



# Office of the City Controller

## **ANNUAL AUDIT PLAN**

### **FISCAL YEAR 2024**



**Chris Brown**  
City Controller

**Report # 2024-01**

**Courtney Smith**  
City Auditor



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

CHRIS B. BROWN

July 25, 2023

The Honorable Sylvester Turner, Mayor

SUBJECT: Office of the City Controller  
Fiscal Year 2024 Audit Plan

Mayor Turner and Council Members:

I am pleased to submit to you the Fiscal Year 2024 Audit Plan. The basis of this year's annual Audit Plan was an Enterprise Risk Assessment (issued separately as *Report 2023-08*) performed by the Audit Division, as required by applicable professional auditing standards. The Audit Plan also considered input from other stakeholders including City Council and department directors. This document will serve as the primary work plan to carry out 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 projects requiring certain technical or specialized skills.

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

The status of progress in executing our audit plan is posted on a quarterly basis on the Audit Division webpage of the Office of the City Controller's website.

Respectfully submitted,

Chris B. Brown  
City Controller

xc: City Council Members  
Department Directors  
Marvalette Hunter, Chief of Staff, Mayor's Office  
Shannan Nobles, Chief Deputy City Controller  
Courtney Smith, City Auditor, Office of the City Controller

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## FY2024 Annual Audit Plan

Our fiscal year (FY) 2024 Audit Plan provides a population of risk-based projects from which we will execute. The plan incorporates projects covering a diverse selection of departments and key business processes.

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### Audits and/or Process Review Engagements

The following projects are those we plan to begin in FY2024.

#### ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT

##### Parking Benefit District

An ordinance creating the Washington Avenue Parking Management District was adopted by Houston City Council , December 12, 2012. The goal of the district is to manage parking supply and demand in the area, and to reinvest parking revenue into projects benefiting the Washington Avenue Corridor. The audit will evaluate the revenue collection process and reinvestment activity.

*(Key Business Process - Financial Management)*

#### CITY-WIDE AUDIT

##### Civilian Overtime

The City of Houston has spent an average of \$40 million per year on civilian overtime costs in recent fiscal years. The audit will assess whether internal controls are adequate to ensure the appropriate use and accurate payment of overtime, and whether procedures and practices are in compliance with City policies.

*(Key Business Process - Payroll)*

#### FLEET MANAGEMENT DEPARTMENT

##### Fuel Card Program

The Fleet Management Department manages a variety of services for the city's combined municipal fleet totaling approximately 13,000 units. The audit will assess whether internal controls are adequate to determine if fuel card purchases are managed and used appropriately.

*(Key Business Processes - Procurement)*

## GENERAL SERVICES DEPARTMENT

### Contract Audit

The General Services Department provides a comprehensive suite of design, construction and maintenance services for City of Houston facilities. The audit team will review selected contracts to evaluate the effectiveness and efficiency of contract service activity.

*(Key Business Process - Project/Contract Management)*

## HOUSTON EMERGENCY CENTER

### 911 Operations

The Houston Emergency Center processes approximately 3.2 million emergency and non-emergency calls each year. The audit will assess the call screening process and evaluate the efficiency in which responders are dispatched to emergency calls.

*(Key Business Processes - Call Taking and Public Safety)*

## HOUSTON PUBLIC WORKS

### Water Utility

Customer Account Services, a Division of Houston Public Works, provides customer information, billings, credit, collections, and all meter associated services to approximately 2.1 million water and wastewater utility customers within the City of Houston. A phased approach will be used to evaluate policies, processes and procedures in place to administer the water utility function.

*(Key Business Processes - Customer Service)*

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## Carryover Audits from FY2023

The following projects were in progress during FY2023 and are being carried over for completion in FY2024.

### ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT

Payroll Application  
Security Control

The Payroll Services Division of the Administration and Regulatory Affairs Department is responsible for bi-weekly remuneration of City employees. The audit team will review general and application systems controls within the City's payroll application to determine if they are adequate to ensure payments are accurate, made to the appropriate person and access is authorized.

*(Key Business Process - Financial Management)*

### HOUSING AND COMMUNITY DEVELOPMENT

Homeowner  
Assistance Program

The Homeowner Assistance Program (HoAP) has been designated as the primary program to help homeowners whose homes were damaged during Hurricane Harvey. The audit will determine if funds expended in HoAP are being spent in compliance with applicable policies, laws, and guidelines, as well as verify internal controls for the processing of applications and timely payments to eligible recipients.

