



Audit Division Update

FY2025

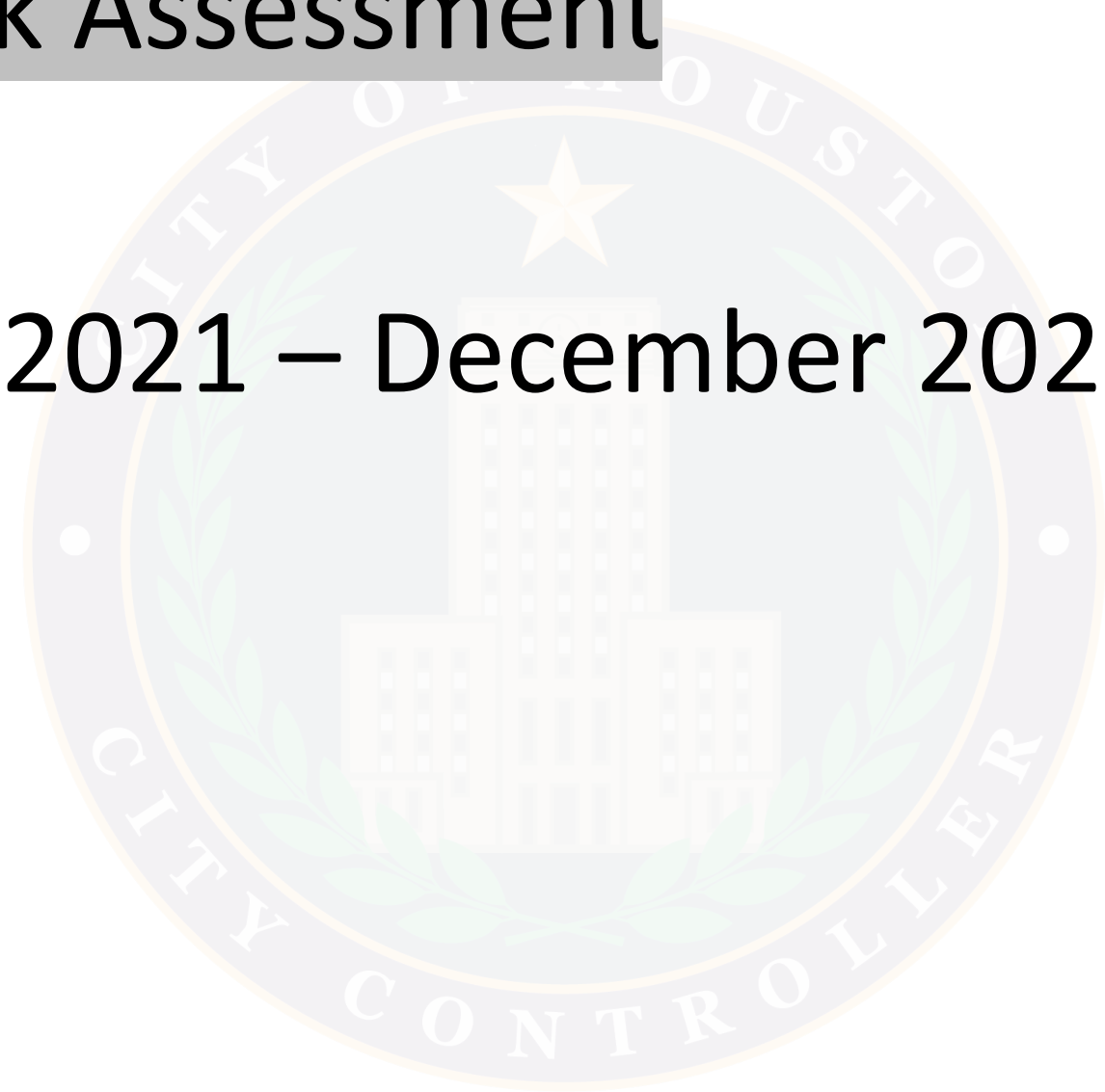
Budget and Fiscal Affairs Committee

March 17, 2025

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

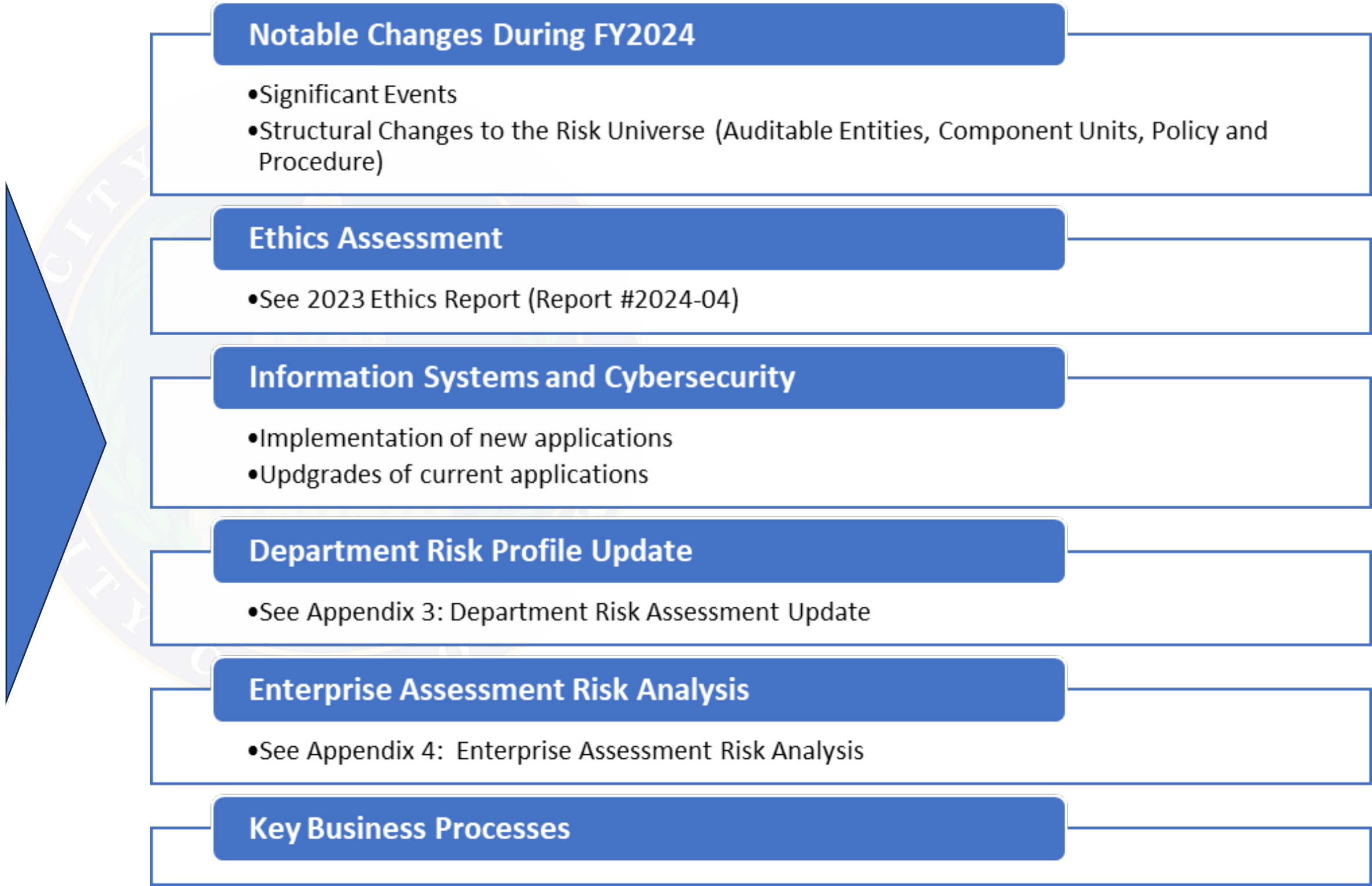
AGENDA

- FY2024 Enterprise Risk Assessment
- FY2025 Audit Plan
- Peer Review (January 2021 – December 2023)



ANNUAL ERA PROCESS

- The annual ERA process **supports our efforts to identify and manage risks** in a proactive manner.
- It also **facilitates the development of the annual Audit Plan**, including ensuring appropriate audit coverage of potential risks that may adversely affect the City of Houston’s (City) ability to achieve its objectives.
- The risk assessment process is **made up of six (6) key components:**



DEPARTMENT RISK PROFILES

The ERA includes a **detailed risk evaluation of three to six City departments on a rotational basis.**
The five departments updated for the FY2024 ERA, which were most recently updated in FY2018, are:

- **Administration and Regulatory Affairs Department (ARA)**
- **City Controller’s Office (CTR)**
- **Houston Airport System (HAS)**
- **Houston Parks and Recreation Department (HPARD)**
- **Human Resources Department (HR)**

Departmental Risk Profile updates are performed using **three basic process components:**

- **Data gathering**
- **Analysis**
- **Output**



Data Gathering	Analysis	Output
<ul style="list-style-type: none">• Previous Risk Assessments• Changes to Department Structure/ Operating Unit Process since Last ERA• Mission Statement• Organizational Structures• Business Objectives• Questionnaires• Financial Data• City and Department Websites• Interviews	<ul style="list-style-type: none">• Analyze Questionnaire Responses• Identify Key Business Processes and Related Changes• Identify Potential Risks• Map Risks to Risk Management Techniques• Evaluate Department Processes• Evaluate Overall City Operations• Perform Department Risk Assessments	<ul style="list-style-type: none">• Risk Profile by Department• Risk Profile by Key Business Process• Audit Plan Input

