



Office of the City Controller

FINANCE DEPARTMENT

Follow-Up Audit



Chris Brown
City Controller

Report # 2021-05

Courtney Smith
City Auditor



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

CHRIS B. BROWN

April 14, 2021

The Honorable Sylvester Turner, Mayor

**SUBJECT: Report #2021-05
Finance Department (FIN) – Audit Follow-Up Process Report**

Mayor Turner:

The Office of the City Controller's Audit Division has completed follow-up procedures on remediation efforts performed by the management of the FIN Department, as they relate to *Audit Report #2009-23*, titled, "Vehicle Allowance Program Audit", *Audit Report #2010-03*, titled, "Strategic Purchasing Division Performance Audit", and *Audit Report #2010-18*, titled, "Fuel Management Performance Audit". 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 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

- There were a total of thirty-two (32) findings issued under **Audit Reports 2009-23, 2010-03, and 2010-18** that were the responsibility of FIN; eight (8) were previously remediated and reported in *Audit Report 2012-10* and ten (10) were assigned a Low Risk rating, and

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



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did not require follow up, leaving fourteen (14) open. Six (6) findings were remediated and closed based on actions taken by management to address each. Eight (8) findings will remain open until management identifies and implements processes to mitigate the risk. See Exhibit 1 for the detailed remediation assessment.

- In reviewing the department's remediation processes associated with six (6) of the findings, we concluded – the overall assessment to be **Adequate**.
- In reviewing the department's remediation processes associated with eight (8) of the findings, we concluded – the overall assessment to be **Inadequate**.

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

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Tantri Emo, Director, FIN
Arif Rasheed, Deputy Director, FIN
Jerry Adams, Chief Procurement Officer, FIN
Marvalette Hunter, Chief of Staff, Mayor's Office
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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	2-3
Audit Standards	3
Acknowledgement	3
 Exhibit 1	
Detailed Remediation Assessment	4

Background

The Office of the City Controller's Audit Division (The Division) has completed its follow-up procedures related to remediation efforts performed by the management of the Finance (FIN) Department, as they related to Audit Report #2009-23, titled, "Vehicle Allowance Program Audit", Audit Report #2010-03, titled, "Strategic Purchasing Division Performance Audit", and Audit Report #2010-18, titled, "Fuel Management Performance Audit". 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 audits¹.

Audit Scope and Objectives

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

1. The status of 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.

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.

Conclusions

Based on the procedures performed, we believe that 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)

There were a total of thirty-two (32) findings issued under Audit Reports 2009-23, 2010-03 and 2010-18 that were the responsibility of FIN; Eight (8) findings were previously remediated in Audit Report 2012-10 and ten (10) were assigned a Low Risk rating and did not require follow up, leaving fourteen (14) open. Six (6) findings were remediated and closed based on actions taken by management to address each. Eight (8) findings will remain open until management identifies and implements processes to mitigate the risk. See Exhibit 1 for the detailed remediation assessment.

CONCLUSION 2 - (AUDIT OBJECTIVE 2)

In reviewing the department's remediation efforts associated with six of the findings, we concluded the overall assessment to be **Adequate**.

In reviewing the department's remediation efforts associated with eight of the findings, we concluded the overall assessment to be **Inadequate**.

Follow-up Approach

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

- Management Status Updates
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

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, who considers (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. 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 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 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 Finance Department for their cooperation during the follow-up audit process.

