



**OFFICE OF THE CITY CONTROLLER
AUDIT PLAN
JULY 1, 2005 THROUGH JUNE 30, 2006**

**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

September 2, 2005

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

SUBJECT: Office of the City Controller
Fiscal Year 2006 Audit Plan

Dear Mayor White and Council Members:

I am pleased to submit to you the Fiscal Year 2006 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. The plan was developed partially by utilizing the City-Wide Updated Business Risk Assessment, which details specific risk profiles developed for each City department. Generally, those areas selected for audit are taken from the high and moderate risk categories as determined by the profile.

This audit plan includes performance, compliance, revenue enhancement, and unannounced audits. Additionally, the plan provides for follow-up audits and special projects.

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

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OFFICE OF THE CITY CONTROLLER

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OFFICE OF THE CITY CONTROLLER

Audit Plan

Fiscal Year 2006

The audit plan serves as a working document that incorporates the assessments documented in the comprehensive city-wide business risk assessment, City Council's and department management's input, and results from previous audits. As such, this plan will serve as the primary work plan to carry out the audit responsibilities in an efficient manner consistent with the priorities established by the City Controller.

Due to the continual request for audit services, unknown extent of findings, and the required testing for the planned audits, the 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 and City Council Members. 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 and effectiveness of the City's internal control structure, effective safeguarding and utilization of City resources, 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 enhancing 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 departmental 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 all revenue of the City is maximized, safeguarded and controlled.
- Ascertaining all 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.

Risk Assessment

In August 2004, the City Controller issued to the Mayor and City Council the updated City-Wide Business Risk Assessment that was prepared by the firm of Jefferson Wells International (JWI). JWI summarized the City's overall risk profile based on management's input and JWI's prior experience with the City, detailed analysis and experience in identifying risk factors. With JWI as the facilitator, the Mayor's Office, the City Controller's Office and management of each department assessed their potential business risks and the current management techniques used to mitigate those risks. Specific departmental risk assessments were developed for each department along with a city-wide risk profile by business process.

The risk assessment measured many different risk factors for each process, however JWI weighted the following key risk factors more heavily and considered them to be more critical to the achievement of the City's strategic objectives:

Personnel Competencies – Is there a risk that personnel do not possess the necessary skills/competencies to ensure effective and efficient achievement of the process' tasks/goals?

Technology – Are there information systems in place that enable management to conduct operations efficiently and effectively?

Performance Measures – Is there a risk that adequate measurement is not occurring for critical objectives?

Public/Media – What is the risk of public exposure for this process?

Dollars – What is the financial risk related to this process?

Department processes or activities with high or moderate residual risk are noted in the City's current Business Risk Assessment.

Audit Focus Areas

The Business Risk Assessment serves as a planning tool to determine the best investment for audit efforts. Annually the audit plan prioritizes the Audit Division's limited resources of people and budget dollars based on the City of Houston's Business Risk Profile and management's need for vital information. This audit plan prioritizes audit focus on either city-wide processes or departments with processes or activities having high or moderate residual risk. As such, the City's audit function serves as a risk management tool through the development of improved control processes as a result of performance improvement and financial auditing, as well as a detective control with the performance of the revenue enhancement and compliance audits.

Audit Programs

Audit activities will vary as a result of the differences in the nature of operations, organizational structure, management style and by the competence, employee capabilities, and concepts of operating 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.

On the City Controller's approval of the audit plan, specific audit programs will be developed for each activity to be audited within the year ending June 30, 2006. Audit programs will be designed in regards to business services, compliance requirements, performance considerations, and specialized skills required for each project. All audit programs, workpapers and reports will be conducted in accordance with the AICPA's Professional Standards, Institute of Internal Auditors and Government Auditing Standards, as appropriate.

The Audit Division will also provide any assistance to the City's management or City Council when they request special assignments/projects. These special assignments/projects will normally be performed in addition to the normally scheduled audit work planned. If the assistance requires the use of outside firms, additional funds may need to be provided by the appropriate departments.

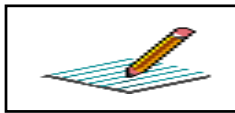
PERFORMANCE AUDITS

Greater Houston Convention and Visitors Bureau

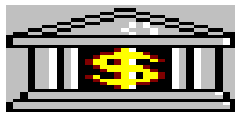
SCOPE:

The Audit Division will perform an independent assessment of the overall performance of the Greater Houston Convention and Visitors Bureau (GHCVB). The Audit Team will review GHCVB's existing structure and examine compliance and operational issues, management controls, and increasing accountability. Among the items the audit will assess is compliance with contracts, statutes, regulations, agreements, etc. Additionally, it will review financial reporting and ensure accountability with the appropriate authorities.

