

ANNUAL AUDIT PLAN FY2027



OFFICE OF THE CITY CONTROLLER

CHRIS HOLLINS
CITY CONTROLLER

FY2027
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CHRIS HOLLINS
City Controller

The Honorable John Whitmire, Mayor

SUBJECT: Office of the City Controller Annual Audit Plan FY2027

I am pleased to present the Fiscal Year 2027 Annual Audit Plan, developed to promote transparency, accountability, and efficiency across City of Houston departments and operations.

The Plan serves as a roll-forward, risk-based framework to guide audit activities while the FY2026 Enterprise Risk Assessment process continues to mature and inform future refinements. It outlines a comprehensive portfolio of performance, compliance, contract, monitoring, and cost-recovery audits, along with follow-up reviews and special projects, based on ongoing risk monitoring and input from City Council, the Mayor's Office, department leaders, and other stakeholders.

The Audit Plan is intended to remain dynamic and may be updated throughout the year as priorities shift, emerging risks develop, and additional information becomes available. Progress reports will be published quarterly on the Audit Division website. The Controller's Office remains committed to delivering objective, independent oversight that strengthens internal controls, enhances service delivery, and safeguards City resources.

Yours in service,

Chris Hollins
City Controller
City of Houston, Texas

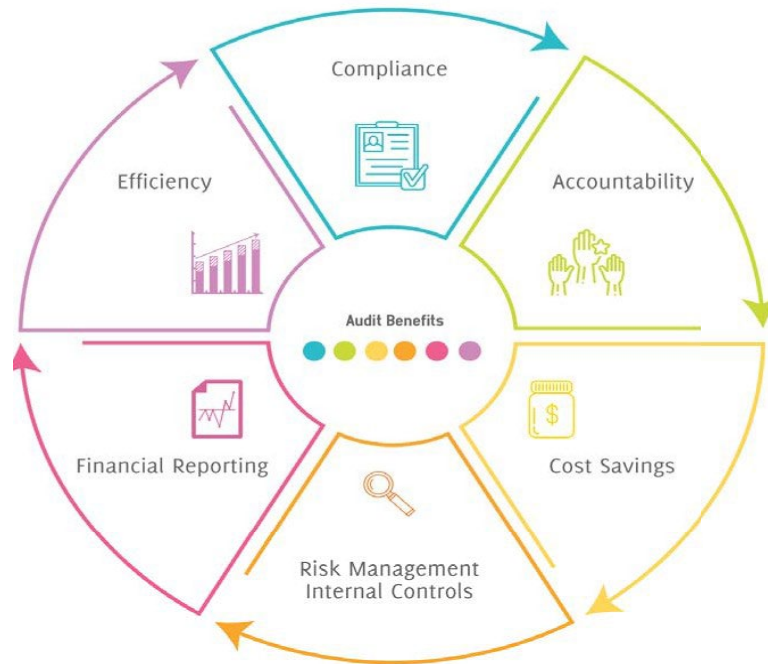
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TABLE OF CONTENTS

Annual Audit Plan	4
FY2027 Engagements	6
In-Progress Engagements.....	12
Annual Engagements	14
Appendix 1: Background and Authority.....	16
City Controller	16
Audit Division Charter	16
Audit Resource Allocation	16
Appendix 2: Audit Plan Development.....	18
Definition.....	18
Development.....	18
Audit Programs	18
Elements of an Audit.....	18
Audit Plan and Status Update	19

ANNUAL AUDIT PLAN

Houston is the fourth-largest city in the United States. The internal audit function provides crucial insights into the business of government. Key anticipated benefits of our activities are reflected in the graphic below.



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.

The FY2026 ERA changed how the City identifies risk. Prior assessments evaluated one department at a time. This one used a single city-wide survey, applied one scoring model to every response, and facilitated sessions with twelve business areas. Twenty-five business areas were solicited and twenty-four participated, producing 258 risks grouped into five enterprise themes: technology reliability and cybersecurity, workforce capacity, governance and public trust, operational execution and coordination, and fiscal capacity. The FY2025 risk universe used a different taxonomy and is not comparable, so projects carried forward from the FY2026 Plan were re-evaluated against the new themes rather than assumed forward.

From this population, the Audit Division will execute financial and performance audits of City departments, contractors, and key functions to promote efficiency, effectiveness, accountability, and improved service delivery; assist, as appropriate, with investigations of alleged fraud at the request of the City's Office of Inspector General, law enforcement, or the judiciary; and provide actionable recommendations to City leadership to strengthen controls, oversight, and operational performance.

