



**OFFICE OF THE CITY CONTROLLER  
FISCAL YEAR 2010 AUDIT PLAN  
JULY 1, 2009 THROUGH JUNE 30, 2010**

**CITY OF HOUSTON  
OFFICE OF THE CITY CONTROLLER  
ANNISE D. PARKER, CITY CONTROLLER  
STEVE SCHOONOVER, CITY AUDITOR**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

August 6, 2009

The Honorable Bill White, Mayor  
City Council Members  
City of Houston, Texas

SUBJECT: Office of the City Controller  
Fiscal Year 2010 Audit Plan

Dear Mayor White and Council Members:

I am pleased to submit to you the Fiscal Year 2010 Audit Plan. Previously, I had requested your input as to possible areas of audit resource concentration. This document will serve as the primary work plan to carry out the audit responsibilities in an efficient manner consistent with the priorities established by my Office. To enhance the Audit Division's effectiveness, the audit approach is balanced by conducting most of the audits using in-house staff and by outsourcing audits requiring certain technical or specialized skills.

This audit plan includes performance, compliance, and unannounced audits. Additionally, the plan provides for special projects and data analytics and continuous auditing.

I hope you find this information useful and informative.

Respectfully submitted,

Annise D. Parker  
City Controller

Xc: Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Department Directors

# OFFICE OF THE CITY CONTROLLER

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# OFFICE OF THE CITY CONTROLLER

## Audit Plan

### Fiscal Year 2010

The Audit Plan serves as a working document that incorporates conclusions outlined in the comprehensive city-wide business risk assessment, input from City Council and Department Management, as well as results from previous audits. As such, this Plan will serve as the primary commitment for the Audit Division to perform their responsibilities in an efficient manner consistent with the priorities established by the City Controller as reflected in the City Charter.

Due to the continual requests for audit services, the increasing demand for non-audit services, and the required testing for the planned audits, this Plan will be monitored and revised as necessary throughout the year.

#### **Background**

The City Controller's Audit Division is an independent, objective assurance, and consulting activity that issues its findings and recommendations to the Honorable Mayor, City Council Members and/or Department Directors. The mission of the City Controller's Audit Division is to provide the Mayor, City Council, and Department Management with independent analyses, assurances, and recommendations concerning the adequacy, efficiency, and effectiveness of the City's internal control structure, effective safeguarding and utilization of City assets, and management's performance in carrying out assigned responsibilities.

The scope of activities carried out by the Audit Division may relate to any phase of City activities and includes activities such as:

- Evaluating and recommending enhancements to the City's accounting policies and procedures that constitute its internal control structure.
- Assessing compliance with appropriate City, State, and Federal policies, laws, and regulations.
- Evaluating the accuracy of reported data utilized by Department and City Management in making operational decisions.
- Appraising the economy, efficiency, and effectiveness of the City's organizations, programs, functions, and activities.
- Assessing the efficiency of operations and developing recommendations for cost savings.
- Ascertaining if City revenue is maximized, safeguarded, and controlled.
- Ascertaining if operational data is safeguarded and accurately maintained.
- Ascertaining the extent to which City assets are accounted for and safeguarded from losses.
- Assisting in the development of performance measurement systems throughout all operations.
- Investigating allegations of fraud, waste, and abuse received through various sources.

## Organization

Over the last two fiscal years, the Audit Division has acquired additional auditors and tools that have significantly improved the overall knowledgebase and allowed for the Audit Division to expand into areas not previously possible. Because of this, the Audit Division has recently changed its organizational structure to offer a wider range of services to the City.

As of June 1, 2009, the Audit Division created an Information Technology (IT) Section (one manager and 3 staff) and a Process Documentation Section (three staff) to compliment the existing Audit Section (one manager and 7 staff)

Each of the sections within the Audit Division still provides audit related services as their primary focus. However, as the new section auditors receive additional training, certifications, and experience, they will be able to provide services now commonly outsourced and/or those that have not been previously performed. This transition is reflected in the Enterprise Risk Assessment section below and in the detailed body of projects under; **Data Analytics and Continuous Auditing**, and **Special Projects**. Historically, Special Projects require small to medium resource allocation, while commonly involving shifting priorities. For this Audit Plan, the Special Project section is separated into two areas:

- Projects as a result of the reorganization and acquisition of software tools
- Projects arising from traditional sources

## Enterprise Risk Assessment

During Fiscal Years 2007 and 2008 the Audit Division added to the foundation of the 2004 Business Risk Assessment that was developed by Jefferson Wells International, Inc.

During 2010 another detailed City-Wide Business Risk Assessment is to be conducted using the following factors:

- Complexity of Operations
- Control Environment
- Council & Public Interest
- Financial Impact/Concerns
- Human Resources Concerns
- Regulatory Impact/Concerns
- Technology Concerns
- Time Since Last Audit
- Mission Criticality

During 2010, the IT Section will begin to develop a comprehensive Universe or Inventory of the various computer programs, computer tools, and their functions within the City Departments. Upon completion of building this Universe, the IT Section will then evaluate the associated risks and ultimately integrate the IT component of the Enterprise Risk Assessment into the Audit Planning Process.

