



Office of the City Controller **DEPARTMENT OF NEIGHBORHOODS**

Follow-Up Audit



Chris Brown
City Controller

Report # 2023-06

Courtney Smith
City Auditor



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

CHRIS B. BROWN

January 30, 2023

The Honorable Sylvester Turner, Mayor

**SUBJECT: REPORT #2023-06
DEPARTMENT OF NEIGHBORHOODS (DON) – FOLLOW-UP AUDIT PROCESS REPORT**

Mayor Turner:

We have completed follow-up procedures on remediation efforts performed by DON management as they relate to Audit Report #2016-08, titled, “*Review of Administrative Procedure 7-7, Demolition of Privately Owned Buildings.*” As part of providing independent and objective assurance services related to efficient and effective performance, compliance and safeguarding of assets, we also performed follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

Our follow-up audit process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.²

- A total of four findings were issued under Audit Report 2016-08. Our review determined that although progress has been made toward the remediation of the findings with the modification of the department’s standard operating procedures, the findings will remain open to allow time for management to fully implement those processes.
- In reviewing the department’s remediation processes associated with the four findings, we concluded the overall assessment to be ***Adequate***.

¹ IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that “.... *Captures the relevant observations, agreed corrective action and current status.*”

GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

² See Exhibit 1 for the Detailed Remediation Assessment



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

We would like to thank the Department of Neighborhoods for their cooperation during the follow-up audit process.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members

Takasha Francis, Director of Neighborhoods
Marvalette Hunter, Chief of Staff, Mayor's Office
Shannan Nobles, Chief Deputy City Controller
Courtney Smith, City Auditor, Office of the City Controller

TABLE OF CONTENTS

	Page
Transmittal Letter	i
Table of Contents	iii
Report Sections	
Background	1
Audit Scope and Objectives	1
Procedures Performed	1
Conclusions	2
Follow-Up Approach	2
Audit Standards	3
Acknowledgement	3
Exhibit 1	
Detailed Remediation Assessment	4

Background

We have completed our FY2023 follow-up procedures related to remediation efforts performed by management of the Department of Neighborhoods (DON), as they relate to Audit Report # 2016-08, titled, “*Review of Administrative Procedure 7-7, Demolition of Privately Owned Buildings.*” As part of providing independent and objective assurance services related to efficient and effective performance, compliance and safeguarding of assets, we performed follow-up audit procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

Audit Scope and Objectives

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

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

Procedures Performed

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed and assessed management’s status updates to open findings;
- Determined the findings for which management’s status updates indicated remediation;
- Determined and requested documentation necessary to support the findings status reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

¹ IIA Standard 2500 Implementation Guidance - stresses the importance of having a process that “... captures the relevant observations, agreed corrective action, and current status.”

Conclusions

Based on the procedures performed, we believe we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards:

CONCLUSION 1 - (AUDIT OBJECTIVE 1)

A total of four (4) findings were issued under Audit Report 2016-08 that were the responsibility of DON. Our review determined that although progress has been made toward the remediation of the findings with the modification of the department's standard operating procedures, the findings will remain open to allow time for management to fully implement those processes. See Exhibit 1 for the Detailed Remediation Assessment.

CONCLUSION 2 - (AUDIT OBJECTIVE 2)

In reviewing the department's remediation processes associated with the four (4) findings, we concluded the overall assessment to be **Adequate**.

Follow-up Approach

Our follow-up audit process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates, and
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Our continuous follow-up audit process includes sending requests for status updates related to management's progress toward the remediation of open findings. Management provides status updates through an online portal that alerts us when received. This information is then assessed by the follow-up auditor, who considers; (1) responsiveness to the original issue, and (2) remediation of the issue.

FIELDWORK/TESTING VERIFICATION:

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

The information received through management status updates is used as a basis for follow-up testing. If necessary, additional supporting information is gathered by the follow-up auditor to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed (Adequate or Inadequate). A rating of **Adequate** indicates the department has processes in place to sufficiently monitor and address issues identified. The department demonstrates this by having either remediated (if the finding is "Closed") or is exhibiting progress in the remediation efforts (if the status is "Ongoing"). An **Inadequate** rating is assessed when the status of the findings is not as reported by management and/or the issues have not been addressed as stated in a status update.

Audit Standards

We conducted follow-up audit procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and The International Standards for the Professional Practice of Internal Auditing as promulgated by The Institute of Internal Auditors (IIA). Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Acknowledgement

We would like to thank the Department of Neighborhoods for their proactive approach to risk management and cooperation during the follow-up audit process.