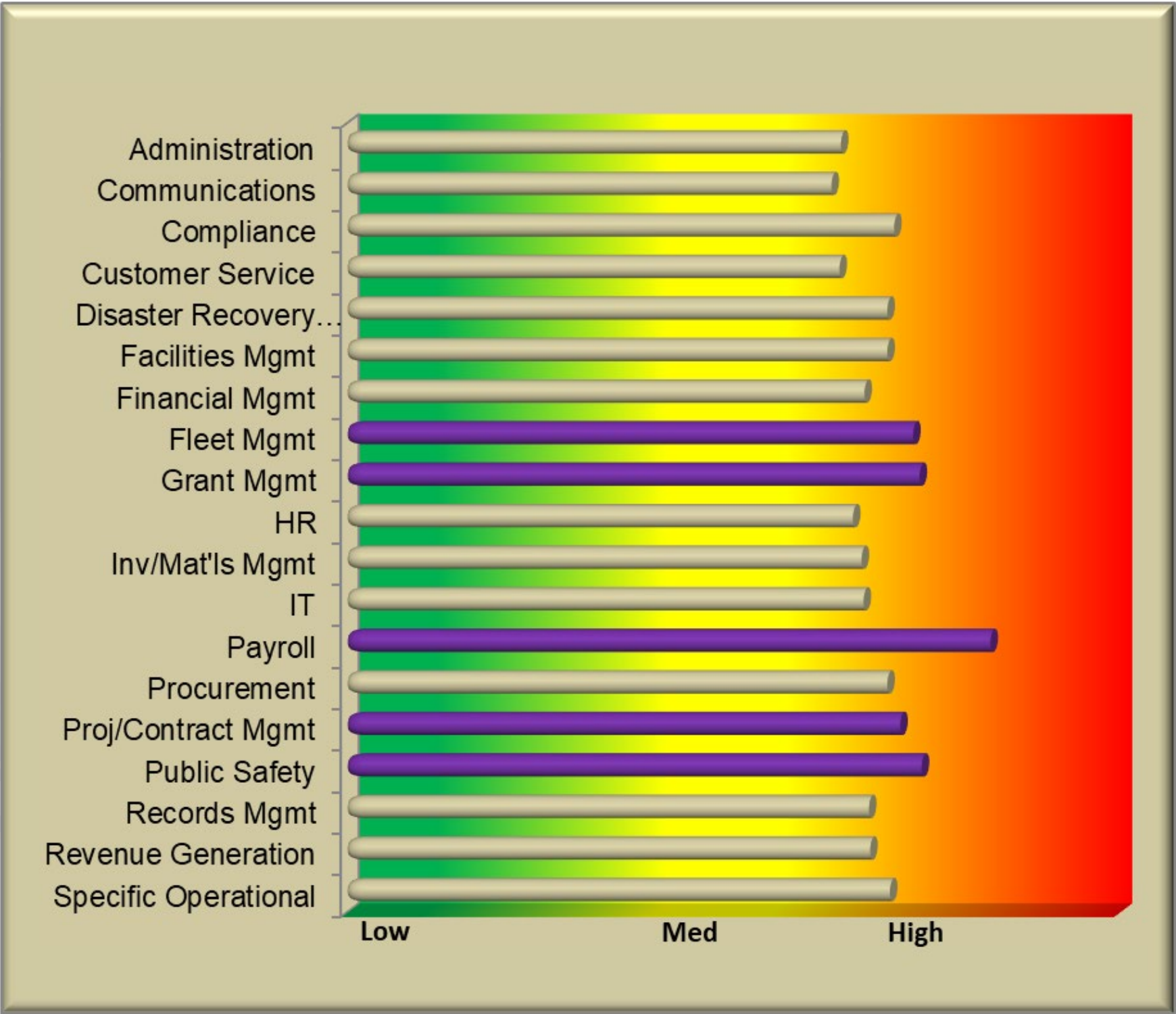


TOP RISK AREAS

The initial Citywide analysis identified **146 total key business processes**. However, further detailed analysis revealed **18 common processes throughout most departments**, so they were grouped together for more efficient analysis.

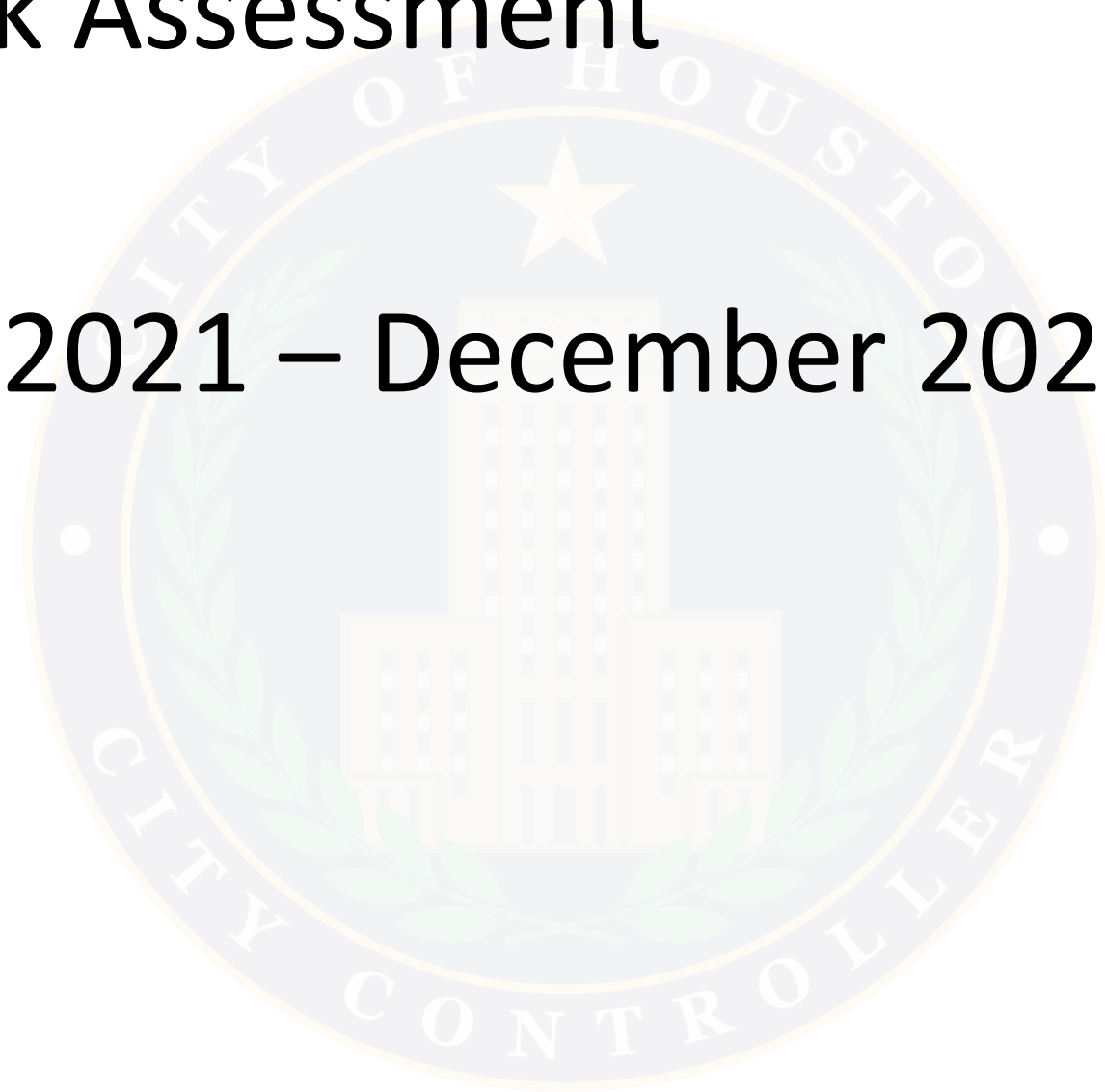
The ERA results point to five key risk areas in which to focus the Audit Plan for FY2025. These are areas where potential efficiencies, redundancies, and synergies are likely to exist when looking at activities that the City performs (without consideration of its organizational structure):

