Office of the City Controller

ANNUAL AUDIT PLAN

FY 2021

Chris Brown
City Controller

Report # 2021-01

Courtney Smith
City Auditor

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

July 16, 2020

The Honorable Sylvester Turner, Mayor

SUBJECT: Office of the City Controller
Fiscal Year 2021 Audit Plan

Mayor Turner and Council Members:

I am pleased to submit to you the Fiscal Year 2021 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 the applicable professional auditing standards (ERA report issued separately). 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 website.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Department Directors
Marvalette Hunter, Chief of Staff, 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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FY2021 Annual Audit Plan

The fiscal year (FY) 2021 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.

Compliance/Performance/Financial Audits and/or Process Reviews

The following projects are those the Audit Division plans to begin in FY2021.

CITY-WIDE AUDITS

Civilian Overtime

An average of $40 million per year was spent by the City of Houston in civilian overtime costs in recent fiscal years. The audit team will review compliance with the Fair Labor Standards Act, City ordinances, City and departmental policies and procedures regarding overtime use and approval for civilian employees.

(Key Business Process - Payroll)

GENERAL SERVICES DEPARTMENT

Building Security

The General Services Department provides security management services for City departments. The audit team will determine the existence of policies, procedures, and practices in place to ensure the safety and security of City facilities, employees, and the public.

(Key Business Process - Security)

HOUSTON EMERGENCY CENTER

911 Operations

The Houston Emergency Center processes over 9,000 emergency and non-emergency calls each day. The audit team will review and evaluate the effectiveness and efficiency of operations.

(Key Business Processes - Call Taking, Public Safety)

HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

Disaster Recovery Program

Several disaster relief programs were established as a result of Hurricane Harvey. The audit team will review operational processes to determine if funds expended in the assistance program are being spent in compliance with applicable policies and guidelines and achieving the expected program results.

(Key Business Processes - Compliance, Grant Management)

HOUSTON AIRPORT SYSTEM

ITRP Program Management Services

The Houston Airport System's IAH Terminal Redevelopment Program (ITRP) is a $1.2 billion-dollar plan for redeveloping the international terminal at Bush Intercontinental Airport. The audit team will evaluate ITRP's project management invoices billed to the City, analyze expenditures, ensure compliance with applicable contracts, cost, and operational effectiveness.

(Key Business Processes - Compliance, Project Management)

HOUSTON POLICE DEPARTMENT

Property/Evidence Room

The Houston Police Department is responsible for management of the property room. The audit team will evaluate the internal controls and accuracy of the systems used to manage property and evidence, as well as compliance with applicable policies and procedures.

(Key Business Process - Compliance)

HOUSTON INFORMATION TECHNOLOGY SERVICES

IT Security

Houston Information Technology Services (HITS) is responsible for providing City-wide information security operations, security governance, security architecture and engineering, and cyber-threat analysis. The audit team will review and assess applicable City and industry guidance and determine operational effectiveness of safeguarding data and devices.

(Key Business Process - Security)

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 team will review the current processes to determine compliance with City and federal regulations and the effectiveness and efficiency of the Contract Compliance Division's operations.

(Key Business Process - Compliance)

Carryover Audits from FY2020

The following projects were in progress during FY2020 and are being completed in FY2021.

CITY-WIDE AUDITS

Take Home Vehicles

Fleet services are made available to all City of Houston departments. The audit team will review policies, processes and related internal controls as they apply to take home vehicles to determine compliance.

(*Key Business Process - Fleet Management)*

FINANCE DEPARTMENT

Procurement Process

The Finance Department's Strategic Procurement Division is the primary organization within the City of Houston authorized to manage, facilitate and provide procurement services. The audit team will evaluate policies, procedures, regulatory requirements, and local ordinances to determine compliance and ensure operational efficiency and effectiveness.

(Key Business Process - Procurement)

GENERAL SERVICES DEPARTMENT

Comfort Systems Contract Audit

The General Services Department (GSD) provides maintenance, repair and renovation for client departments. The audit team will evaluate policies, procedures, regulatory requirements, and local ordinances related to Comfort Systems USA contracts to determine compliance and ensure operational performance, value, and proper oversight.

(Key Business Processes - Compliance, Facilities Management)

HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

Homeowner Assistance Program

The Homeowner Assistance Program has been designated as the primary program to help homeowners, whose homes were damaged during Hurricane Harvey. The audit team will review operational processes to determine if funds expended in the assistance program are being spent in compliance with applicable policies and guidelines.

