



Audit Division Update

FY2026

Budget and Fiscal Affairs Committee

April 28, 2026

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

Agenda

- Enterprise Risk Assessment (FY25)
- FY2026 Audit Plan
- Audit Reports
 - HITS ARA – Payroll Application Security Controls



We are significantly improving the quality and usefulness of the City Enterprise Risk Assessment

Fiscal Year 2025

1. Identified comprehensive set of risks

- Includes internal and external risks
- Covers financial, operational, cybersecurity, compliance, and strategic risks

Fiscal Year 2026

2. Assess likelihood and potential impact of each risk (probability and severity)

3. Prioritize risks based on threat level

- Focus on more likely, high-impact threats

4. Develop mitigation strategies for priority risks

- Includes performing audits in priority area(s)

Ongoing

5. Monitor and update

A Quality ERA

- Makes leaders aware of threats
- Enhances decision-making and long-term resilience
- Commits City to continuous improvement regardless of economic or political cycles
- ERA is required by the IIA Global Internal Audit Standards on at least an annual basis to ensure its relevance and accuracy



The City Risk Universe (FY25) contains 156 risks

The risk universe groups potential threats into eleven (11) categories that collectively affect compliance, service delivery, financial stewardship, public safety, strategic execution, and organizational resilience.

RISK UNIVERSE CATEGORY	DESCRIPTION	RISK COUNT
Compliance	Risks of violating laws, regulations, policies, contracts, or internal standards, resulting in penalties or reputational harm.	24
Emergency Management	Risks that hinder the organization’s ability to prepare for, respond to, and recover from emergencies or disasters.	7
Environmental	Risks related to environmental conditions, pollution, weather, infrastructure, and resource management that may affect safety, operations, or compliance.	9
Financial	Risks that affect financial stability, including budgeting, cash flow, revenue, spending, and reporting accuracy.	14

Continued on following page



The City Risk Universe (FY25) contains 156 risks (cont.)

RISK CATEGORY	RISK DESCRIPTION	RISK COUNT
Legal	Risks arising from lawsuits, disputes, contractual issues, or other legal exposure.	7
Operational	Risks caused by breakdowns in processes, systems, people, or daily operations that may disrupt services or reduce efficiency.	41
Public Health and Safety	Risks that could harm employees, residents, or the public through unsafe conditions, hazards, or incidents.	10
Reputational	Risks that damage public trust, credibility, or confidence in the organization.	5
Strategic	Risks that prevent the organization from achieving its mission, long-term goals, or strategic direction.	10
Technological	Risks tied to technology, systems, cybersecurity, system reliability, and obsolescence.	17
Workforce	Risks related to staffing, skills, retention, morale, safety, and succession that can affect performance and continuity.	12

