

OFFICE OF THE CITY CONTROLLER



**FISCAL YEAR 2015
UPDATED AUDIT PLAN**

Ronald C. Green, City Controller

Courtney E. Smith, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

RONALD C. GREEN

October 28, 2014

The Honorable Annise D. Parker, Mayor
City Council Members
City of Houston, Texas

SUBJECT: Office of the City Controller
Updated Fiscal Year 2015 Audit Plan

Dear Mayor Parker and Council Members:

I am pleased to submit to you the Updated Fiscal Year 2015 Audit Plan. The basis of this year's Annual Audit Plan (Audit Plan) was the 2013 Enterprise Risk Assessment (ERA) performed by the Audit Division as required. Additional consideration is given to input from your Office, 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,

Ronald C. Green
City Controller

Xc: Christopher Newport, Chief of Staff, Mayor's Office
Andy Icken, Chief Development Officer, Mayor's Office
Department Directors



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BACKGROUND AND AUTHORITY –

The City Controller is an independently elected official who is granted the authority (through the City Charter, Article VIII, Section 7) 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 ORGANIZATION –

At the end of FY2014, the Audit Division had a total headcount of 10, consisting of 8 professional audit staff, one support staff, and an Interim 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 now commonly outsourced.

The Controller’s Office utilizes internal and external audit resources to execute our mission and objectives and meet the needs and requests of our varied stakeholders. We have 8 professional service firms under contracts which will expire March 15, 2016.

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 1, 2013.

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, which is approved by the City Controller, serves as a working document that considers items such as; the Enterprise Risk Assessment (ERA), input from Mayor, City Council, Department Management, and results from previous audits, etc. 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. To enhance communication and facilitate transparency, status updates will be provided to the Budget and Fiscal Affairs Committee semi-annually.

The professional standards noted previously require that the Audit Plan be rooted in risk-based methodology. Historically, the Audit Division had outsourced its risk assessment process to external consultants and utilized the results provided in a report to assist in developing the annual audit plan. The previous risk assessments had been performed in 1994, 1999, and 2004 respectively. In FY 2010, the Audit Division conducted the ERA internally and utilized approximately 3 full-time equivalents (FTEs). Since then, the ERA is being executed annually on selected Departments on a rotational basis for efficiency and to ensure full coverage of all City Departments over a 4-5 year period¹.

¹ See 12-02 FY2011 ERA Update under separate cover.



Evaluating all of these various 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 (see Audit Resource Allocation section below).

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 engagement²;
- Other types of ongoing services that the Controller’s Office provides; and
- Unplanned requests from Mayor, City Council, or other Department Management,

USE OF EXTERNAL CONSULTANTS

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, 2015. 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.

² 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).



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’s 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.

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.³

ANTICIPATED BENEFITS OF AUDIT ACTIVITIES –

Compliance



Improve Accountability



Cost Savings



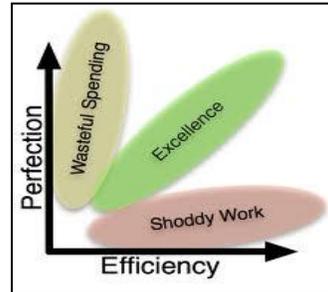
Improve Risk Management and Internal Controls



Improve Financial Reporting



Improve Efficiency



³ 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 2015 PLANNED ACTIVITY (PROJECTS)

The following is a list of projects for the FY 2015 Annual Audit Plan. The Audit Process, while often tracked in a linear fashion, is truly dynamic and reacts to evidence, impact, and magnitude of discovery occurring during the entire engagement process. That being the case, the list provided, gives a population of projects from which to execute. The Office of the City Controller's Audit Division posts status/progress of projects on the Audit Division website and meets with the City Controller weekly and the Budget and Fiscal Affairs Committee of City Council twice a year. This provides a level of transparency and accountability for meeting our goals and objectives.

COMPLIANCE/PERFORMANCE/FINANCIAL AUDITS AND PROCESS REVIEWS

ADMINISTRATION AND REGULATORY AFFAIRS (ARA)

PERFORMANCE/COMPLIANCE AUDIT – PARKING MANAGEMENT

DESCRIPTION: Parking operations are administered and enforced by the Parking Management Division as set by the Traffic Engineer. The Division also manages the collection of parking rates set by the Mayor, City Council, and the Parking Commission. The audit will assess operational compliance with applicable ordinances, regulations, and/or guidelines and the controls governing the timely and accurate collection and recording of parking related revenue.