## **Audit Focus Areas**

Annually, the audit plan prioritizes the Audit Division's limited resources of budgeted staff and funds based on the previously referenced risk assessment. This audit plan prioritizes audit focus on either city-wide processes or departments with those processes or activities having a perceived high or moderate residual risk. As such, the City's audit function serves as a risk management resource through the development of improved controls and the testing of existing controls.

## **Audit Programs**

Audit activities will vary as a result of the differences in the nature of operations, organizational structure, and management style as well as by the competence, employee capabilities, and concepts of operational control. To enhance the Audit Division's effectiveness, the audit approach is balanced by conducting some of the audits using in-house staff and by outsourcing audits requiring certain technical or specialized skills.

Upon the City Controller's approval of the audit plan, specific audit programs will be developed for each activity to be audited within the fiscal year ending June 30, 2010. The audit programs will be designed with regard to business services, compliance, requirements, performance considerations, and specialized skills in order to meet the specific audit objectives of each project. All audit programs, workpapers, and reports will be prepared in accordance with: relevant standards issued by the American Institute of Certified Public Accountants; Government Auditing Standards (Yellow Book); The Institute of Internal Auditor's International Professional Services Framework (Red Book); and other standards. Where applicable, disclosure of non-conformance will be provided.

The Audit Division will also provide any assistance to the City's management or City Council when they request special assignments/projects, assuming the available resources exist, and depending on the context and priority of the assignment as it relates to risk, exposure, fraud, waste, or abuse. These special assignments/projects will normally be performed in addition to planned audit work. If the assistance requires the use of outside firms, additional funds may need to be provided by the appropriate departments.

# PERFORMANCE AUDITS

## General Services Department City Identification Badge Controls

### SCOPE:

The Audit Division will perform an independent assessment of the activities associated with the issuance, monitoring, and retrieval of City Identification Badges.

The Audit Team will review the Department's adequacy of internal controls regarding the issuance and retrieval of City-issued ID Badges. The Audit Team will look at City full-time, part-time, contract employees, and visitors; as well as the privileges associated with the issued badges, and will provide recommendations for improving controls, as necessary.

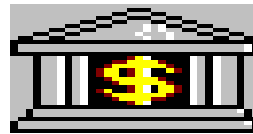
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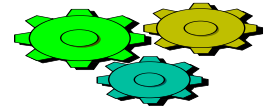
Stronger Controls



Improved Risk Management



Cost Savings



Increase Efficiency

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## Houston Police Department Neighborhood Protection Corps Open and Dangerous Buildings

### SCOPE:

The Audit Division will perform an independent assessment of the activities associated with open, dangerous, and vacant building violations.

The Audit Team will examine organizational practices, resources, technology tools, and internal controls to provide recommendations for improving the coordination and effectiveness of Neighborhood Protection Corps functions to improve the quality of processes, overall efficiency, and deployment of resources.

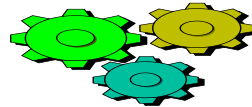
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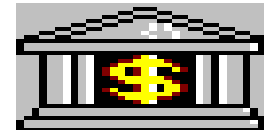
Stronger Controls



Improved Risk Management



Increase Efficiency



Cost Savings

# Houston Public Library Book Procurement and Distribution

## SCOPE:

The Audit Division will perform an independent assessment of the book procurement and distribution process, including the rotation and disposition of books. Audit team members will identify existing internal controls and test their reliability. Where appropriate the team will make necessary recommendations to improve the process.

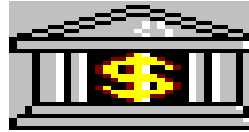
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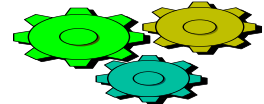
Stronger Controls



Improved  
Accountability



Cost Savings



Increase  
Efficiency

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# Public Works and Engineering Department Planning and Development Services Division Code Enforcement Branch

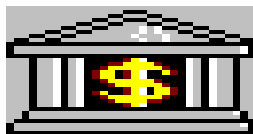
## SCOPE:

The Audit Division will perform an independent assessment of the Code Enforcement Branch activities. The Audit Team will examine organizational practices, resources, technology tools, and internal controls to provide recommendations for improving the coordination and effectiveness of division functions to improve the quality of processes, the overall cost efficiency, and deployment of resources.

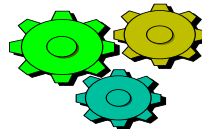
## ANTICIPATED BENEFITS:



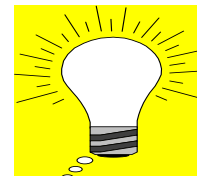
Improved  
Accountability



Cost Savings



Increase  
Efficiency



Operational  
Ideas



# COMPLIANCE AUDITS

## City-Wide Insurance Certificates/Performance Bonds

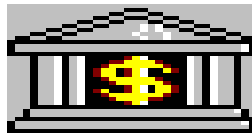
### SCOPE:

The Audit Division will perform an examination of contracts to test for the existence of either a Certificate of Insurance and/or a Performance Bond. The Audit Team will test compliance of documentation; representing a valid business entity, containing adequate coverage, being current, accurate, effective in accordance with the contract terms, and in the interest of mitigating the potential exposure of risk to the City of Houston in the event of non-performance or prime/sub-contractor negligence and/or liability.