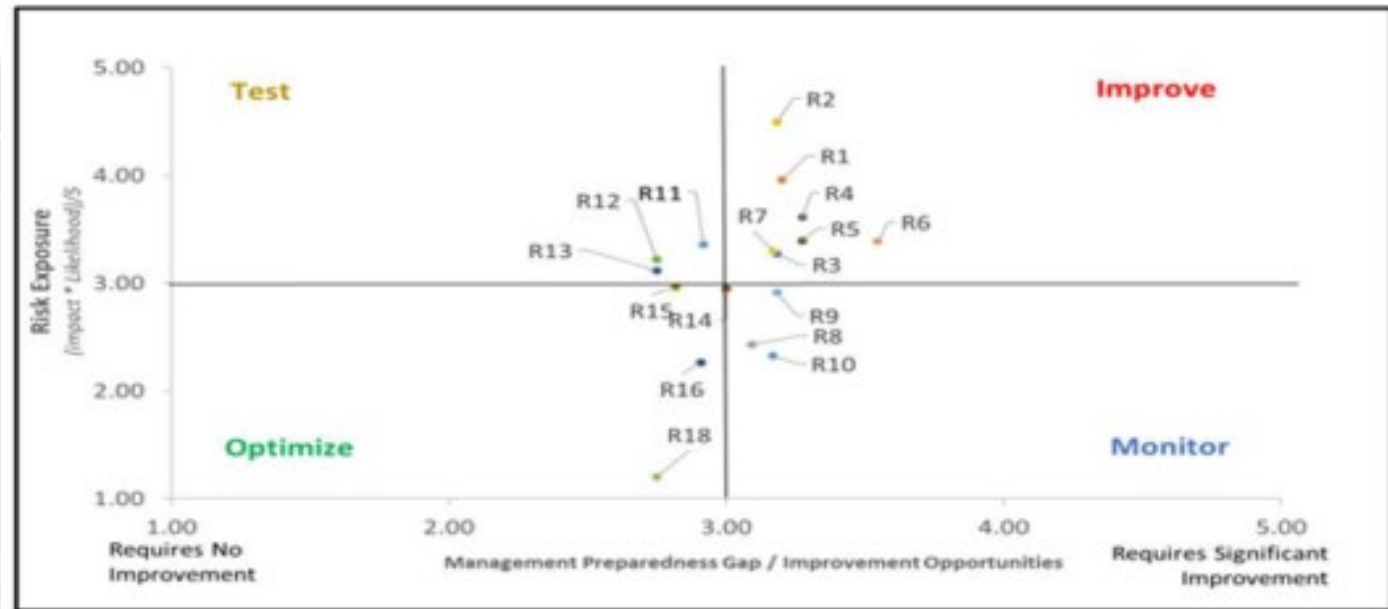


The FY26 ERA will prioritize risks based on threat level

The Enterprise Risk Assessment (FY26) will:

- Leverage input from all 26 business areas to identify both department-level and cross-cutting risks.
- Assess emerging and peer-municipal risks through an external risk scan.
- Evaluate the maturity of current risk management practices and define a practical ERM roadmap.
- Support risk-informed decision-making, audit planning, and resource prioritization.

Example of a heat map deliverable



Test

High risk exposures with strong controls forms the focus for audit to provide assurance that controls are adequate and efficient.

Improve

High risk exposures with low levels of control form the priorities for improvement opportunities.

Optimize

Low risk exposures with a moderate level of control may be consciously accepted or may be a focus to optimize the processes and controls for greater efficiency.

Monitor

Low risk exposures accompanied by a lower level of control are often considered emerging and must remain a focus of on-going monitoring efforts.



Agenda

- Enterprise Risk Assessment (FY25)
- FY2026 Audit Plan
- Audit Reports
 - HITS ARA – Payroll Application Security Controls



Key considerations for 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.

Audits are conducted in standardized phases

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.



The FY2026 Audit Plan contains 32 audits

The Fiscal Year (FY) 2026 Audit Plan establishes a risk-based population of audit projects to guide the Audit Division workplan during the year, while also serving as a proactive roll-forward planning document, pending completion of the FY2026 Enterprise Risk Assessment (ERA).

#	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 Spend Analysis	Houston Information Technology Services
10	Ethics: Investigation Process	Legal Department



The FY2026 Audit Plan contains 32 audits (cont.)

#	PROJECT	COH DEPARTMENT
11	Garbage and Yard Waste	Solid Waste Management Department
12	Grant Management: Overall Program Review	City-Wide
13	Grant Management: Specific Grant Reviews	City-Wide
14	Houston Consent Decree	Houston Public Works
15	HPD Administration Evaluation	Houston Police Department
16	Merging Government Services	City-Wide
17	Other Post-Employment Benefits	City-Wide
18	Outcome-Based Budgeting	Finance Department
19	Permitting: One-Stop Pilot Program	Houston Public Works
20	Post-Implementation: COH Contract Management System	Finance Department
21	Post-Implementation: Electronic Timekeeping Policy	Administration and Regulatory Affairs
22	Property Insurance Claims	City-Wide
23	Real Estate Assessment	General Services Department
24	Street Maintenance and Repairs: Potholes	Houston Public Works



The FY2026 Audit Plan contains 32 audits (cont.)