- Fleet Management
- Grant Management
- Project / Contract Management
- Payroll
- Public Safety



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CITY CONTROLLER AND CHARTER

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...”.

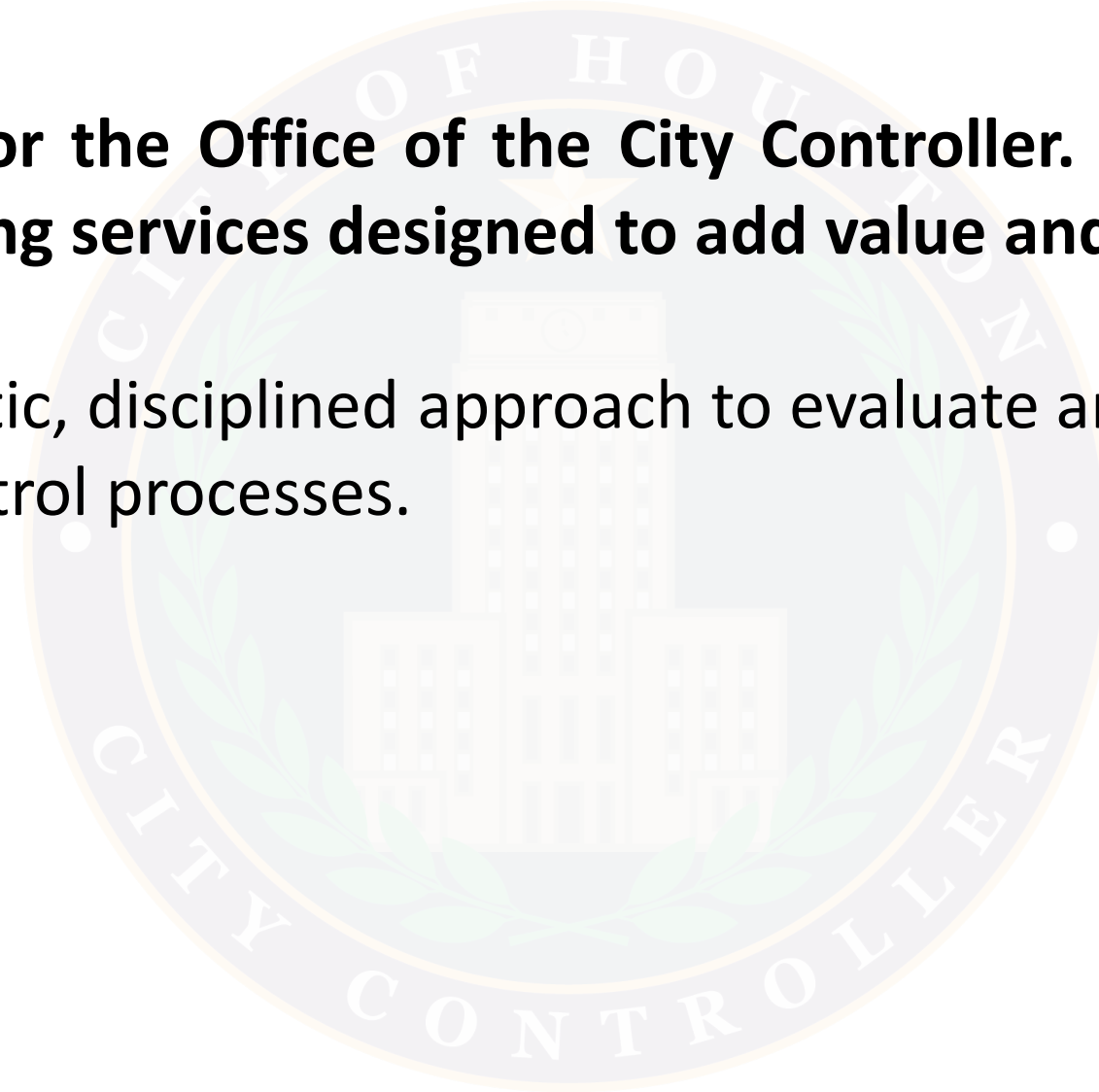
The City Controller assigns this responsibility to the City Auditor (through appointment) to be the executive in charge of the Audit Division, whose scope of work is contained under a separate charter (Audit Division Charter). Audit results are issued to the Mayor, City Council Members, and Department 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 we are 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.”