The Plan balances targeted engagements, which address exposure concentrated in one department or process, with cross-cutting engagements addressing conditions the assessment found across many departments at once, including procurement, workforce capacity, records retention, and coordination.

FY2027 ENGAGEMENTS

The Audit Division staff provides audit-related services as our primary focus. We currently operate with a headcount of eleven internal staff. The following projects are those we think represent risky areas for the City of Houston. Engagements added this fiscal year are marked with “**”.

#	PROJECT	COH DEPARTMENT	SUMMARY
1	AI Governance and Acceptable Use Policy**	Houston Information Technology Services	The FY26 ERA identified six artificial intelligence and data governance risks, with departments adopting AI capabilities ahead of settled governance. The audit will determine whether policies govern the acquisition, approval, and permitted use of AI tools, whether data privacy and access protections apply, and whether controls verify AI-generated content before it is relied upon.
2	Application Portfolio and Lifecycle Management**	Houston Information Technology Services	Technology Reliability and Modernization is the single largest sub-category in the FY26 ERA at 26 risks, including Aging and Fragmented Technology Infrastructure, Lack of System Integration, Technical Debt, Insufficient Technology, Integration of Systems, Technology equipment shortage, and Understaffed IT Organizations. The audit will determine whether the City maintains a complete application and infrastructure inventory with end-of-support dates, whether integration dependencies are documented, and whether modernization is sequenced and funded against documented criticality rather than departmental request.
3	Capital Improvement Plan: Delivery Capacity and Spend Rate**	Houston Public Works	The City adopted an \$18 billion FY2026-2030 Capital Improvement Plan. Houston Public Works reported a 0.3 percent water line replacement rate in FY25 and tracking to the same rate in FY26 against a 3 percent target. The FY26 ERA identified Capital Improvement Project Delivery Capacity, Infrastructure Resiliency, Deferred Maintenance and Underfunding of Critical Infrastructure. The audit will compare appropriation to obligation to expenditure across CIP categories, measure delivery against adopted schedules, and evaluate whether reprogramming and carryover are reported to City Council in a form that shows actual delivery rate.
4	Cash Handling**	Finance Department	The FY26 ERA identified errors in cash handling and duplicate online payments within the Financial Accounting Integrity sub-category. The City collects payments at decentralized points across multiple departments. The audit will evaluate whether controls over cash and payment receipting ensure complete and accurate recording, timely and intact deposits, independent reconciliation to the general ledger, and proper safeguarding through physical custody and segregation of duties.
5	Certification Process	Office of Business Opportunity	The Office of Business Opportunities (OBO) promotes and enables an inclusive environment for entities doing business with the City. To ensure this, entities may be required to obtain certain certifications. Firms applying for certifications are required to meet certain basic requirements. OBO manages and supervises the process of these certifications. The audit will review the process for completing and distributing the certifications to determine whether they are efficient.

#	PROJECT	COH DEPARTMENT	SUMMARY
6	Contract Compliance: Unused Contract Allocations	Finance Department	The FY26 ERA identified Procurement as a key business process with a “High” risk ranking. The Strategic Procurement Division (SPD) oversees the central procurement activities of the City. Procurements greater than \$100,000 are presented to the City Council for approval. The approval of the City Council initiates a spending authority upon which supplemental allocations are developed by departments. The audit will examine whether there is a process established for tracking allocations and unspent monies arising from the spending authority.
7	Contract Compliance: Vendor Contract Reviews	City-Wide	The FY24 and FY26 ERA identified Project / Contract Management as a key business process with a “High” risk ranking. Specifically, the FY25 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.
8	Cybersecurity	Houston Information Technology Services	The FY25 and FY26 ERA identified cyber resilience as a key business process with a “High” risk ranking. Cybersecurity is an ongoing risk for all governments. The audit will evaluate how the City monitors and manages cyber threats. Additionally, with the assistance of HITS, the audit will identify potential vulnerabilities and/or risks in systems and processes.
9	Ethics: Investigation Process	Legal Department	As stated in the 2023 Ethics Report, Report #2024-04, issued by the Audit Division within the City Controller’s Office, “analyses were conducted to review the design, implementation, and effectiveness of internal ethics-related activities in support of the City’s strategies and objectives, as well as research and analysis of the ethical policies, procedures, and practices employed in other cities.” Additionally, ethical expectations of employees were conveyed in a decentralized manner via departmental meetings, with conflict-of-interest training administered centrally using the Talent Management System. The audit will assess the state of the City’s ethics policies and processes, addressing specific issues identified during the audit.
10	Facility Maintenance**	General Services Department	The FY26 ERA identified thirteen risks within Critical Asset and Infrastructure Lifecycle, including deferred maintenance, aged and inadequate facilities, aging fleet and equipment, infrastructure resiliency challenges, and underfunding of critical infrastructure, characterized as investment postponed rather than avoided. The audit will evaluate whether the City maintains an up-to-date facility condition assessment, quantifies and reports deferred maintenance to decision makers, and prioritizes maintenance funding based on documented condition and criticality criteria.

