Audit Division Update

FY2027

Budget and Fiscal Affairs Committee

September 01, 2026

OFFICE OF CITY CONTROLLER CHRIS HOLLINS

Agenda

- Enterprise Risk Assessment (FY26)
- FY2027 Audit Plan

The FY2026 assessment took one citywide view instead of twenty-four departmental ones

Prior assessments evaluated one department at a time. This year used one survey instrument, one scoring model applied to every response, and facilitated validation sessions.

1

Identify

Citywide risk identification survey deployed to leaders in every business area, aligned to the City risk taxonomy.

2

Analyze

Responses consolidated to surface common drivers, patterns, and outliers, then tested against an external risk scan.

3

Validate

Facilitated workshops, interviews, and leadership sessions refined definitions and resolved discrepancies.

4

Report

Individual risks normalized and grouped into enterprise themes for audit planning.

25
business areas solicited

24
participated

12
facilitated workshops

258
risks scored

Five themes define the City's FY2026 risk profile

Each theme groups the sub-categories describing one underlying condition, ordered by the number of risks reported.

Theme	What it covers	Risks
Technology, reliability and cybersecurity	Reliability and modernization (26), cyber resilience and access protection (11), AI and data governance (6).	43
Workforce capacity	Recruitment and retention (17), staffing coverage (15), succession planning (3), training (3).	38
Governance, records, and public trust	Legal, records and ethics (19), stakeholder confidence (8), internal control and audit readiness (6).	33
Operational execution and coordination	Process gaps and service bottlenecks (14), cross-department coordination (8), fragmented reporting (5).	27
Fiscal capacity	Revenue limitations and funding gaps (16), rising labor, benefits, insurance and project costs (11).	27

The method changed this year, so no comparable prior-year baseline exists. These are conditions observed in FY2026 rather than movements over time.

The themes compound one another

Read individually, several of these conditions appear moderate. Read together, they describe an organization spending much of its capacity maintaining current operations.

Constrained funding and staffing → **Technology refresh delayed** → **Cybersecurity posture weakens** → **Maintenance deferred** → **Procurement slows**

Each pressure makes the next harder to relieve.

Limited funding and staffing delay technology refresh, which weakens cybersecurity posture. The same constraints extend deferred maintenance and slow procurement.

Execution capacity, not strategic direction, is the exposure.

Business areas reported less uncertainty about where the City is going than about its ability to get there with the people, systems, and assets on hand.

Constrained funding and staffing sit upstream of most other exposures in this assessment.

Two sets of risks sit outside the five themes

Each is better read against something else. Both are listed individually in the risk categorization table in the report.

Procurement

21 risks

- 11 procurement delays, classified as operational
- 6 vendor cost exposure, classified as financial
- 4 contracting compliance, classified as compliance

Reported separately by different departments under three different risk categories. A department-by-department review cannot see that.

Asset Lifecycle

13 risks

- Aging facilities, fleet, and equipment
- Deferred maintenance backlog
- Belongs with the City's capital planning rather than with any one theme

Represents investment postponed rather than avoided, and the cost compounds while it waits.

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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.

Pre-Planning Phase
- Define the audit
- Audit scope
- Audit objective

Planning Phase
- Research the topic
- Perform process walkthroughs
- Identify & docuement current risks and controls
- Develop the audit program

Fieldwork Phase
- Observe operations
- Examine & analyze the evidence
- Test
- Discuss issues with management

Reporting Phase
- Prepare draft audit report
- Obtain management responses
- Perform quality review
- Finalize and issue audit report

Follow-Up
- Request status of identified exceptions
- Validate resolution of recommendations
- Issue follow-up report

The FY27 Audit Plan contains 38 audits

The Fiscal Year (FY) 2027 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	**AI Governance and Acceptable Use Policy****	Houston Information Technology Services
2	**Application Portfolio and Lifecycle Management****	Houston Information Technology Services
3	**Capital Improvement Plan: Delivery Capacity and Spend Rate****	Houston Public Works
4	**Cash Handling****	Finance Department
5	**Certification Process**	Office of Business Opportunity
6	**Contract Compliance: Unused Contract Allocations**	Finance Department
7	**Contract Compliance: Vendor Contract Reviews**	City-Wide
8	**Cybersecurity**	Houston Information Technology Services
9	**Ethics: Investigation Process**	Legal Department
10	**Facility Maintenance****	General Services Department
11	**Garbage and Yard Waste**	Solid Waste Management Department

** - Added in FY27

The FY27 Audit Plan contains 38 audits (cont.)

#	PROJECT	COH DEPARTMENT
12	**Grant Management: Overall Program Review**	City-Wide
13	**Grant Management: FEMA and Disaster Reimbursement Compliance****	City-Wide
14	**Houston Consent Decree**	Houston Public Works
15	**HPD Administration Evaluation**	Houston Police Department
16	**HUD Grant Compliance and Subrecipient Monitoring****	Housing & Community Development
17	**Other Post-Employment Benefits**	City of Houston - Citywide
18	**Outcome-Based Budgeting**	Mayor's Office
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	**Post-Implementation: Municipal Courts Jury Management System****	Municipal Courts Department
23	**Procurement Cycle Time****	Finance Department
24	**Property Insurance Claims**	City-Wide
25	**Purchase Card Program****	City-Wide

** - Added in FY27

The FY27 Audit Plan contains 38 audits (cont.)

#	PROJECT	COH DEPARTMENT
26	**Real Estate Assessment**	General Services Department
27	**Records Retention and Public Records Compliance****	City-Wide
28	**Right-of-Way Rental Fee****	Finance Department
29	**Solid Waste Utility Transition: Fee Implementation and Revenue Assurance****	Solid Waste Management Department
30	**Street Maintenance and Repairs: Potholes**	Houston Public Works
31	**Street Maintenance and Repairs: Streetlights**	Houston Public Works
32	**Talent Retention**	City-Wide
33	**Telecom and Cable TV Provider Review**	Houston Information Technology Services
34	**TIRZs: Overall Program Review**	Mayor's Office
35	**TIRZs: Specific TIRZ Reviews**	Mayor's Office
36	**Vendor Master Data Review**	Office of Business Opportunity
37	**Voluntary Retirement Incentive: Savings Realization and Succession Exposure****	Human Resources
38	**Water Line Repairs**	Houston Public Works

** - Added in FY27

There are 15 audit engagements currently in progress

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

#	PROJECT	COH DEPARTMENT	AUDIT PHASE
1	**Follow-Up Audit**	General Services Department	Reporting
2		Houston Information Technology Services	Reporting
3		Mayor's Office: Economic Development	Reporting
4	**Hiring Process**	Human Resources	Reporting
5	**Payroll: Civilian Overtime**	City-Wide	Reporting
6	**Policy and Procedure Update**	Audit Division	Reporting
7	**Texas Prompt Payment**	City-Wide	Fieldwork
8	**Payroll: Off-Cycle Transactions**	Administration and Regulatory Affairs	Fieldwork
9	**Payroll: Uniformed Overtime - HFD**	Houston Fire Department	Fieldwork
10	**Payroll: Uniformed Overtime - HPD**	Houston Police Department	Fieldwork
11	**ERP: SAP Segregation of Duties**	Houston Information Technology Services	On Hold
12	**Follow-Up Audit**	Administration and Regulatory Affairs	Pre-Planning
13		Department of Neighborhoods	Pre-Planning
14		Finance Department	Pre-Planning
15	**Water Utility**	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

THANK YOU!

For additional information contact:

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