The projects we perform use a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.



AUDIT PLAN DEVELOPMENT

AUDIT PLAN DEFINITION

The Annual Audit Plan is a flexible commitment we make which establishes areas that will be prioritized for audits in accordance with the responsibility and authority identified in the City Charter.

AUDIT STANDARDS

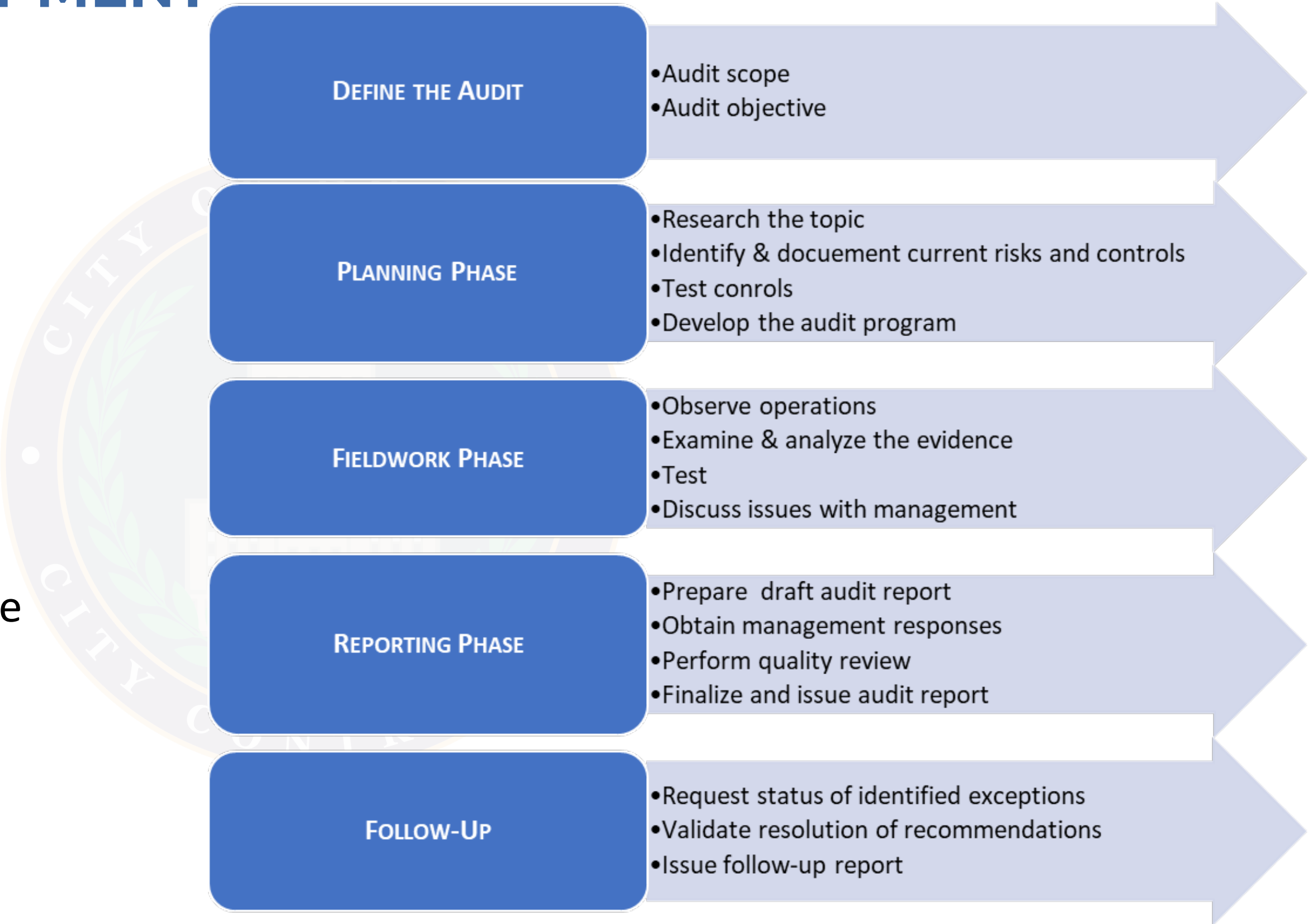
Execution of the Annual Audit Plan requires the development of specific audit programs for each activity to be audited. Audit programs will be designed with consideration for business services, compliance, performance considerations, management input and specialized skills to meet the specific audit objectives of each project. All audit programs, workpapers and reports are prepared in accordance with:

- U.S. Government Accountability Office's Government Auditing Standards ("Yellow Book").
- The Institute of Internal Auditors' Global Internal Audit Standards ("Red Book").
- Relevant standards issued by the American Institute of Certified Public Accountants.

AUDIT PLAN DEVELOPMENT

ELEMENTS OF AN AUDIT

The audit process is depicted in the diagram 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.