FINANCE DEPARTMENT (FIN)

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – BUILDING AND MAINTENANCE SERVICES CONTRACT – MCLEMORE

DESCRIPTION: The City utilizes an external vendor to perform some of the building maintenance services for various departments. During FY2013 two contracts were renewed with a long-term vendor for four departments which totals approximately \$3 million. The audit team will review and validate compliance with key terms and conditions of these agreements.

HOUSTON PERMITTING CENTER (HPC) - ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT (ARA)

PERFORMANCE/COMPLIANCE AUDIT – PERMITTING OPERATIONS

DESCRIPTION: The HPC is responsible for the administration and enforcement of more than 600 permits, licenses, and registrations. Permitting, licensing, and registration activity can be done in person at HPC and some permits are available for purchase online. The audit team will review and validate compliance of selected permitting activity with applicable ordinance and/or regulatory terms and the effectiveness of controls over processing permits and the collection of permit revenue.



HOUSTON EMERGENCY CENTER (HEC)

PROCESS REVIEW – COST ALLOCATION

DESCRIPTION: HEC plays an important role in the delivery of Public Safety services of citizens who live, work or visit the City of Houston by providing 24/7 9-1-1 emergency call taker and dispatch services at its Emergency Operations Center. More than 9,000 emergency and non-emergency calls are processed each day. These services are funded through the City's General Fund, Greater Harris County 9-1-1 and the Houston Airport System Enterprise Fund. The engagement will focus on identifying and documenting processes used to allocate call volume appropriately, reviewing the existing cost allocation requirements and business models, and associated costs.

HOUSTON POLICE DEPARTMENT (HPD)

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – CHILD SAFETY FUND

DESCRIPTION: HPD administers the Child Safety Fund through which funding is provided to local school districts to provide funding for school crossing guards. The audit will review and validate compliance with contract terms and verify that dollars provided under the contract are being utilized appropriately.

CARRYOVER AUDITS FROM FY2014 AUDIT PLAN

The following projects began during FY2014 and are being completed in FY2015:

FINANCE DEPARTMENT (FIN)

PERFORMANCE/COMPLIANCE AUDIT – P-CARDS

DESCRIPTION: P-Cards are used throughout the City and involve vendors/merchants, the bank that issues and processes the detail information, interface with the ERP/SAP. Because of the volume, complexity and number of entities/systems involved, the Audit will focus on reviewing current controls over the issuance, use and approval of P-Cards and the verification of the accuracy of information posted/interfaced to the ERP/SAP system.

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.



PUBLIC WORKS AND ENGINEERING (PWE)

PERFORMANCE/ COMPLIANCE OR PROCESS REVIEW – ACCOUNTING FOR PROP 1/SPECIAL REVENUE FUNDS

DESCRIPTION: Proposition 1 was passed in November 2010, which created the need for changes to process and accounting of various activities related to infrastructure develop/re-development. The audit team will review, document and walkthrough a series of activities to identify key business processes, project set-up, tracking, and management of outsourced functions.

HOUSTON AIRPORT SYSTEM (HAS)

CONTRACT COMPLIANCE AUDIT – CONSTRUCTION ACTIVITY

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 FY2011, the Office of the City controller performed an audit of Phase 1 of Project 417F which utilized Clark Construction Company as the CMAR. The project has been completed in two additional phases. The Audit Team will perform a closeout audit of the remaining activity that applies to Phase II and III which approximates \$100 million in project costs.

FLEET MANAGEMENT DEPARTMENT (FMD)

PERFORMANCE / CONTRACT COMPLIANCE – VEHICLE REPLACEMENT PART SUPPLY CONTRACT WITH NAPA

DESCRIPTION: Several City Departments acquire, maintain, and dispose fleet vehicles that vary from standard automobiles (fuel, hybrid, and electric), trucks (pick-up, straight, dump, etc.), heavy equipment, and specialized vehicles for specific purposes (Fire, Emergency Medical Transportation, Waste, etc.). During FY2011 Fleet Management functions from various departments were consolidated into a newly formed Fleet Management Department. The process for managing spare/replacement parts inventory was outsourced to the Genuine Parts Company (NAPA) as supported by City contract #4600010761. The total contract value was \$95 million over a 5 year term. Since the inception of the contract, the City has paid the vendor approximately \$35 million. The audit will focus on compliance with key contract terms and management controls in place to monitor the contract activity, spending, and efficiency.

