

OFFICE OF THE CITY CONTROLLER



**ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT
(ARA)
FISCAL YEAR 2017
AUDIT FOLLOW-UP REPORT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



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

CHRIS B. BROWN

April 4, 2017

The Honorable Sylvester Turner, Mayor

**SUBJECT: Report #2017-08
Administration and Regulatory Affairs Department (ARA) – FY 2017 Audit
Follow-Up Procedures**

Mayor Turner:

The Office of the City Controller's Audit Division has completed its FY2017 follow-up procedures related to remediation efforts performed by ARA management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

The Audit Division (Division) Audit Follow-Up 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 obtained sufficient and appropriate evidence to render our conclusions as follows:²

- There were a total of seven (7) open findings issued under audit report 2015-04. Our test work determined that one (1) of the seven (7) had been Closed/Remediated (Objective 1). Progress has been made toward the remediation of the remaining six (6) findings.
- In reviewing the department's remediation process associated with the seven (7) findings, we concluded the overall assessment to be Adequate (Objective 2)

¹ IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c(4)

GAGAS Appendix I Supplemental Guidance A1.08 states "Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for...f. addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations..."

² See Exhibit 1 for the Detailed Remediation Assessment, 2016 Audit Follow-Up Procedures



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CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

We would like to thank the Administration and Regulatory Affairs Department Management for their cooperation during the audit follow-up process.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members

Tina Paez, Director, ARA

Valerie Berry, Assistant Director, ARA

Kelly Dowe, Chief Business Officer, 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



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EXECUTIVE SUMMARY

BACKGROUND

The Office of the City Controller's Audit Division has completed its FY2017 follow-up procedures related to remediation efforts performed by ARA management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

The Audit Division (Division) Audit Follow-Up Process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Prior to the issuance of audit reports, findings are ranked according to three levels of risk to the City as a whole (high, medium, and low). Our continuous follow-up 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 the Division when received. This information is then assessed by the follow-up auditor considering (1) responsiveness to the original issue and (2) remediation of the issue. A status update which indicates that a finding has been remediated is tested/verified by the follow-up auditor prior to being closed.

FIELDWORK/TESTING VERIFICATION:

The information received through management status updates is used as a basis for follow-up testing. Additional supporting information is gathered by the follow-up auditor if it is needed 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. This could be demonstrated 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.

¹ IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c(4)

GAGAS Appendix I Supplemental Guidance A1.08 states "Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for...f. addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations..."



AUDIT SCOPE AND OBJECTIVES

The objectives of our Follow-Up Procedures were to determine:

1. The status for each open item and
2. The adequacy of the department's remediation process in place 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 the documentation necessary to support the findings status reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

AUDIT METHODOLOGY

We conducted Follow-Up 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. Those standards require that we plan and perform our work 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 meets these standards to support our findings and conclusions based on our audit objectives.

CONCLUSIONS

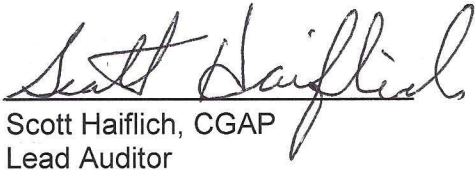
Based on the procedures performed above, we obtained sufficient and appropriate evidence to render our conclusions as follows:


- There were a total of seven (7) open findings issued under audit report 2015-04. Our test work determined that one (1) of the seven (7) had been Closed/Remediated (Objective 1). Progress has been made toward the remediation of the remaining six (6) findings.
- In reviewing the department's remediation process associated with the seven (7) findings, we concluded the overall assessment to be Adequate (Objective 2).



ACKNOWLEDGEMENT AND SIGNATURES

We would like to thank the Administrative and Regulatory Affairs Department for their cooperation during our follow-up process.


Scott Haiflich, CGAP
Lead Auditor


Theresa Watson, CIA
Manager



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

EXHIBIT 1

City of Houston
Office of the City Controller - Audit Division
Project: FY 2016 Follow-Up
Department of Public Works and Engineering - 2016 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, 2017 Audit Follow-Up Procedures

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2015-04	Policy Distribution, Facilitation and Strategic Content	EO 1-1 paragraph 7.2.2.3 states "Notice of and/or distribution of administrative procedures within an individual department is the responsibility of the department director;" however, it was determined during interviews and through review of EO 1-1 that there does not appear to be a defined process within the Departments of how to ensure new/revised policies are distributed and communicated to the appropriate personnel within each department who are affected by the change.	The revised EO was submitted to the Mayor's Office March 2016. The current administration has had staffing adjustments. ARA has recently been in contact with the Mayor's Office as recent as 10/20/16. ARA will provide more status updates as they are received.	Ongoing - As stated in ARA's status update, a draft of the revised EO was submitted to the Mayor's Office in March 2016 for approval.	Adequate
2015-04	Timeliness of Special Meetings needed for Policy Review	The IT Governance Board and Safety Committee meet on a monthly basis. The ARA Department has communicated that when they are required to obtain either IT Governance Board or Safety Committee approval for certain new/modified policies, the process can be delayed due to the timing of these meetings. Such delays adversely affect the process of timely implementing and/or updating a policy, especially in instances where approval is not granted and review comments from the Board/Committee must be addressed by the ARA Department and resubmitted for approval.	The revised EO was submitted to the Mayor's Office March 2016. The current administration has had staffing adjustments. ARA has recently been in contact with the Mayor's Office as recent as 10/20/16. ARA will provide more status updates as they are received.	Ongoing - As stated in ARA's status update, a draft of the revised EO was submitted to the Mayor's Office in March 2016 for approval.	Adequate

