



Office of the City Controller

ANNUAL AUDIT PLAN

FISCAL YEAR 2023



Chris Brown
City Controller

Report # 2023-01

Courtney Smith
City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

July 15, 2023

The Honorable Sylvester Turner, Mayor

SUBJECT: Office of the City Controller
Fiscal Year 2023 Audit Plan

Mayor Turner and Council Members:

I am pleased to submit to you the Fiscal Year 2023 Audit Plan. The basis of this year's Annual Audit Plan (Audit Plan) was an Enterprise Risk Assessment (ERA) performed by the Audit Division as required by applicable professional auditing standards (ERA report issued separately as Report 2022-06). The Audit Plan also considered input from your offices, City Council Members, 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 some 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.

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'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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FY2023 Annual Audit Plan

The fiscal year (FY) 2023 Audit Plan provides a population of risk-based projects from which the Audit Division will execute. The plan incorporates projects covering a diverse selection of departments and key business processes.

Audits and/or Process Review Engagements

The following projects are those the Audit Division plans to begin in FY2023.

CITY-WIDE AUDITS

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 comply with City policies.

(Key Business Process - Payroll)

ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT

Payroll Application Security Controls

The Payroll Services Division of the Administration and Regulatory Affairs Department (ARA) is responsible for bi-weekly remuneration of City employees. The audit team will review general and application 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 Processes - ARA: Payroll and HITS: Applications)

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 dispatch of responders to emergency calls.

(Key Business Processes - Call Taking and Public Safety)

HOUSTON INFORMATION TECHNOLOGY SERVICES

Data and Device Security Houston Information Technology Services (HITS) 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)

HOUSTON PUBLIC LIBRARY

Cashless Operations The Houston Public Library provides a broad array of programming to meet the needs of Houston's diverse population. The audit will evaluate how the transition to cashless transactions has impacted service delivery in the community.

(Key Business Process - Customer Service)

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)

Carryover Audits from FY2022

The following projects were in progress during FY2022 and are being carried over for completion in FY2023.

CITY-WIDE AUDITS

Take Home Vehicles

Fleet services are made available to all City of Houston departments. The audit team will determine compliance with the appropriate policies and processes.

(Key Business Process - Fleet Management)

GENERAL SERVICES DEPARTMENT

Building Security

The General Services Department provides security management services for client departments. The audit team will determine the existence of policies, procedures, and practices currently in place to ensure the security of City facilities, employees and the public, and determine if the contracted security service is performing in accordance with the City's contract.

(Key Business Process - Security)

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 the assistance program are being spent in compliance with applicable policies, law, and guidelines and verify internal controls related to processing of applications and timely payments to eligible recipients.

(Key Business Processes - Compliance and Grant Management)

HOUSTON POLICE DEPARTMENT

Property/ Evidence Room

The Houston Police Department uses an Evidence Management System (EMS) to facilitate management of the property room. The audit team will evaluate internal controls and accuracy of systems used to manage property and evidence as well as compliance with applicable policies and procedures.

(Key Business Process - Compliance)

HOUSTON PUBLIC WORKS

Permitting

The Houston Permitting Center (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 Houston Public Works permitting activities with applicable ordinances and/or regulatory requirements, as well as the effectiveness of controls over processing permits and the collection of permit revenue.

(Key Business Process - Revenue Generation)

OFFICE OF BUSINESS OPPORTUNITY

Contract Compliance

The Office of Business Opportunity's Contract Compliance Division is governed by City ordinance and federal regulations. The audit will review the current processes in place, determine compliance with applicable guidelines and regulations, evaluate the efficiency and effectiveness of current processes, identify barriers/obstacles to operational efficiency and effectiveness, and identify potential process improvements.

(Key Business Process - Compliance)

Supplemental Projects

If capacity allows, the following projects may be performed.

ADMINISTRATION AND REGULATORY AFFAIRS

Parking Benefit District An ordinance creating the Washington Avenue Parking Management District was adopted by Houston City Council. The goal of the district is to manage parking supply and demand in the area and 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)

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 HITS 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 provides a variety of parks, recreation facilities and programs throughout the Houston area. The audit will evaluate procedures used to collect revenue.

(Key Business Process - Financial Management)

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. The Audit Division maintains a database of findings and corresponding management responses that were included in formally 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

The Office of the City Controller provides two primary vehicles for reporting fraud, waste and/or abuse: 1) The Controller's Office Hotline answered by the Audit Division and 2) a link to report fraud available from the Office of the City Controller's website. Additionally, the Audit Division provides 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 the Audit Division develops the Audit Plan based upon risk (primarily business, financial, operational, etc.). Key benefits of performing a risk assessment 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 require audit resources to be allocated to projects based on continued risk assessment methodology. There are currently four 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, and (4) 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, 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.

Special Projects

Unannounced Audits

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 and
- Inventory audits (test counts/controls).

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 the Audit Division's activities are reflected in the graphic below.



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 the Audit Division is 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.”

Projects undertaken by the Audit Division use a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. The Audit Division adheres 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”).

City Charter, Article VIII,
Section 7, Audits

The Audit Division

The Audit Division operates with a staff of eight.

ORGANIZATION

Audit Division staff provide audit-related services as their primary focus. The Audit Division currently operates with a headcount of eight including six professional audit staff, one support staff and the City Auditor. Additional training, certifications and experience will enhance 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, workers, businesses, and decision-makers. We currently have seven professional service firms under contract.

AUDIT RESOURCE ALLOCATION

The Annual Audit Plan prioritizes the Audit Division's 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 headcount within the Audit Division;
- 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 or other department management.

For audits or 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. A budgeted dollar amount is approved for the use of these resources.

If resources are available, the Audit Division will also provide assistance to City management or City Council when they request special projects. The Audit Division's 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.

Audit Plan Development

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

DEFINITION

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.

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 on selected departments on a rotational basis for efficiency and to ensure 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 the Audit Division 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 Plan Execution

AUDIT PROGRAMS

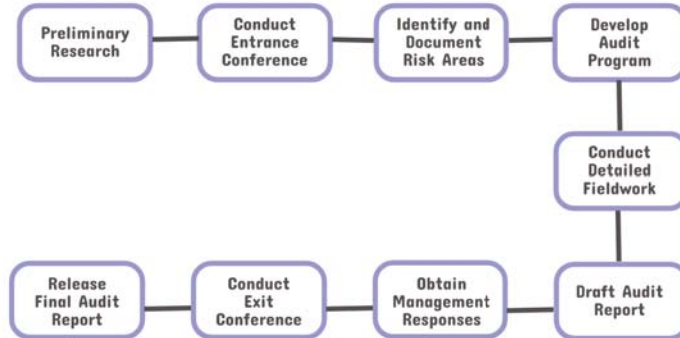
Execution of the Annual Audit Plan requires the development of specific audit programs for each activity to be audited. Audit programs will be designed with regard to business services, compliance, performance considerations, management input and specialized skills to meet the specific audit objectives 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 the Audit Division's webpage, which is accessible from the City Controller's website at <http://www.houstontx.gov/controller/audit/projects.html>.

City Auditor

Courtney Smith, CPA, CIA, CFE

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>