(Key Business Processes - Compliance, Grant Management)

HOUSTON AIRPORT SYSTEM

ITRP Construction Contracts

The Houston Airport System's IAH Terminal Redevelopment Program (ITRP) is a $1.2 billion-dollar plan for redeveloping the international terminal at Bush Intercontinental Airport. The audit team will evaluate ITRP's invoices from construction vendors billed to the City, analyze past and ongoing expenditures, and ensure cost and operational effectiveness.

(Key Business Process - Financial Management)

HOUSTON POLICE DEPARTMENT

Asset Forfeiture

Chapter 59 of the Texas Code of Criminal Procedure allows the forfeiture of property under certain conditions. The Houston Police Department facilitates this process for the City of Houston. The audit team will evaluate compliance with the state statute and City ordinances, as well as controls over property seized and proceeds received through the judicial process.

(Key Business Processes - Compliance, Financial Management)

HOUSTON PUBLIC WORKS

HPW 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 HPW permitting activity with applicable ordinances and/or regulatory terms and the effectiveness of controls over processing permits and the collection of permit revenue.

(Key Business Processes - Compliance, Revenue Generation)

Supplemental Projects

If capacity allows, the following projects may be performed.

ADMINISTRATIVE AND REGULATORY AFFAIRS DEPARTMENT

Payroll Application Security

The Administrative and Regulatory Affairs Department's (ARA) Payroll Services Division is responsible for wage and salary payments for City employees. The audit team will review general and application controls within the City's Payroll application to determine if they are adequate and in compliance with policies and other directives.

(Key Business Processes - ARA: Payroll, HITS: Applications)

GENERAL SERVICES DEPARTMENT

Electrical Services Contract Audit

The General Services Department provides maintenance, repair, and renovation for client departments. The audit team will review and validate compliance with key terms and conditions of the existing contracts for electrical services to City facilities.

(Key Business Process - Facilities Management)

HOUSTON AIRPORT SYSTEM DEVELOPMENT CORPORATION

HASDC Process Review

The Houston Airport System Development Corporation (HASDC) is a corporation established for the benefit of the City of Houston and the Houston Airport System (HAS). HASDC conducts business across the globe on behalf of HAS and the City. The audit team will review the operational and reporting processes to determine the level of compliance with applicable policies, procedures, and standards.

(Key Business Processes - Compliance, Revenue Generation)

HOUSTON HEALTH DEPARTMENT

Public Health Services Process Review

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, efficiency, and effectiveness in prevention and control of the spread of communicable disease outbreaks.

(Key Business Process - Public Health Services)

Recurring Audit Procedures and Special Projects

City-wide Monitoring

FOLLOW-UP AUDITS

As issues are identified during the course of conducting audits, management must respond whether they agree or disagree with those identified issues. When recommendations are agreed to by the responsible entity, we complete a follow-up audit after the agreed-upon recommendation implementation date. Follow-up audits will disclose the status of open items and assess the overall remediation processes employed by management.

FRAUD HOTLINE/ REPORTING

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 website and the Audit Division's webpage. Each reported concern is addressed through referral or investigation led by the City's Office of Inspector General (OIG) and/or other appropriate authorities. The initial contact, work performed, conclusions, and/or referral are documented to support their disposition.

Enterprise Risk Assessment

ENTERPRISE RISK ASSESSMENT UPDATE

Each year the Audit Division develops the Audit Plan based upon risk (primarily business, financial, and operational). 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 (Yellow Book and Red Book) require audit resources to be allocated to projects based on continued risk assessment methodology.

Quality Assurance and Improvement

QUALITY ASSURANCE PROCEDURES

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 with the goal of verifying that sufficient, appropriate evidence is gathered and documented to adequately support conclusions reached.

Special Projects

HURRICANE HARVEY RECOVERY

Hurricane Harvey made landfall as a Category 4 hurricane near Rockport, Texas on August 25, 2017, subsequently causing rain accumulations of 40 to 50 inches in the Houston area. Unprecedented flooding caused extensive damage to residential homes, private and public-sector business facilities, infrastructure, and vehicles. The Audit Division will monitor and review administrative and operational recovery activity and perform audits on an on-going ad-hoc basis.