FY2025 ENGAGEMENTS (37)

#	PROJECT	COH DEPARTMENT
1	Certification Process	Office of Business Opportunity
2	Contract Compliance: 2023 Water Leak Spending	Houston Public Works
3	Contract Compliance: Solid Waste Services	Solid Waste Management Department
4	Contract Compliance: Unused Contract Allocations	Finance Department
5	Contract Compliance: Vendor Contract Reviews	City-Wide
6	Cybersecurity	Houston Information Technology Services
7	Drainage Efficiency (Spend and Process)	Houston Public Works
8	ERP: SAP Evaluation	Houston Information Technology Services
9	ERP: SAP Segregation of Duties	Houston Information Technology Services
10	ERP: SAP Spend Analysis	Houston Information Technology Services
11	Ethics: Investigation Process	Legal Department
12	Garbage and Yard Waste	Solid Waste Management Department
13	Grant Management: Overall Program Review	City-Wide
14	Grant Management: Specific Grant Reviews	City-Wide
15	Houston Consent Decree	Houston Public Works



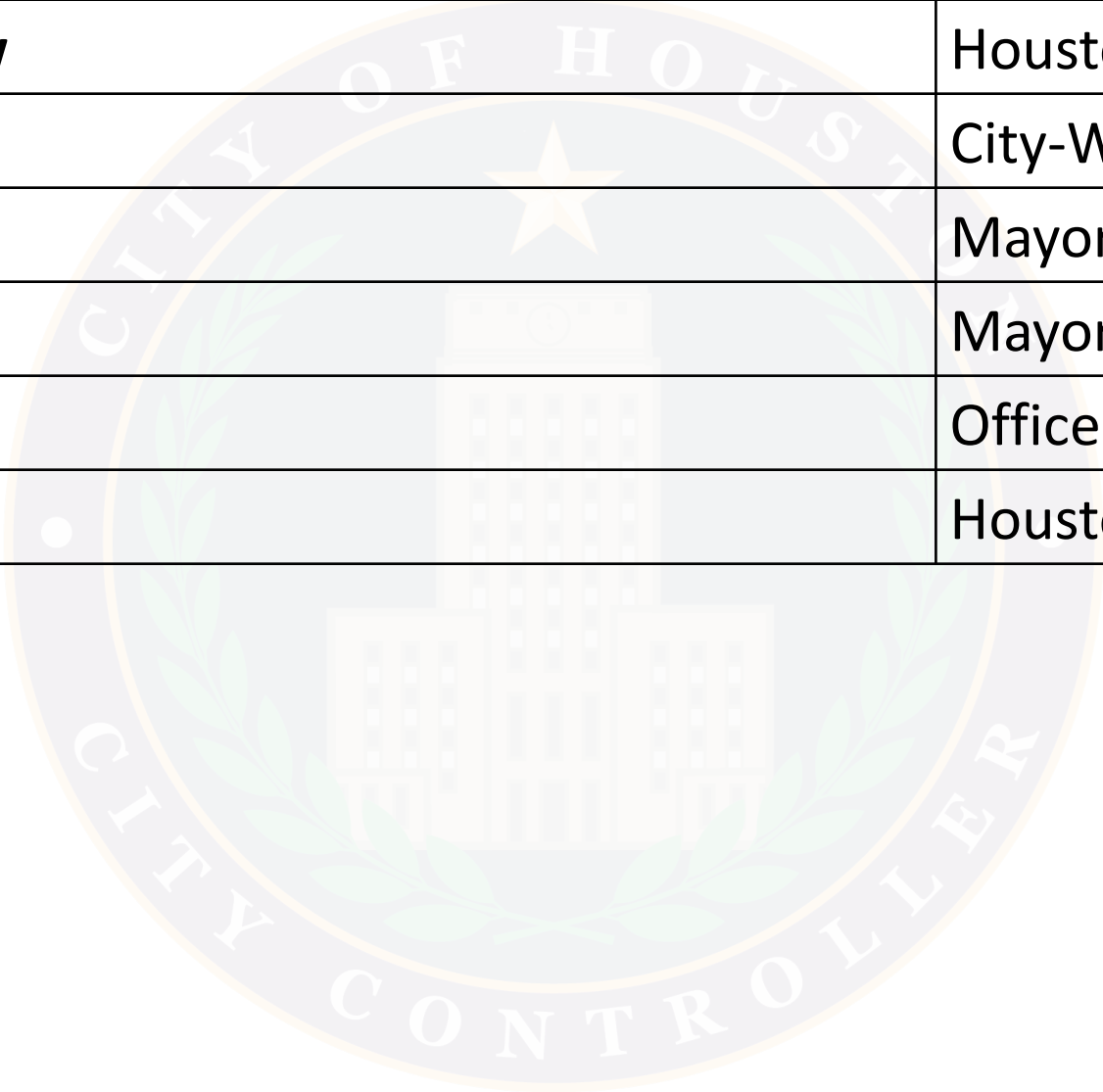
FY2025 ENGAGEMENTS (37) (CONT.)

#	PROJECT	COH DEPARTMENT
16	HPD Administration Evaluation	Houston Police Department
17	Merging Government Services	City-Wide
18	Other Post-Employment Benefits	City-Wide
19	Outcome-Based Budgeting	Finance Department
20	Payroll: Off-Cycle Transactions	Administration and Regulatory Affairs
21	Payroll: Uniformed Overtime	Houston Fire Department
22	Payroll: Uniformed Overtime	Houston Police Department
23	Permitting: One-Stop Pilot Program	Houston Public Works
24	Post-Implementation: COH Contract Management System	Finance Department
25	Post-Implementation: Electronic Timekeeping Policy	Administration and Regulatory Affairs
26	Property Insurance Claims	City-Wide
27	Real Estate Assessment	General Services Department
28	Street Maintenance and Repairs: Potholes	Houston Public Works
29	Street Maintenance and Repairs: Streetlights	Houston Public Works
30	Talent Recruitment	City-Wide



FY2025 ENGAGEMENTS (37) (CONT.)