#	PROJECT	COH DEPARTMENT
25	Street Maintenance and Repairs: Streetlights	Houston Public Works
26	Talent Recruitment	City-Wide
27	Talent Retention	City-Wide
28	Telecom and Cable TV Provider Review	Houston Information Technology Services
29	TIRZs: Overall Program Review	Mayor's Office: Economic Development
30	TIRZs: Specific TIRZ Reviews	Mayor's Office: Economic Development
31	Vendor Master Data Review	Office of Business Opportunity
32	Water Line Repairs	Houston Public Works



There are 15 audit engagements currently in progress

The following projects are in progress and are targeted for completion in FY2026 and FY2027:

#	PROJECT	COH DEPARTMENT	AUDIT PHASE
1	Audit Division Policies and Procedures	Audit Division	Reporting
2	Follow-Up Audit	Fuel Management Department	Reporting
3	Follow-Up Audit	Houston Health Department	Reporting
4	AuditBoard (aka Optro) Implementation	Audit Division	Field Work
5	Hiring Process	Human Resources	Field Work
6	Payroll: Civilian Overtime	City-Wide	Field Work
7	Payroll: Off-Cycle Transaction	City-Wide	Field Work
8	Texas Prompt Payment	City-Wide	Field Work
9	Follow-Up Audit	General Services Department	Planning
10	Follow-Up Audit	Mayor's Office	Planning
11	Follow-Up Audit	Parks and Recreation	Planning
12	Payroll: Uniformed Overtime	Houston Police Department	Planning
13	Payroll: Uniformed Overtime	Houston Fire Department	Planning
14	SAP: Segregation of Duties	Houston Information Technology Services	Planning
15	Water Line	Houston Public Works	Pre-Planning



There are 9 annual engagements performed by the Audit Division

The following projects are performed annually by the Audit Division:

#	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: Open Audit Findings	City-Wide
9	Special Projects	City-Wide



Agenda

- Enterprise Risk Assessment (FY25)
- Audit Plan (FY26)
- Audit Reports
 - HITS ARA – Payroll Application Security Controls



HITS/ARA – Payroll Application Security Controls

Our audit found that Houston’s payroll system **relies heavily on manual processes and lacks sufficient control oversight**, creating risks of:

- Errors,
- Improper payments, and
- Inconsistent system governance.

Audit objectives

- Ensuring user access to the payroll application is authorized based on job responsibilities
- Confirm payroll payments are accurate and reflect approved time and rate inputs
- Verify that payments are made to the appropriate employees

Audit scope

- Fiscal Year (FY) 2025

There were seven distinct findings, indicating systemic weaknesses across the payroll environment

Key takeaways

- **City payroll controls rely on manual, inefficient processes**
- **Immediate strengthening of system access and approval controls is needed**
- **Governance over payroll systems (SAP/Kronos integration) is weak**
- **Control gaps create risk of payroll errors and improper payments**
- **Stronger enterprise-level policy oversight is needed**

Management has put plans in place to improve systemic weaknesses

Improve payroll reconciliation

Increase Kronos–SAP automation, reporting, and error reduction

Strengthen time-sheet accountability

Escalate missed approvals and clarify supervisor/employee responsibilities

Tighten SAP access governance

Restrict privileged access, require ServiceNow documentation, and increase monitoring

Formalize access reviews

Centralize evidence, schedule reviews, and automate reporting

Modernize IT policies

Update password policy and establish formal change management requirements

THANK YOU!

For additional information contact:

The Audit Division @ Jennifer.Pierce@houstontx.gov



CHRIS HOLLINS
HOUSTON CITY CONTROLLER