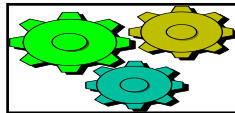
ANTICIPATED BENEFITS:



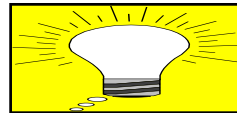
Improved
Accountability



Cost Savings



Improved
Effectiveness



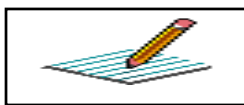
Operational
Ideas

Houston Police Department Classified Employees Work Hours

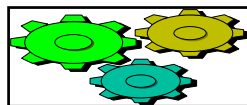
SCOPE:

The Audit Division will perform an independent assessment of the Houston Police Department's policies and procedures that govern the amount of time classified officers are allowed to work. These standards and productivity measures will be benchmarked against other agencies of similar size. Various divisions, such as the Investigations Command, will be examined to ascertain their productivity by comparing hours worked versus output factors such as arrests made, charges filed, and cases cleared by investigative efforts. The Audit Team will review managerial tools available to monitor the hours worked by classified employees and their effectiveness. Additionally, recommendations may be identified to help improve policies and management controls and identify adequate staffing levels.

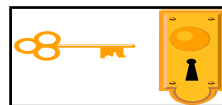
ANTICIPATED BENEFITS:



Improved
Accountability



Improved
Effectiveness



Stronger
Controls



Operational
Ideas

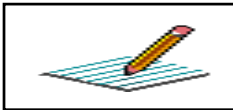
Houston Police Department

Safe Clear Program

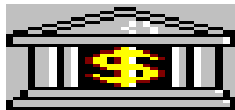
SCOPE:

The Audit Division will perform an independent assessment of the Houston Police Department's Safe Clear Program. The Audit Team will review Safe Clear's existing structure and examine its operational practices, resources, technology tools, and internal controls to identify efficiencies and provide recommendations for improving the coordination and effectiveness of Safe Clear's functions to improve the quality of the processes and the overall cost efficiency and deployment of Safe Clear's resources.

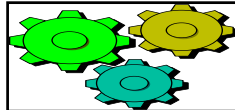
ANTICIPATED BENEFITS:



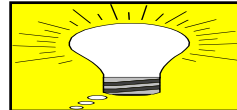
Improved
Accountability



Cost Savings



Improved
Effectiveness



Operational
Ideas

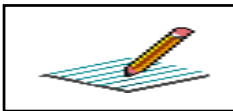
Public Works and Engineering Department

Automated Meter Program

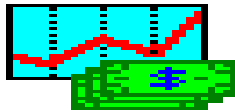
SCOPE:

The Audit Division will perform an examination of the Automated Meter Program. The Audit Team will review the Program's organizational structure, operational practices, resources, technology tools, management controls, and budget to provide recommendations for improving the efficiency and effectiveness of the Program.

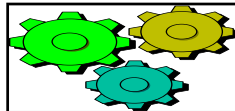
ANTICIPATED BENEFITS:



Improved
Accountability



Additional
Revenue



Improved
Effectiveness



Operational
Ideas

Public Works and Engineering Department

Storm Water Management Program

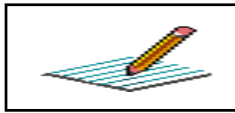
SCOPE:

The Audit Division will perform an independent assessment of the Storm Water Management Program (SWMP) and may include the following areas:

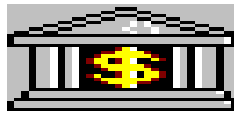
- The implementation of storm drainage improvements to the Texas Medical Center and various neighborhood storm drainage improvement projects; and
- The City of Houston Comprehensive Drainage Plan.

The Audit Team will review the Program's organizational structure and examine its operational practices, resources, technology tools, management controls, and related processes as they relate to the implementation of citywide storm water drainage improvements and management practices. The team will review for efficiencies and provide recommendations for improving the coordination and effectiveness of program functions to improve the quality of the processes and the overall cost efficiency and deployment of City resources.

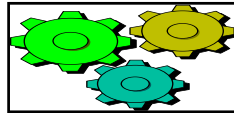
ANTICIPATED BENEFITS:



Improved
Accountability



Cost Savings



Improved
Effectiveness



Operational
Ideas

COMPLIANCE AUDITS

City-Wide Cash Handling

SCOPE:

The Audit Division will perform cash handling audits at various departments. The objective will be to assist management with assessment of adequacy and effectiveness of internal controls related to the Department's cash handling process. In addition, we will evaluate the Department's compliance with Administrative Procedure 2-17.

ANTICIPATED BENEFITS:



Stronger
Controls



Improved Risk
Management

City-Wide

Audits of Executive Order 1-48 and Administrative Procedure 8-2

SCOPE:

The Audit Division will determine if the City Departments are in compliance with Executive Order 1-48 (Policy on Information Technology security) and Administrative Procedure 8-2 (Procedure on Electronic Mail Communications).

ANTICIPATED BENEFITS:



Stronger
Controls



Improved Risk
Management

City-Wide

Purchasing Card Activity

SCOPE:

The Audit Division will perform audits to determine if Purchasing Card (P-Card) expenses are supported, computed, approved, recorded, and reported properly in compliance with Administrative Procedure 1-42 which governs procuring goods and services using a P-Card. All Departments that have used P-Cards are subject to audit.