#	PROJECT	COH DEPARTMENT
31	Talent Retention	City-Wide
32	Telecom and Cable TV Provider Review	Houston Information Technology Services
33	Texas Prompt Payment	City-Wide
34	TIRZs: Overall Program Review	Mayor’s Office: Economic Development
35	TIRZs: Specific TIRZ Reviews	Mayor’s Office: Economic Development
36	Vendor Master Data Review	Office of Business Opportunity
37	Water Line Repairs	Houston Public Works



CONTRACT COMPLIANCE: VENDOR CONTRACT REVIEWS

- **COH Department:** City-Wide
- **Audit Summary:** The FY2024 ERA identified Project / Contract Management as a key business process with a “High” risk ranking. Specifically, the FY2025 Enterprise Assessment Risk Analysis performed by the Mayor’s Office identified inefficiencies in contract management, non-standard pricing, non-standard terms and conditions, higher costs due to emergency services, and missed opportunities for bulk purchasing. The specific vendor audits will cover the relationship between the vendor and the City, crossing all departments. The audit will identify cost recovery opportunities, future cost savings for current contracts, and areas to leverage the City’s spending power for improved pricing terms in future contracts.

CONTRACT COMPLIANCE: 2023 WATER LEAK SPENDING

- **COH Department:** Houston Public Works
- **Audit Summary:** The FY2024 ERA identified a “significant event” that has individually influenced the water the City operates. In October 2023, City Council approved emergency spending of approximately \$48 million towards a plan to continue addressing the water leak problem (the City had been addressing water leaks, with City workers repairing 32% of active leaks since February 2023). This plan was intended to ensure that Houstonians have safe, clean, and accessible drinking water and to update the related water infrastructure. The \$48 million funding was to be split among 11 contractors, with each slated to perform \$3 to \$12 million of work. The audit will review the billing between the 11 contractors and the City to ensure compliance with the contracted rates and timelines.

TEXAS PROMPT PAYMENT

- **COH Department:** City-Wide
- **Audit Summary:** The City of Houston's standard payment term is 30 days after receipt of invoice or receipt of goods or services, whichever is later, according to the Texas Prompt Payment Act (Tx. Government Code, Ch. 2251). However, the City will pay in less than 30 days in exchange for an early payment discount from vendor as follows: 2/10; 1/20; net/30. The audit will assess the process and procedures used to recognize and collect the early payment discounts.

POST-IMPLEMENTATION: COH CONTRACT MANAGEMENT SYSTEM

- **COH Department:** Finance Department
- **Audit Summary:** The ERA identified these significant information systems that have individually impacted the flow of data and related processes. The post-implementation audits will evaluate the success of the implementation and determine if the organization has achieved the desired results. Additionally, the audits will evaluate the quality of the System Development Life Cycle (SDLC) testing and deliverables to ensure that the data conversions and migrations were performed accurately.

ERP: SAP EVALUATION AND SPEND ANALYSIS (SEPARATE AUDITS)

- **COH Department:** Houston Information Technology Services
- **Evaluation Audit Summary:** SAP ERP is a comprehensive software system that streamlines processes, improves productivity, and provides real-time insights across organizations. The audit will focus on ensuring that the current SAP solution is the most effective ERP solution for the City's processes.
- **Spend Analysis Audit Summary:** The audit will evaluate the overall spend on SAP. This will include related additional payroll, infrastructure, and SAP-related technology contracts (e.g., consulting services).

IN-PROGRESS ENGAGEMENTS (7)

The following projects were in progress during FY2024 and are being completed in FY2025.

#	PROJECT	COH DEPARTMENT	
1	Contract Compliance: General Services Department	General Services Department	Reporting Phase
2	Data and Device Security	Houston Information Technology Services	Reporting Phase
3	Fuel Card Program	Fleet Management Department	Reporting Phase
4	Parking Benefit District	Administration and Regulatory Affairs	Fieldwork Phase
5	Payroll: Application Security Control	Administration and Regulatory Affairs	Reporting Phase
6	Payroll: Civilian Overtime	City-Wide	Fieldwork Phase
7	Water Utility	Houston Public Works	Planning Phase



ANNUAL ENGAGEMENTS (10)

The following projects are performed annually by Internal Audit.

#	PROJECT	COH DEPARTMENT
1	Ethics	City-Wide
2	Fraud Hotline Monitoring and Reporting	City-Wide
3	Liaison Program	Internal Audit
4	Prior Audit Follow-Up	City-Wide
5	Process Workflow	City-Wide
6	Quality Control Review	Internal Audit
7	Risk Assessment: Enterprise	City-Wide
8	Risk Assessment: Information Technology	Houston Information Technology Services
9	Risk Assessment: Open Audit Findings	City-Wide
10	Special Projects	City-Wide



RISK ASSESSMENTS (SEPARATE AUDITS)

RISK ASSESSMENT: ENTERPRISE

- **COH Department:** City-Wide
- **Audit Summary:** Annually, we will work with Department and Division leadership to look at risk from the perspective of the entire City. This top-down strategy aims to identify, assess, and prepare for potential losses, dangers, hazards, and other hazards that interfere with the City's operations and objectives. The assessment will have an impact on the Annual Audit Plan.