*(Key Business Processes - Compliance and Grant Management)*

### HOUSTON INFORMATION TECHNOLOGY SERVICES

Data and Device  
Security

Houston Information Technology Services is responsible for providing City-wide information security operations, cyber-threat analysis, security governance, security architecture and engineering. The audit will assess whether departmental policies and practices are adequate to ensure that data and devices are safeguarded.

*(Key Business Process - Security)*

## SOLID WASTE MANAGEMENT

### Inventory Management

Solid Waste Management provides solid waste services to residential customers in the city, representing approximately 41 percent of the City's total waste stream. The audit will assess the processes and procedures in place to determine the appropriate levels of garbage and recycling cart inventory, including management of cart revenue leasing.

*(Key Business Process - Financial Management)*

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## Supplemental Projects

If capacity allows, the following projects may be performed.

## HOUSTON HEALTH DEPARTMENT

### Public Health Services

The Houston Health Department works to promote and protect the health and well-being of city residents. The audit team will review and evaluate the department's strategic framework, and assess the efficiency and effectiveness of the framework in the prevention and control of the spread of communicable diseases.

*(Key Business Process - Public Health Services)*

## HOUSTON INFORMATION TECHNOLOGY SERVICES

### Telecom Expenses

Houston Information Technology Services provides voice, network, email and communication platforms used by all City employees. The audit will examine telecom expenses to identify potential savings.

*(Key Business Processes - Administration and Infrastructure)*

## HOUSTON PARKS AND RECREATION DEPARTMENT

### Revenue Collection

The Houston Parks and Recreation Department manages a variety of parks, recreation facilities and programs throughout the Houston area. The audit will evaluate controls and procedures used to collect revenue.

*(Key Business Processes – Financial Management)*

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## Recurring Audit Procedures and Special Projects

### City-Wide Monitoring

#### Follow-up Audits

As issues are identified during audits/engagements, they are documented and reported accordingly. We maintain a database of findings and respective management responses that were included in previously issued audit reports. Open findings are periodically selected for follow-up procedures which can include testing samples of items. The results of follow-up procedures are published as formal reports that disclose the status of open items and assess the overall remediation process employed by management.

#### Fraud Hotline/Reporting

There are two primary vehicles for reporting fraud, waste and/or abuse: 1) The Controller's Office telephone hotline maintained by the Audit Division and 2) a link to report fraud available from the Office of the City Controller's website. Additionally, we provide auditing support based on requests from the OIG and/or other authorities. Each reported concern is addressed. The initial contact, work performed and/or referrals are documented to support disposition of the issues.

### Enterprise Risk Assessment

#### Enterprise Risk Assessment Update

Each year we develop the Audit Plan based upon risk (primarily business, financial, operational, etc.). Key benefits of performing a risk assessment include increased knowledge and succession planning by having a diverse team exposed to all the major operations of the City. Professional auditing standards require audit resources to be allocated to projects based on continued risk assessment methodology. There are currently five major components to the Enterprise Risk Assessment (ERA) process: (1) review of selected departments on a rotational basis, (2) significant events occurring during the FY, (3) changes to a major process, structure, or leadership within the City, (4) ethics-related programs and activities, and (5) consideration of significant information systems and cybersecurity.



## Quality Assurance and Improvement

### Quality Assurance Procedures

Professional standards require that the audit function have a system of quality control/assurance 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, and 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).

## Ethics Reporting

### Report on City of Houston Ethics

Professional standards require that the audit function assess and make appropriate recommendations to improve governance processes, including those that promote ethics and values within the organization. To determine how the City of Houston promotes ethics and values, the design, implementation and effectiveness of ethics-related objectives, programs and activities are reviewed and evaluated.

## Office of the City Controller

### Exit Audit

As the Controller's term of office draws to a close, an external provider will perform agreed-upon procedures on specific areas to ensure those processes are being performed and managed adequately.

## Special Projects

### Unannounced Audits

We may perform audits on an unannounced basis during the year. These may include but are not limited to:

- Compliance with specific Administrative Procedures or Executive Orders;
- Petty cash counts; and
- Inventory audits (test counts/controls).

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## Audit Activity Benefits

Houston is the fourth largest city in the United States. The internal audit function provides crucial insights into the business of government. Key anticipated benefits of our activities are reflected in the graphic below.



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## Background and Authority

### CITY CONTROLLER

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 Charter). Audit results are issued to the Mayor, City Council Members and department directors.