### ANTICIPATED BENEFITS:



Stronger Controls



Cost Savings



Improved Risk Management

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## Parks and Recreation Department Managed Owned Golf Courses

### SCOPE:

The Audit Division will focus on the concessionaires' compliance with the terms, provisions, and requirements of their respective contracts. The Audit Team will also examine cash handling procedures to assess the adequacy and effectiveness of internal controls. In addition, the Team will evaluate the Department's compliance with Administrative Procedure 2-17.

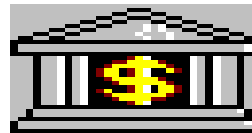
### ANTICIPATED BENEFITS:



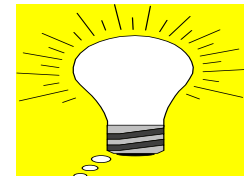
Stronger Controls



Improved Risk Management



Cost Savings



Operational Ideas

# Data Analytics & Continuous Auditing

## SCOPE:

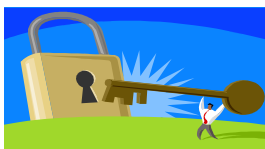
The Audit Division purchased computer software during FY 2009 that allows for data access, extraction, warehousing, and analysis. This system also provides the functionality of a computer assisted auditing tool (CAAT). The implementation began during the last quarter of FY 2009 and will continue into FY 2010.

One aspect of adopting these software tools is to develop the platform for the first phase of Continuous Auditing by integrating its capabilities within the SAP environment. This will consist of pre-defined analytics in conjunction with the development and implementation of custom written templates to address specific auditing needs. The initial emphasis will be looking at transactions involving some of the following:

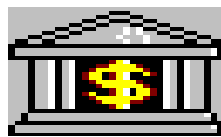
- Payroll
- Accounts Payable
- P-Cards
- Accounts Receivable

Subsequent phases will detail more specific analytics tailored to City concerns of fraud, waste, or abuse, as well as perform analysis of other non-integrated systems. This will then allow focus to be on identified performance measures and other potential anomalies for consideration of risk, contribution to the Enterprise Risk Assessment and support for future Audit Planning.

## ANTICIPATED BENEFITS:



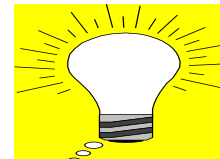
**Stronger Controls**



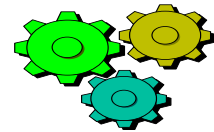
**Cost Savings**



**Improved Risk Management**



**Operational Ideas**



**Increase Efficiency**

# SPECIAL PROJECTS

## SCOPE:

The Audit Division has reorganized and focused resources along functional lines, with the initial development of those areas being viewed as Special Projects. These projects include:

- City-Wide – Enterprise Risk Assessment/Risk Model (Business)
- City-Wide – Enterprise Risk Assessment/Risk Model (IT)
- City-Wide – Information Technology – Inventory and Audit Universe
- City-Wide – Process Flows and Internal Control Documentation
- Office of the City Controller – Audit Division – Peer Review

Projects will also be initiated as requested by the Mayor, City Controller, City Council, and Department Directors, information received from Taxpayers, Vendors, and City Employees. These projects include:

- Administration and Regulatory Affairs Department – Strategic Purchasing Division – Paperless Invoicing
- Follow-Up Audits (As Determined)
- Office of the City Controller – External Audit and Consulting Assistance
- Office of the City Controller – Review of Assets and Liabilities (Controller’s Exit Audit)
- Office of the Inspector General – Request for Services
- Tax Increment Reinvestment Zones (TIRZ) Funds Comparison

## ANTICIPATED BENEFITS:



**Stronger Controls**



**Improved Risk Management**



**Policy Alternatives**



**Operational Ideas**

# UNANNOUNCED AUDITS

## SCOPE:

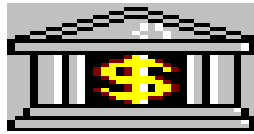
The Audit Division may perform audits on an unannounced basis during the year. These may include:

- Inventory Audits (Test Counts/Control)
- Payroll Verification (Employee Existence Verification)
- Petty Cash Counts

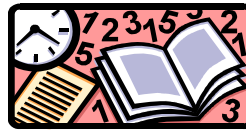
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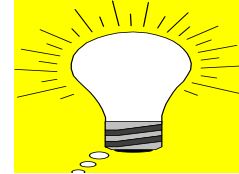
**Stronger Controls**



**Cost Savings**



**Improve Reporting**



**Operational Ideas**