INFORMATION TECHNOLOGY DEPARTMENT (ITD) – (OUTSOURCED)

CONTRACT COMPLIANCE – LOCAL TELECOM EXPENSE (LANDLINES ONLY)

DESCRIPTION: The City spends approximately \$10 - 12 Million per year on local landline telephone services. The rates for services are per contract and subject to tariffs. The audit tested existence of lines being charged and the accuracy of the charges per the agreement or the appropriate tariff/rate.



ALTERNATIVE AUDIT PROJECTS FY2015

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

FINANCE DEPARTMENT (FIN)

PERFORMANCE/COMPLIANCE – DELINQUENT ACCOUNT COLLECTION CONTRACT AUDIT

DESCRIPTION: The City is engaged in a contract with an external professional service firm to perform collection activity on its behalf. The audit team will focus on compliance with key contract terms and conditions, and management controls in place to monitor collection activity.

GENERAL SERVICES DEPARTMENT (GSD) –

PERFORMANCE/CONTRACT COMPLIANCE AUDIT – FACILITIES/BUILDING MAINTENANCE – CONSTRUCTION AND RENOVATION WORK ORDERS

DESCRIPTION: GSD engages in contracts in construction activity for projects and maintenance of City assets. During FY2011, GSD spent approximately \$8.5 Million on these services to outside contractors. The audit will focus on compliance with contract billing terms and change order processes.

HOUSTON AIRPORT SYSTEM (HAS)–

COMPLIANCE AUDIT – TERMINAL PARKING

DESCRIPTION: HAS has several contracts for concessions, parking management, and off-site parking. The parking management is a paid contractor to handle cash for the parking facilities located at the various airport terminals. The estimated revenue for terminal parking is \$65 - \$70 million per year. The audit team will focus on vendors for terminal parking and the internal controls associated with oversight to ensure revenues due to HAS/COH are identified, reported and collected.

HOUSTON POLICE DEPARTMENT (HPD)–

PERFORMANCE/COMPLIANCE AUDIT – SUPPORT OPERATIONS, PROPERTY/EVIDENCE ROOM

DESCRIPTION: In the recent past, HPD has implemented a new Evidence Management System (EMS) and moved their property room to a new location. In addition, they have implemented Daily and Close-out audits. This audit will focus on ensuring the accuracy of the EMS and compliance with their policy and procedures.

MUNICIPAL COURTS DEPARTMENT (MC)

PERFORMANCE/COMPLIANCE – ACCOUNTING AND CASE DISPOSITION

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



TAX INCREMENT REINVESTMENT ZONES (TIRZs)

PERFORMANCE/COMPLIANCE OR PROCESS REVIEW – TAX INCREMENT VALUE

DESCRIPTION: Tax Increment Reinvestment Zones (TIRZs) are special zones created by City Council to attract new investment to an area. They 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 to monitor and evaluate the effectiveness of TIRZs.



SPECIAL PROJECTS & ONGOING MONITORING PROCEDURES

CITIZEN CENTRIC REPORTING (CCR)

DESCRIPTION: The Association of Government Accountants (AGA) posts condensed reports of jurisdictions aimed at being “user” or constituent-friendly. 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 and present it in a four-six page synopsis. The report generally includes visual presentation aids, such as charts, graphs, tables, etc. The professional staff assigned to this project will create a CCR for the City of Houston and post publicly on the Controller’s website and the AGA website.

ENTERPRISE RISK ASSESSMENT (ERA)

DESCRIPTION: Each year the Audit Division develops the Audit Plan based upon risk (primarily business, financial, operational, etc.) 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.

QUALITY ASSURANCE PROCEDURES

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 do adequately support conclusions based on procedures that are designed to test relevant audit objectives (this includes consideration of Fraud, professional judgment, competency, and supervision).



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. Consideration of Fraud Reporting is performed by the Audit Division on a regular basis and has direct involvement by professional staff that are Certified Fraud Examiners.

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 cursive script, appearing to read "Courtney E. Smith".

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