### AUDIT DIVISION CHARTER

The Audit Division is granted authority through its charter, which defines the mission, scope authority, responsibility and accountability of this function. The charter states that we are to:

*“...perform the Audit function for the Office of the City Controller. This includes provision of independent, objective assurance and consulting services designed to add value and improve the City’s operations.”*

The projects we perform use a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. We adhere to: 1) Government Auditing Standards (GAS - commonly referred to as the “Yellow Book”) and 2) International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA - known as the “Red Book”).

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City Charter, Article VIII,  
Section 7, Audits

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## The Audit Division

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The Audit Division operates with a staff of eight.

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### ORGANIZATION

Audit Division staff provide audit-related services as their primary focus. As of late July 2023, we have a headcount of eight including six professional audit staff, one senior staff analyst and the City Auditor. Additional training, certifications and experience will enhance audit staff's ability to provide these essential services. Certifications are held by 50 percent of the Audit Division's personnel.

Both internal and external audit resources are used to execute our mission, objectives and meet the needs of our stakeholders, including city residents, visitors, workers, businesses and decision-makers. As of late July 2023, we have five professional service firms under contract.

### AUDIT RESOURCE ALLOCATION

The Annual Audit Plan prioritizes our limited resources and emphasizes audits or projects with 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 audits or projects included in the Annual Audit Plan are based on consideration and an evaluation of:

- Current Audit Division headcount;
- Average number of hours used on a typical audit engagement;
- Other services provided by the Controller's Office; and
- Unplanned requests from the Mayor, Controller, City Council and/or other department management.

For audits or projects that involve circumstances where: 1) the use of experts/specialists is required, 2) our independence 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. A budgeted dollar amount is approved for the use of these resources.

If resources are available, we will also provide assistance to City management or City Council when special projects are requested. Our ability to assist will also depend on the context and priority of the request. If the assistance requires the use of external consultants, additional funds may need to be provided by the appropriate departments and/or City Council.

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## Audit Plan Development

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The Red Book requires internal audit activity be based on a documented risk assessment.

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## Audit Plan Execution

### DEFINITION

The Annual Audit Plan is a flexible commitment we make which establishes areas that will be prioritized for audits in accordance with the responsibility and authority identified in the City Charter.

### DEVELOPMENT

Developing the Annual Audit Plan is a process. The professional auditing standards noted in the Background and Authority section, require the Audit Plan to be based on a documented risk-based methodology. This is achieved by conducting an ERA annually for selected departments on a rotational basis to ensure efficiency and full coverage of all City departments over a four- to six-year period. Evaluation of the risk factors in the ERA process provides indicators for prioritizing potential audits and projects for the upcoming fiscal year.

In addition, input is gathered from a variety of sources including City Council, department management, citizens and results from previous audits. This points us in the direction of what audit projects to select.

Due to continued requests for audit services and the required testing for planned activities, the Annual Audit Plan will be monitored and revised as necessary throughout the year.

### AUDIT PROGRAMS

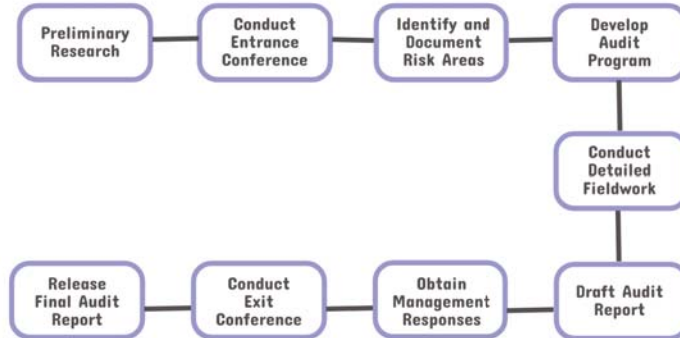
Execution of the Annual Audit Plan requires the development of specific audit programs for each activity to be audited. Audit programs will be designed with regard to business services, compliance, performance considerations, management input and specialized skills to meet the specific audit objectives of each project. All audit programs, workpapers and reports are prepared in accordance with:

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

Where applicable, disclosure of nonconformance will be provided.

## ELEMENTS OF AN AUDIT

The audit process is depicted in the diagram below as 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. Each audit contains these elements.



## AUDIT PLAN STATUS AND UPDATES

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

High-level status reports are posted on our webpage, which are accessible from the City Controller's website at <http://www.houstontx.gov/controller/audit/projects.html>.

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**City Auditor**

Courtney Smith, CPA, CIA, CFE

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Audit Plan reports available at:

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

Audit reports are available at:

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