City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up DON
Department of Neighborhoods (DON) - FY 2023 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2023 Audit Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2016-08	Noncompliance with requirements of Section 8.5.4	Our review of the documentary evidence obtained for all Demolition Assessment Panel (DAP) meetings held for the period July 19, 2013, through February 20, 2015, did not indicate any determination of the final cost to the City, for each building recommended for demolition to the DAP by the building standards official, as required by the provisions of Section 8.5.4. According to management's representation, the current reporting format was suggested by the Legal Department and was designed to capture information including the address of the building, zip code, land value, total value, total improvement value, among other factors, for each of the building presented to DAP for consideration. However, the information did not include any determination as to whether each building can be demolished at a final cost to the City that is both (a) reasonably and proportionate to the threat to human health or safety presented by the building; and (b) not inconsistent with the City's obligation to expend public funds for the wellbeing of the City as a whole, as required under the provisions of Section 8.5.4.	Updated Response: 12/1/2022 The requirements set forth in Section 8.5.4 of the Administrative Procedures 7-7 are met because the costs are pre-determined in contract negotiations via DON, the city's finance department, and potential vendors. DON reviews the costs of services based on industry standards to ensure they are reasonable in providing the services needed proportionate to resolve the human health and safety issues presented in each case. Additionally the city's obligation to expend public funds for the well-being of the City as a whole, is met when a site qualifies as a dangerous building that must be secured or demolished, which establishes it to be a public nuisance, and triggers the city's obligation to expend public funds for the wellbeing of the City as a whole. (Sections 10-371, 10-372, 10-373, and 10-391 of the City of Houston Municipal Code.) DON will also revise the current DAP HEARING report to include the following statement to further establish the requirements set forth in Section 8.5.4 of the Administrative Procedures 7-7: Based on the testimony and evidence presented in this hearing, and the underlying administrative order dated _____, this structure is a dangerous building and demolition by public funds is recommended to eliminate the threat to human health or safety presented by this hazard. This action is reasonably proportionate to the hazard and the final cost for demolition is reasonable based on industry standards and will benefit the surrounding community. (Sections 10-371, 10-372, 10-373, and 10-391 of the City of Houston Municipal Code.)	Ongoing- This finding will remain open until sufficient time has elapsed to review documentation to validate the change in processes noted in the updated DON Standard Operating Procedures (SOP) regarding the Demolition Assessment Panel (DAP) is adequate.	Adequate
2016-08	Noncompliance with requirements of Section 8.7	During the course of our engagement we noted that DON maintains information relating to each of the building through its application software: Forms. Documentary evidence provided for our review in connection with the DAP meetings held during the scope period showed information relating to (a) date and place of the meeting (b) the address and other qualifying information for each building considered; and (c) the vote of each Panelist. However, we noted no inclusion of a brief summary of information presented by the building standards official as part of the records, as required by the provisions of Section 8.7.	Updated Response: 11/10/2022 The DON now maintains information relating to each of the buildings through INFOR application software; INFOR will follow the reporting requirements set forth in Section 8.7 of Administrative Procedures 7-7 for administrative orders from the Building and Standards Commission and DAP hearings. The DON will determine our ability to begin recording DAP meetings and securing written transcripts. We will also expand the current written reporting format to include a brief summary of the information presented by the building standards official to the DAP in order to be in conformity with the provisions of Section 8.7. The summary will now also include the specific reason a partial or full demolition is recommended by DAP as corrective action.	Ongoing- This finding will remain open until sufficient time has elapsed to review documentation to validate the change in processes noted in the updated DON Standard Operating Procedures (SOP) regarding the Demolition Assessment Panel (DAP) is adequate.	Adequate

City of Houston
Office of the City Controller - Audit Division
Project: FY 2023 Follow-Up DON
Department of Neighborhoods (DON) - FY 2023 Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2016-08	Noncompliance with requirements of Section 8.5.2	Our review of documentary evidence presented to us during the course of the engagement did not disclose any instance of documentation to indicate that discussions were held during DAP meetings regarding whether a partial or full demolition of the building is required to remove a serious threat to human health, as required by the provisions of Section 8.5.2. During our observation of DAP meeting held on December 18, 2015, we noted participants' discussion on matters relating to the partial or full demolition of the building, as required by the provisions of Section 8.5.2. Management further represented to us that this matter is discussed at each meeting of the DAP. However, we noted that these discussions are not included as part of documentation of the proceedings of the meetings.	Updated Response: 11/10/2022 DAP hearings have been recorded and conducted virtually since December 2020 due to coronavirus. The DON will determine our ability to begin recording DAP meetings in person when applicable and securing written transcripts. We will also expand the current written reporting format to include a brief summary of the information presented by the building standards official to the DAP in order to be in conformity with the provisions of Section 8.7. The summary will now also include the specific reason a partial or full demolition is recommended by DAP as corrective action.	Ongoing- This finding will remain open until sufficient time has elapsed to review documentation to validate the change in processes noted in the updated DON Standard Operating Procedures (SOP) regarding the Demolition Assessment Panel (DAP) is adequate.	Adequate
2016-08	Noncompliance with requirements of Section 8.5.3	Our review of documentary evidence presented to us during the course of the engagement did not disclose any instance of documentation to indicate that any consideration was made during DAP meetings regarding whether a partial or full demolition of the building is likely to benefit the surrounding community and, if so, whether such benefit will be reasonably proportionate to the economic loss, if any, likely to be sustained by the building's owner as a result of the demolition in accordance with the provisions of Section 8.5.3. During our observation of the DAP meeting held on December 18, 2015, we noted participants' discussion on matters relating to this matter. Management further represented to us that this matter is discussed at each meeting of the DAP. However, we noted that these discussions are not included as part of documentation of the proceedings of the meetings.	Updated Response: 11/10/2022 DAP hearings have been recorded and conducted virtually since December 2020 due to coronavirus. The DON will determine our ability to begin recording DAP meetings in person when applicable and securing written transcripts. We will also expand the current written reporting format to include a brief summary of the information presented by the building standards official to the DAP in order to be in conformity with the provisions of Section 8.7. The summary will now also include the specific reason a partial or full demolition is recommended by DAP as corrective action.	Ongoing- This finding will remain open until sufficient time has elapsed to review documentation to validate the change in processes noted in the updated DON Standard Operating Procedures (SOP) regarding the Demolition Assessment Panel (DAP) is adequate.	Adequate

Audit Team

C. Gaylord Dunn, Lead Auditor

Theresa Watson, CIA, CGAP, Audit Manager

City Auditor

Courtney Smith, CPA, CIA, CFE

Audit reports are available at:

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