City of Houston
Office of the City Controller - Audit Division
Project: 2019-03: FY2019 Follow-Up FIN
Finance Department - FY2021 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2021 Audit Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2009-23	Compliance with Motor Vehicle Requirements	Discussion with Department management revealed that Motor Vehicle Requirements have not been obtained annually. The Department requested motor vehicle records (MVRs) from the Texas Department of Public Safety in preparation for the audit.	<p>Updated Response 12/01/2020:</p> <p>No status update was provided.</p> <p>Management Response 11/16/2018:</p> <p>This finding is not applicable as it is written. AP 2-2 was revised effective 12/4/2012. Under the revised AP 2-2, the annual review of motor vehicle record (MVR) is required for each employee who drives on City business. Currently, there are no employees within the Finance Department that drive on City business as defined by this policy. As such this finding should be closed.</p>	Ongoing- This finding will remain open. Audit obtained and reviewed a current sample (FY2020) from the Fleet Management Department Usage Reports that revealed 11 FIN employees drove City vehicles. However, 36% (4 out of 11) FIN drivers did not have MVR's on file, as required by AP 2-2, Section 7.6.3 for employees, who drive on City business. Management's remediation procedures were not adequate to close this finding.	Inadequate
2009-23	Compliance with Defensive Driving Course Requirements	Audit testing revealed that both of the Department employees receiving vehicle allowances had not completed a Defensive Driving Course (DDC) as required by AP 2-2. However, both employees completed a DDC prior to the issuance of this report.	<p>Updated Response 12/01/2020:</p> <p>No status update was provided.</p> <p>Management Response 11/16/2018:</p> <p>This finding is no longer applicable as it is written. AP 2-2 was revised effective 12/4/2012 and Section 14.2 requiring an employee who drives on City business complete a defensive driving course (DDC) referred to in the finding is no longer applicable. Further, there are no employees in the Finance department that receive motor vehicle allowance and/or have city vehicle. As such this finding should be closed.</p>	Closed- Audit obtained and reviewed the City of Houston's Fleet Share Vehicle Usage Report that revealed 11 FIN members had driven vehicles. A review of all 11 drivers revealed a current DDC was on file for each of the drivers, as required by AP 2-2, Section 7.8.1.5 and 7.8.1.8. Management's remediation procedures were adequate to close this finding.	Adequate
2010-03	Authorized Use of Procurement Cards	Two of the 20 employees selected for test work had Merchant Category Code (MCC) codes that did not agree to the Internal Agreement Forms.	<p>Updated Response 2/12/2019:</p> <p>SPD provided the profile report.</p> <p>Updated Management Response 01/30/2019:</p> <p>SPD generated an auto run of the profile report effective, Feb 1, 2019.</p>	Closed - Audit obtained and reviewed P-Card Spending Profiles, Internal Cardholder Agreement forms and performed testing to find that one out of the 10 sampled P-Card users' JPMC spending profiles, did not match their Internal Cardholder agreement forms. Although one exception was noted, Management's remediation procedures were adequate to close this finding.	Adequate
2010-03	Reconciliation of Procurement Cards	<p>While Procurement Card (P-Card) activity for March 2009 was reconciled to the general ledger, differences between the bank Electronic Funds Transfer (EFT) and the expense charged to the general ledger at month-end have not been completely resolved since July 2008. As of June 11, 2009, the total cumulative unresolved net differences dating back to July 1, 2008 were \$47, 413.69.</p> <p>This is based on total YTD EFT's: \$22,055,110.58 Total amount booked to P-Card: \$22,007,696.89 Amount needed to reconcile \$47,413.69</p> <p>These cumulative unreconciled amounts need to be cleared in order to properly close out fiscal year 2009 activity and ensure that all P-Card expenses are charged to the proper departmental budget.</p>	<p>Updated Response 12/01/2020:</p> <p>Management stated that reconciliations have been occurring monthly for the past four years. SPD P-Card Manager has the appropriate documentation.</p>	Closed - Audit obtained and reviewed a sample of monthly P-Card reconciliations that revealed that SPD is ensuring that P-Card expenses are reconciled every month. Although Management's remediation procedures were adequate to close this finding, Audit noted that controls over the monthly checklists obtained from City Departments, can be improved to facilitate the reconciliation process.	Adequate