City of Houston
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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
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2015-04	Resources Dedicated to Policy and Procedure Facilitation	<p>As of March 2014, a total of 117 City-wide policies (Administrative Policies, Executive Orders, and Mayor Policies) are posted on the City of Houston's website of Administrative Policies and Procedures (http://www.houstontx.gov/adminpolicies.html). Upon inspection of these policies, the following policies were considered aged beyond 5 years and, therefore, have a high likelihood of being outdated:</p> <p>10 policies were last updated more than 5 years ago; 13 policies were last updated more than 10 years ago; and 24 policies were last updated more than 20 years ago.</p> <p>Through discussions with the ARA Department, it was confirmed that several policies have been updated since the group was assigned policy revision responsibilities in 2012; however, 2 ½ years later, outdated policies still exist that have not been formally updated. Currently, the ARA Policy Analyst is assigned the responsibility of facilitating all policy and procedure updates; however, the job role currently only provides 50% dedication to this effort as other ARA Department responsibilities are assigned to the Policy Analyst as well. Therefore, there appears to be an insufficient amount of employee resources in the ARA Department to ensure that policies and procedures are updated in a timely manner.</p>	ARA did their own internal review and streamlined the policy process. ARA sent the policy through the Greenbelt process in 2015 to make the process run smoothly and efficiently. It was determined that with the Greenbelt process in place 1.0 FTE (and 0.5 FTE assisting when needed) is sufficient. Lean Six Sigma presentation is attached.	Closed: ARA provided the Audit Division with a copy of the Lean Six Sigma - Greenbelt Citywide Policy Process. According to the document and subsequent to our audit report being issued, ARA took the following actions: - The Policy Management section was restructured. (Assignment of 1.5 full time employees to policy and procedure updates) - ARA conducted an internal review of the policy management process - ARA explored centralized policy management practices.	Adequate
2015-04	Role of Legal Department in Policy and Procedure Facilitation	EO 1-1 does not require or hold the Legal Department fully accountable to review each new and revised City-wide policy and procedure for compliance with applicable ordinances and other legal/regulatory requirements as well as formally approving each new or revised policy and procedure.	The revised EO was submitted to the Mayor's Office March 2016. The current administration has had staffing adjustments. ARA has recently been in contact with the Mayor's Office as recent as 10/20/16. ARA will provide more status updates as they are received.	Ongoing - As stated in ARA's status update, a draft of the revised EO was submitted to the Mayor's Office in March 2016 for approval.	Adequate
2015-04	Departmental Implementation of Disseminated Policies and Procedures	The responsibility of monitoring and enforcing policies and procedures after issuance is currently not formally defined within EO 1-1.	The revised EO was submitted to the Mayor's Office March 2016. The current administration has had staffing adjustments. ARA has recently been in contact with the Mayor's Office as recent as 10/20/16. ARA will provide more status updates as they are received.	Ongoing - As stated in ARA's status update, a draft of the revised EO was submitted to the Mayor's Office in March 2016 for approval.	Adequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2015-04	Timeliness and Frequency of Policy and Procedure Updates	The ARA Department is currently working toward reviewing and updating all of the Organization's City-wide policies. However, there is not an established methodology in place to ensure polices are reviewed for potential updates on a timely basis going forward. Without such a methodology, there is no guarantee that the policies will not become significantly outdated once again in the future. This would be specifically important for policies in regard to any information technology or safety related areas.	The revised EO was submitted to the Mayor's Office March 2016. The current administration has had staffing adjustments. ARA has recently been in contact with the Mayor's Office as recent as 10/20/16. ARA will provide more status updates as they are received.	Ongoing - As stated in ARA's status update, a draft of the revised EO was submitted to the Mayor's Office in March 2016 for approval.	Adequate
2015-04	Qualitative and Quantitative Risk Assessment Process	The ARA Department's assessment of prioritizing new policy or policy change requests is ad hoc and at times only based on the authority level of the requestor. There is not a documented methodology or risk assessment utilized to appropriately prioritize which policy updates or changes should take precedence.	The revised EO was submitted to the Mayor's Office March 2016. The current administration has had staffing adjustments. ARA has recently been in contact with the Mayor's Office as recent as 10/20/16. ARA will provide more status updates as they are received.	Ongoing - As stated in ARA's status update, a draft of the revised EO was submitted to the Mayor's Office in March 2016 for approval.	Adequate

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