RISK ASSESSMENT: INFORMATION TECHNOLOGY

- **COH Department:** Houston Information Technology Services
- **Audit Summary:** Annually, we will work with HITS to perform an IT Risk Assessment. This assessment is to mitigate the risk related to security failures and compliance incidents. This assessment will have an impact on the Enterprise Risk Assessment and the Annual Audit Plan.

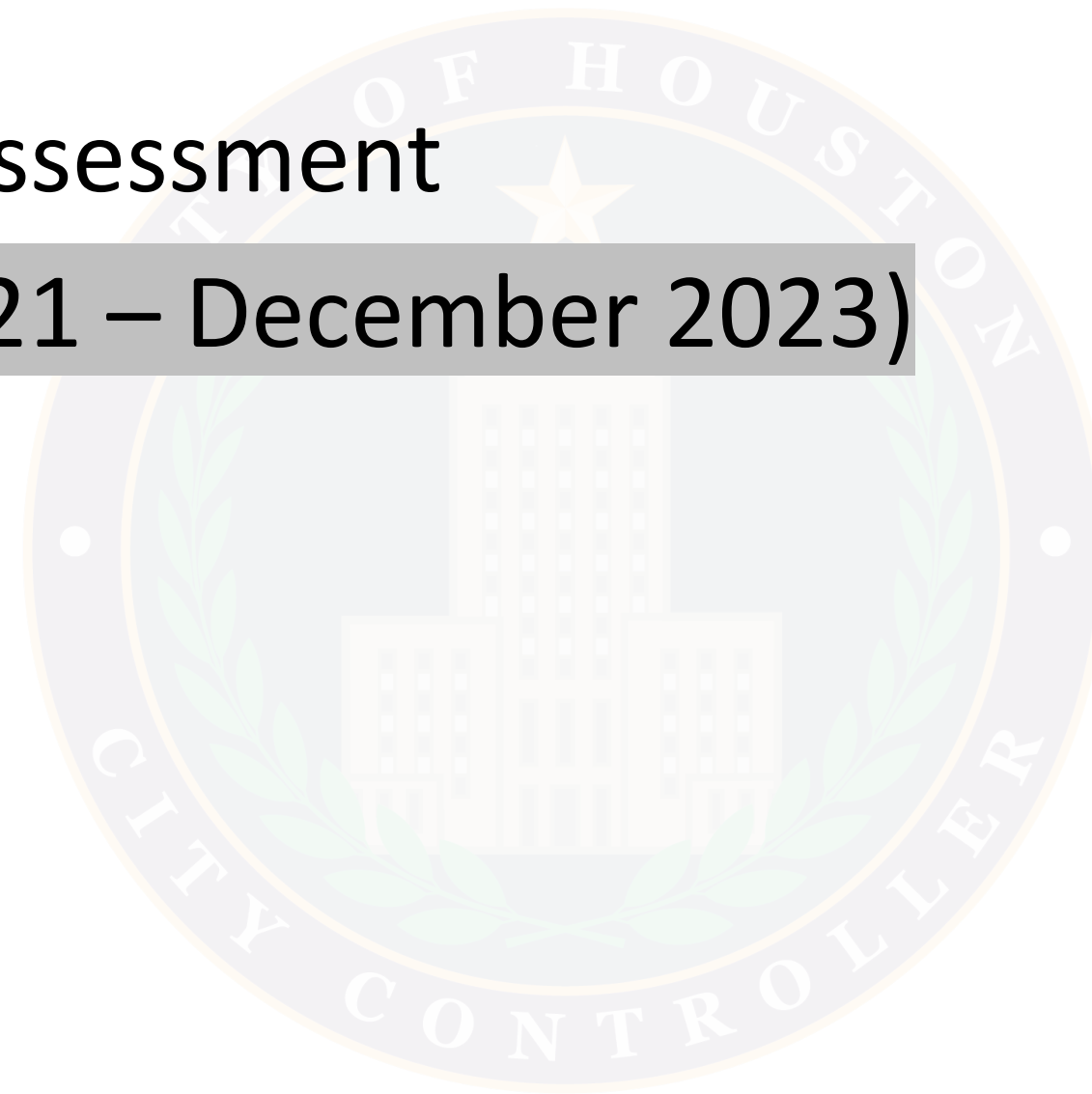
RISK ASSESSMENTS (SEPARATE AUDITS) (CONT.)

RISK ASSESSMENT: OPEN AUDIT FINDINGS

- **COH Department:** City-Wide
- **Audit Summary:** Professional standards require that “the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management”. In addition, “the chief audit executive must establish follow-up process to monitor and ensure that management actions have been effectively implemented”. Annually, we will work with Department and Division leadership to assess the validity of each open audit finding and perform a risk analysis on each recommendation. Open Findings from audit reports older than 5 years with high risk factors will be included as part of an audit in the Annual Audit Plan.

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The Association of Local Government Auditors
Awards this

Certificate of Compliance

to

City of Houston Controller's Office
Audit Division

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing* for engagements during the period January 1, 2021 through December 31, 2023.

Corrie Stokes

Corrie Stokes
ALGA Peer Review Committee Chair



THANK YOU!

For additional information contact:

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CHRIS HOLLINS
HOUSTON CITY CONTROLLER