City of Houston
Office of the City Controller - Audit Division
Project: 2019-03: FY2019 Follow-Up FIN
Finance Department - FY2021 Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
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2010-03	Fraudulent or Disputed Procurement Card Transactions	While the outstanding disputed items noted during our procedures were resolved, a back log of disputed P-Card amounts could result in difficulties in clearing old outstanding amounts if not addressed in a timely manner.	Updated Response 01/30/2019: SPD currently has the functionality to generate a Transaction Disputes by Hierarchy Report in the banking system in order to identify P-cards with fraudulent activity or disputes. When a discrepancy is observed by the bank or a member of SPD's P-card team, he/she will contact the Department Purchasing Card Coordinator (DPCC).	Closed - Audit obtained and reviewed Transactions Disputes by Hierarchy Report, reconciliation reports, and JPMC transaction reports. Based on a test of a sample of P-Card transactions, Audit determined that fraudulent/disputed charges are being resolved in a timely manner. Management's remediation procedures were adequate to close this finding.	Adequate
2010-03	Lost, Stolen, or Cancelled Procurement Cards	We obtained from the Strategic Procurement Division (SPD) a list of cancelled cards from July 1, 2008 through April 30, 2009 and selected ten cancelled cards during that period and noted the following: One card was identified as lost and SPD provided the related properly approved Internal Lost/Stolen Card Form. Seven cards were cancelled due to various reasons and SPD provided an approved Purchasing Card Information Form that detailed the profile change. Two cards were cancelled by JPMorgan Chase due to card data that was compromised and SPD provided both the Purchasing Card Information Form that detailed the profile change and the supporting email from JP Morgan Chase.	Updated Response 12/01/2020: Management informed the Audit Division that the P-Card policy has been updated for lost/stolen cards.	Closed - A sample of five Lost/Stolen P-Cards and corresponding Internal Lost/Stolen Card Forms revealed that FIN is in compliance with AP 5-6, Section 18.1.2 . Audit noted a need to update procedures to reflect which type of form should be used to report a Lost/Stolen Card. Management's remediation procedures were adequate to close this finding.	Adequate
2010-03	Procurement Card Transactions Exceeding \$50,000 within One Department	Per Audit Report 2009-26, "During our review of the PWE P-Card transactions for the audit scope period, we noted P-Card purchases of \$73,642 and \$55,854 respectively from two non-contract vendors. We also noted this to be a repeat finding for the third consecutive year since the two vendors mentioned above were listed as two of the merchants that exceeded the \$50,000 limit in the PWE's Internal Review Section's annual review for the years ending July 5, 2006, July 5, 2007, and on this most current report. The audit team recognizes the progress made by the Department in reducing the number of vendors exceeding the \$50,000 threshold over the previous three years." Department management needs to improve controls so that when P-Card expenditures approach the \$50,000 limit, further purchases from these vendors are not allowed."	Response 12/01/2020: Management provided an updated report of Top Merchant Spending.	Ongoing - Audit obtained the Top Merchant Spending report for FY2020. It was determined that 72% (36 of 50) of the top vendors had an annual spend exceeding the \$50,000 limit, but did not have the required Outline Agreement on file. Management's remediation procedures were not adequate to close this finding.	Inadequate
2010-03	Contract Monitoring	We selected a sample of 5 contracts from the Active Contract Roster (ACR) with expiration dates prior to February 7, 2010 and 5 contracts from the 25% remaining report, and reviewed SPD's documentation of the renewal efforts noting the following: • 4 of the 5 contracts selected with expiration dates prior to February 7, 2010 had proper documentation related to renewal efforts or references to available option years remaining on the contract. • The one remaining contract selected with an expiration date prior to February 7, 2010 improperly referenced option years remaining on the contract, when instead, the contract should have been deleted in 2006. The company had been acquired by another company and a replacement outline agreement had been set up by the City. However, the buyer failed to close-out the previous outline agreement. • All 5 of the contracts selected from the 25% remaining report had documentation of efforts to solicit bids, extend, and/or proof of notification to the respective department that the contract had less than 25% of the original value remaining and that a decision on whether to let the contract expire, extend, or solicit bids for a replacement contract needed to begin.	Updated Management Response 12/30/2020: Management provided a Contract Roster Report and a draft Standard Operating Procedure (SOP) for the Contract Roster report process.	Ongoing - This finding will remain open. Audit obtained and reviewed the Outline Agreement (OA) Contract Roster spreadsheet, and a Draft of Contract Roster SOP for monitoring from SPD. SPD did not provide an anticipated date of approval for the new procedures. Management's remediation procedures were not adequate to close this finding.	Inadequate