ANTICIPATED BENEFITS:



Stronger
Controls



Cost Savings

City-Wide

Travel Costs

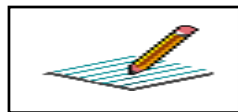
SCOPE:

The Audit Division will determine if travel and travel related expenses are supported, computed, approved, recorded and reported properly in compliance with Administrative Procedure 2-5, which governs reimbursements for approved out-of-town travel.

ANTICIPATED BENEFITS:



Stronger
Controls



Improved
Accountability



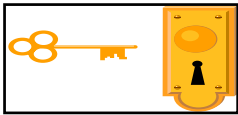
Cost Savings

City-Wide Vehicle Home Storage Program

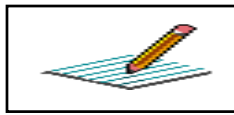
SCOPE:

The Audit Division will conduct an audit of the effectiveness and efficiency of the Vehicle Home Storage Program (Program) to determine if the Program is in compliance with Administrative Procedure 2-2, Departmental Standard Operating Procedures, and any applicable IRS commuting rules. The audit may determine if the utilization of assigned vehicles is cost effective.

ANTICIPATED BENEFITS:



Stronger
Controls



Improved
Accountability



Improved Risk
Management

REVENUE ENHANCEMENT AUDITS

Aviation Department Parking and Car Rentals

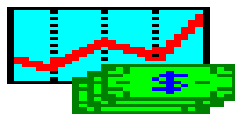
SCOPE:

The Audit Team will develop an understanding of the appropriate laws and contracts related to parking and car rental agencies revenue. The Audit Team will test the appropriate auditee's records to ensure the reported City revenue was derived from the source reflected on the auditee's records and the revenue remitted was in full compliance with the appropriate ordinance or contract and that the remittance of such revenue was timely. The City will then bill the auditee for any additional revenue identified.

ANTICIPATED BENEFITS:



Stronger
Controls



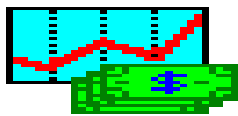
Additional
Revenue

Finance and Administration Department Hotel Occupancy Tax - Internet Travel Sites

SCOPE:

The Audit Team will conduct a strategic review to determine the City's ability to recover hotel occupancy taxes that are collected by internet travel sites.

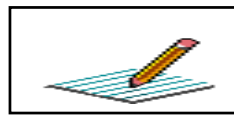
ANTICIPATED BENEFITS:



Additional
Revenue



Policy
Alternatives



Improved
Accountability

Municipal Courts Administration Department

Integrated Case Management System

Phases I and II

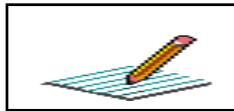
SCOPE:

The Audit Division will conduct an independent assessment of the Municipal Courts Administration Department's new Integrated Case Management System. The Audit Team will review the computer system internal controls (Phase I) and interface capabilities with the new SAP (Phase II).

ANTICIPATED BENEFITS:



Stronger Controls



Improved Accountability



Improved Risk Management

SPECIAL PROJECTS

SCOPE:

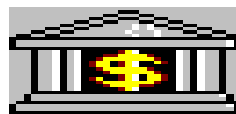
The Audit Division will address special projects throughout the year as requested by the Mayor, City Controller, City Council, and Department Directors. Also, projects will be initiated as a result of information received from taxpayers, vendors, and City employees. Projects planned include:

- Auditing Services Requested By The Office Of Inspector General
- City Controller's Office External Audit Assistance
- Computer Assisted Auditing Tools & Techniques
- Tax Increment Reinvestment Zones (TIRZ) Funds Comparison
- PW&E Dept/Engineering Services Branch – Management of Design Projects

ANTICIPATED BENEFITS:



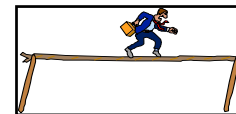
Stronger Controls



Cost Savings



Policy Alternatives



Improved Risk Management

UNANNOUNCED AUDITS

SCOPE:

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

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

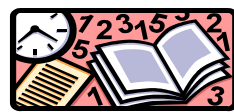
ANTICIPATED BENEFITS:



Stronger Controls



Cost Savings



Improved Reporting

FOLLOW-UP AUDITS

SCOPE:

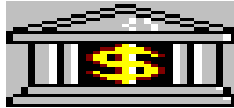
During various audits performed in Fiscal Year 2004, recommendations were identified that should result in improvement to the internal controls, procedures and processes in the various areas. The Audit Team will determine what actions have been taken in response to recommendations presented in the report. The team will also report on any new significant findings and recommendations observed during the follow-up process. These will include:

- City-Wide IT Contract Compliance Audit
- Parks and Recreation Department - Purchasing Card Activity
- H&HS Department-Accounts Receivable and Billings Internal Audit
- P&D Department- Accounts Receivable and Billings Internal Audit
- Legal Department – Accounts Receivable and Billings Internal Audit
- Houston Emergency Center – Performance Audit

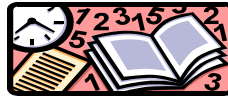
ANTICIPATED BENEFITS:



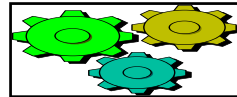
Stronger
Controls



Cost Savings



Improved
Reporting



Improved
Effectiveness