internal controls and compliance with applicable policies, procedures, legislative and regulatory requirements.

ADMINISTRATIVE AND REGULATORY AFFAIRS (ARA)

PERFORMANCE /COMPLIANCE AUDIT – PAYROLL APPLICATION SECURITY CONTROLS REVIEW

DESCRIPTION: ARA's Payroll Services Division is responsible for bi-weekly remuneration of City employees. The audit team will review general and application controls within the City's Payroll application to determine if they are adequate and in compliance with policies and other directives.

FINANCE DEPARTMENT (FIN)

PERFORMANCE/COMPLIANCE AUDIT – COH PROCUREMENT PROCESS

DESCRIPTION: The Finance Department's Strategic Procurement Division is the primary organization within the City of Houston authorized to manage, facilitate and provide procurement services. The audit team will evaluate policies, procedures, regulatory requirements, and local ordinances.



HOUSTON AIRPORT SYSTEM (HAS)

CONTRACT COMPLIANCE AUDIT – CONSTRUCTION CONTRACT – WILLIAM P. HOBBY AIRPORT

DESCRIPTION: HAS engages in significant contract activity for airport, terminal, facilities, security, maintenance, improvements, and repairs. One construction contract type that has potential for cost recovery and effective partnership is referred to as a Construction Manager at Risk (CMAR). During FY2014, the City contracted with Hensel Phelps/CBIC (joint venture) for construction services at William P. Hobby Airport. The audit team will review contract requirements and performance measures to ensure compliance with contract terms.

HOUSTON POLICE DEPARTMENT (HPD)

PERFORMANCE/COMPLIANCE AUDIT – PROPERTY/EVIDENCE ROOM

DESCRIPTION: HPD uses an Evidence Management System (EMS) to facilitate management of the property room. The audit team will focus on ensuring the accuracy of EMS and compliance with applicable policies and procedures.

HUMAN RESOURCES DEPARTMENT (HR)

PERFORMANCE/COMPLIANCE AUDIT – WORKERS COMPENSATION

DESCRIPTION: The Human Resources Department's Risk Management Division provides services to help identify, analyze, administer, manage and control the City's exposure to risk and losses. The Worker's Compensation group assists this effort by helping to eliminate workplace hazards, creating a drug free work environment and reducing the financial impact of workplace injuries. The audit will focus on compliance with policies, procedures, and contractual agreements that are key components in this process.

PLANNING DEPARTMENT (PD)

PERFORMANCE/ COMPLIANCE AUDIT – HISTORIC PRESERVATION

DESCRIPTION: The Planning and Development Department's Historic Preservation staff is responsible for assisting citizens in historic property designation and stewardship. The audit will evaluate compliance with applicable policies, procedures, regulations and ordinances that are central to this process.

PLANNING DEPARTMENT (PD)

PERFORMANCE/PROCESS REVIEW – SPECIAL REVENUE FUND/DEVELOPER FUND

DESCRIPTION: The Planning and Development Department implemented a budgeted special revenue fund in FY2016 to assist with the management of developer activity. The audit will review processes and evaluate whether the fund is achieving its stated objectives.



SPECIAL PROJECTS & ONGOING MONITORING PROCEDURES

CITIZEN CENTRIC REPORTING (CCR) UPDATE

DESCRIPTION: The Comprehensive Annual Financial Report (CAFR) contains a wealth of financial, demographic, performance, and disclosure information and typically exceeds 300 pages. The goal of the CCR is to select key information (quantitative and qualitative) about the governmental entity from the CAFR and other authoritative sources and present it in a four page synopsis. The CCR format seeks to present the information in a “user” or constituent-friendly format. The report generally includes visual presentation aids, such as charts, graphs, and tables.

ENTERPRISE RISK ASSESSMENT (ERA) UPDATE

DESCRIPTION: Each year the Audit Division develops the Audit Plan based upon risk (primarily business, financial, and operational) Key benefits include; gains in significant knowledge, goodwill, and succession planning by having a diverse team exposed to all the major operations of the City. Professional auditing standards (both GAO and IIA) require audit resources to be allocated to projects based on continued risk assessment methodology. There are currently 4 major components to the ERA Process (1) Review of selected departments on a rotational basis, (2) Significant events occurring during the FY, (3) Changes to major process, structure, leadership within the City, (4) Consideration of Information Systems.

FOLLOW-UP PROCEDURES

DESCRIPTION: As issues are identified during the course of conducting audits/engagements, they are documented and reported accordingly. In order to help initiate change and continued improvement, we communicate with responsible management at regular intervals, and obtain a status of progress on implementation of corrective actions. These communications are formally documented. Additionally, samples of items are tested on a periodic basis, depending on the magnitude, impact, and cost-savings with the results being published as formal reports that disclose status of open items and assess the overall remediation process employed by management.

FRAUD HOTLINE/REPORTING

DESCRIPTION: The Office of the City Controller provides two primary vehicles for reporting fraud, waste and/or abuse: 1) A Fraud Hotline answered by the Audit Division and 2) a link to report fraud available from both the Controller’s Homepage and the Audit Division’s Website. Additionally, the Audit Division provides auditing support based on requests from the OIG and/or other authorities. Each reported concern is addressed. This may result in performing substantive procedures, such as an audit, or may be referred to an outside agency or department for follow-up. The initial contact, work performed, conclusions and/or referral are documented to support their disposition. In some instances, this may also require subsequent follow-up or monitoring to adequately resolve.



QUALITY ASSURANCE PROCEDURES (QA)

DESCRIPTION: Professional standards require that the audit function have a system of quality control/assurance in place to ensure all necessary elements are in place and operating effectively. Each audit/project is reviewed by a professional staff not directly assigned to the audit. The goal is to verify that sufficient, appropriate evidence is gathered and documented to adequately support conclusions based on procedures that are designed to test relevant audit objectives (this includes consideration of Fraud, professional judgment, competency, and supervision).

UNANNOUNCED AUDITS

DESCRIPTION: The Audit Division may perform audits on an unannounced basis during the year. These may include:

- Compliance with Specific Administrative Procedures or Executive Orders
- Petty Cash Counts;
- Inventory Audits (Test Counts/Controls)

A handwritten signature in blue ink that reads "Courtney E. Smith".

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