City of Houston
Office of the City Controller - Audit Division
Project: 2019-03: FY2019 Follow-Up FIN
Finance Department - FY2021 Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
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2010-03	Contract Price Adjustments	<p>Based on the price adjustments identified, we selected a sample of 4 line item price adjustments, 4 price list adjustments, and 2 price decreases, obtained the SPD documentation on file to support the respective price adjustment and noted the following:</p> <ul style="list-style-type: none"> All 4 line item price adjustments selected had appropriate documentation to support the price adjustment and were in accordance with the executed contract. All 4 of the price list adjustments selected had appropriate documentation to support the price adjustment and were in accordance with the executed contract. Both of the price list decreases selected had appropriate documentation to support the price adjustment and were in accordance with the executed contract. <p>Based on the above, price adjustments appear to be properly approved by SPD and supported by appropriate documentation.</p>	<p>Updated Management Response 01/11/2021:</p> <ul style="list-style-type: none"> -SPD will begin tracking all price increase and decrease requests and develop a spreadsheet/reporting tool. -SPD will review all price adjustments to ensure they are within the terms of the contract for <ul style="list-style-type: none"> 1) timing and 2) price adjustment. -SPD will review all contracts for similar goods to determine if additional price adjustment requests may be forthcoming. -SPD will advise internal customer departments quarterly of any price adjustments and potential financial impact and across which contracts. <p>This process will begin third quarter FY21.</p>	Ongoing - This finding will remain open. Audit received a plan of action from the management of SPD regarding revised processes/procedures moving forward. Management's remediation procedures were not adequate to close this finding.	Inadequate
2010-03	One Time Overrides	<p>We obtained the log of one-time overrides from July 1, 2008 through April 30, 2009 from SPD, noting 378 overrides were recorded during this time period. We randomly selected ten overrides and noted the following:</p> <p>Nine overrides were traced to emails noting approval by the SPD P-Card Team.</p> <ul style="list-style-type: none"> - Four of the nine overrides were traced to e-mails (requesting/approving overrides) forwarded by the PCCs to the SPD P-Card team. - The remaining five overrides were traced to e-mails (requesting/approving overrides) forwarded by department employees (not the P-Cardholder) to the SPD team. <p>For the nine overrides noted above:</p> <ul style="list-style-type: none"> - For six of the nine overrides noted above, we verified that the current profile in the JP Morgan Chase pathway system does not reflect the MCC code override as an allowable MCC code and/or dollar limit. - For the remaining three overrides we noted that the current profile in the JP Morgan Chase pathway system does reflect the MCC code override as an allowable MCC code within the MCC group category. We then agreed these allowable MCC codes to approved P-Card Agreement Forms. Therefore, it appears that the P-Cardholders did not need to obtain override approval for these transactions <ul style="list-style-type: none"> Based on our review of e-mails to/from the P-Cardholder and the SPD P-Card team, the remaining override listed was not an override but instead a correction of a profile blocked in error. This was not considered an exception. Per discussion with SPD representatives, we noted that SPD does not provide reports of override activity to Departments. The SPD P-Card team can make changes to MCC codes included in MCC group categories by sending an email or calling JP Morgan Chase. MCC codes may be included in MCC group categories that have not been authorized by SPD Management resulting in expenditures that should not be made by P-Cardholders. 	<p>Updated Response 01/30/2019:</p> <p>SPD receives request for one time overrides from the Department Purchasing Card Coordinator (DPCC) via email outlining the name of the cardholder, the amount of transaction, the name of the merchant, and justification. SPD applies the request for twenty-four hours to the requested card. SPD maintains an override log in their office for all request.</p>	Closed - Audit obtained and reviewed the Log of Overrides, documentation of overrides, Spending Profiles, and Merchant Category Codes and performed a review of a sample of override transactions to find that FIN is in compliance with their one-time overrides procedures. Management's remediation procedures were adequate to close this finding.	Adequate