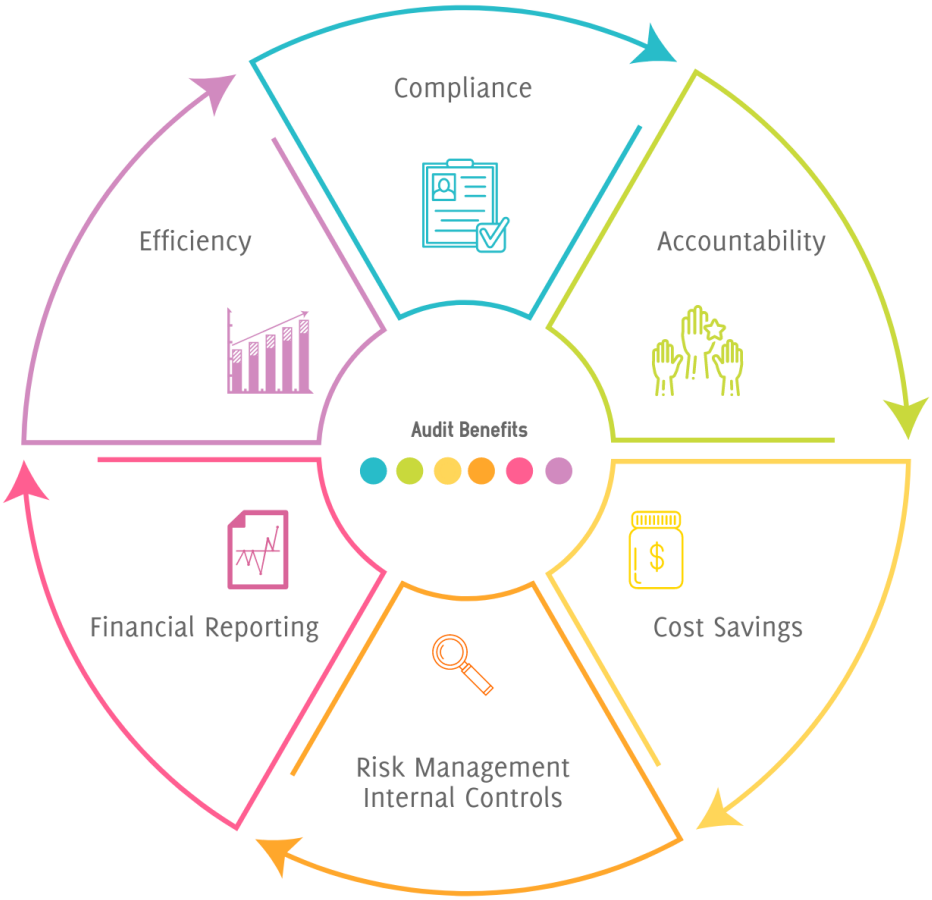
UNANNOUNCED AUDITS

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 (4th) 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 Charter, Article VIII, Section 7, Audits

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 ("the Division") is granted authority through the Audit Division 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 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 the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of internal Auditors (IIA - known as the "Red Book").

The Audit Division

The Division operates with a staff of 9.

ORGANIZATION

Audit Division ("the Division") staff provide audit related services as their primary focus. The Division currently operates with a headcount of nine (9) which includes seven professional audit staff, one support staff, and the City Auditor. Additional training, certifications, and experience will enhance staff's ability to provide these much needed services. Certifications are held by 44% of the 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 eight professional service firms under contracts, which will expire July 2021.

AUDIT RESOURCE ALLOCATION

Annually, the Audit Plan prioritizes the Division's limited resources and emphasizes audits or projects 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 audits or projects included in the 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 types of ongoing services that the Controller's Office provides; and
- Unplanned requests from Mayor, 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. NOTE: A budgeted dollar amount is approved for the use of these resources.

The Audit Division will also provide assistance to City management or City Council when they request special projects (if resources are available, and depending on the context and priority of the request, as it

relates to various risk factors). If the assistance requires the use of external consultants, additional funds may need to be provided by the appropriate departments and/or City Council.

The Audit Plan

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 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 Enterprise Risk Assessment (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.

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

In addition, input is gathered from a variety of sources including City Council, Department Management, citizens, and results from previous audits. This points us in the direction of what audit projects to select.

Due to continual requests for audit services and the required testing for planned activities, the 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 Auditor's 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.

The Division posts high-level status reports on the Audit Division's webpage, which is accessible from the City Controller's website at www.houstontx.gov/controller/audit/projects.html. 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.

City Auditor
Courtney Smith, CPA, CIA, CFE

Audit Plan reports available at:
http://www.houstontx.gov/controller/audit/auditplan.html

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