City of Houston
Office of the City Controller - Audit Division
Project: 2019-03: FY2019 Follow-Up FIN
Finance Department - FY2021 Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-03	Quarterly Report of Non-Contract Purchases by Vendor	We attempted to review the distribution and the quarterly reports of non-contract purchases by department by vendor (in excel) that is distributed to all department designees via e-mail. However, per discussion with the Assistant City Purchasing Agent, SPD does not retain records of their distribution of this report.	<p>Updated Response 01/11/2021:</p> <p>SPD will, on a quarterly basis, compile a spreadsheet listing all P-Card and Purchase orders, listing vendor name and order value to determine if the total cumulative spend with any vendor exceeds \$50,000 in any given fiscal year.</p> <p>SPD will, at the end of each fiscal year quarter, run a report for P-Card transactions by vendor and value and compile it with a purchase order report of under \$50K purchases in order to determine if any of the named vendors had cumulative purchases that exceed \$50K in any given fiscal year.</p> <p>SPD will review the quarterly report to determine –</p> <ul style="list-style-type: none"> -whether this matter should be referred to council agenda for approval -whether this vendor would qualify for a contract based on total annual spend -whether this commodity should be included in an existing contract via an add letter -which department(s) are violating the City / State \$50K rule -What other alternatives are available to avoid further violations <p>SPD will disseminate this report to the 13 City DPUs and work with those responsible for the excess purchases to develop a corrective action.</p> <p>SPD will post this report on the SPD website along with corrective action(s) each quarter.</p> <p>SPD will work with the department(s) to put vendors under contract when necessary or identify alternate process.</p>	Ongoing - This finding will remain open. Audit received an updated response with action plans for this finding that are planned for the future, with no effective date established. Management's remediation procedures were not adequate to close this finding.	Inadequate
2010-18	Capitalization of Fixed Assets	The HFD Station and the three underground storage tanks were not closed in compliance with FIN's Fixed Asset AP or according to Generally Accepted Accounting Principles (GAAP).	<p>Updated Management Response 02/10/2021:</p> <p>Fixed Asset Manager updated procedure manual and website with updated policy.</p> <p>Updated Management Response 12/10/2020:</p> <p>Management approval requirements were put into effect in April of 2020. Informed Audit that data was not available to retest, because no capitalizations could be done until FY20 closed, which was still open in December.</p> <p>Management planned course of action include:</p> <ul style="list-style-type: none"> a. Revise the procedure manual with the correct terminology. On page 94 replace "the date of the City Council Motion or in service date" with "date of substantial completion"; and b. Update the City's website with the updated policy. 	Ongoing - This finding will remain open. Audit obtained and reviewed the Project Master spreadsheet, GSD Capitalization package, email correspondences, screenshots of SAP documents, and interviewed FIN to determine that the date used to capitalize the fixed assets is not consistently used and therefore asset value and depreciation may not be accurately reported in the financials. Additionally, desktop procedures and manual provided by Management did not identify which date is to be used to capitalize fixed assets. FIN Management should review and revise operating procedures ensuring to specify, which date is used to record depreciation in compliance with capitalizing fixed assets. Management's remediation procedures were not adequate to close this finding.	Inadequate
2010-18	Monitoring Contracts	The AP noted above does not define who owns specific compliance responsibilities after a City contract award involving more than one department.	<p>Updated Management Response 12/18/20:</p> <p>SPD management sent links to Administrative Policies, City Ordinances and SPD website. Management stated that they control the contract where more than one department is involved.</p>	Ongoing - This finding will remain open. SPD was unable to provide documentation to support that SPD takes responsibility when more than one department is involved. Management's remediation procedures were not adequate to close this finding.	Inadequate

City of Houston
Office of the City Controller - Audit Division
Project: 2019-03: FY2019 Follow-Up FIN
Finance Department - FY2021 Follow-Up Procedures

Audit Report Number	Original Audit Finding Title	Original Audit Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-18	Final Contract Review	There is a general framework within AP 5-2 for contract preparation; however, specific responsibilities are not delineated related to preparing and reviewing City contracts prior to signing them to ensure business, financial, and legal requirements are accurate.	Updated Management Response 12/30/2020: SPD provided the Legal Review checklist to Audit.	Ongoing - This finding will remain open. Audit reviewed the Legal Review Checklist. However, after inquiries with SPD and the City's Legal Department, it was determined that neither department keeps this checklist to show proof of review. It was also noted that the Template checklist was only for Construction contracts. Management's remediation procedures were not adequate to close this finding.	Inadequate

Audit Team

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