#	PROJECT	COH DEPARTMENT	SUMMARY
11	Garbage and Yard Waste	Solid Waste Management Department	The Solid Waste Management Department (SWMD) is responsible for providing solid waste services to the citizens and residents of the City of Houston through collection, disposal, and recycling of discarded materials. SWMD provides weekly garbage and yard waste collection service to about 390,000 residential units and small commercial establishments. The audit aims to assess the efficiency and effectiveness of the City's solid waste management processes. Key objectives include evaluating whether trash collection services are performed in a timely manner, determining the accuracy and reliability of recycling practices, and identifying areas for improvement to enhance service delivery. The audit will also review compliance with City policies and environmental standards, measure operational performance against established targets, and analyze cost-effectiveness to ensure optimal resource utilization.
12	Grant Management: Overall Program Review	City-Wide	The FY24, FY25, and FY26 ERA identified Grant Management as a key business process with a "High" risk ranking. The City of Houston developed Administrative Procedure 4.1 to provide a City-wide policy governing grant acquisition, management, and compliance procedures to ensure consistent use by City departments. The audit will review grant administration and management to ensure efficiency across all City departments.
13	Grant Management: FEMA and Disaster Reimbursement Compliance**	City-Wide	The FY26 ERA identified thirteen grant-related risks across the Grant Compliance and Grant Management categories, including FEMA disaster recovery compliance, timing of federal reimbursements, potential clawbacks from non-compliance, unreimbursed grant expenditures, and shifts in federal funding policy. The audit will determine whether documentation for federally reimbursable disaster costs meets FEMA eligibility and substantiation requirements, whether reimbursement requests are submitted on time, and whether the City has quantified its exposure to disallowance and clawbacks on open disaster grants.
14	Houston Consent Decree	Houston Public Works	The Houston Consent Decree is a legally binding document that formalizes a settlement agreement among the City of Houston, the Environmental Protection Agency (EPA), and the State of Texas. Signed in 2021, the decree mandates an investment of \$6 billion (approximately \$9 billion as of FY24) over 15 years to upgrade Houston's aging wastewater infrastructure. This comprehensive effort aims to avoid severe penalties and catastrophic public health events while ensuring compliance with environmental regulations. The audit will evaluate the existence, effectiveness, and adequacy of controls related to governance, oversight, and project delivery. Additionally, it will identify opportunities for improvement in meeting cost, schedule, and scope objectives.
15	HPD Administration Evaluation	Houston Police Department	The mission of the Houston Police Department is to enhance the quality of life in the City of Houston by working cooperatively with the public and within the framework of the U.S. Constitution to enforce the laws, preserve the peace, reduce fear, and provide for a safe environment. The audit will evaluate the use of uniformed personnel in administrative roles where the function could be performed by non-uniformed personnel.
16	HUD Grant Compliance and Subrecipient Monitoring**	Housing & Community Development	The FY26 ERA identified Oversight of Housing Department Spending and Grants, Reliance on Grant Funding, Federal Funding Policy Shifts and Grant Funding Uncertainty under Grant Management, and Clawbacks from Non-Compliance under Grant Compliance. HUD OIG has issued prior findings against the City's CDBG-DR program regarding procurement documentation and cost support. The audit will assess eligibility determination, procurement documentation, subrecipient monitoring, and drawdown support across the active HUD grant portfolio.

#	PROJECT	COH DEPARTMENT	SUMMARY
17	Other Post-Employment Benefits	City of Houston - Citywide	Establishing a Section 115 OPEB Trust will help reduce the City's long-term unfunded liability for retiree health benefits. The audit will seek to identify a sustainable funding mechanism to reduce the City's long-term unfunded OPEB liability.
18	Outcome-Based Budgeting	Mayor's Office	Outcome-based budgeting is a government approach that links the allocation of resources to identified outcome targets. The audit will play a role in assessing the efficiency of the current budget process and determining how to allocate resources more effectively. Additionally, it will evaluate efficacy of the City's current budgeting practices in achieving outcome-based budgeting. This evaluation aims to identify best practices, discover inefficiencies, and provide recommendations for optimizing the City's budgetary processes to achieve maximum impact.
19	Permitting: One-Stop Pilot Program	Houston Public Works	In February 2025, the Houston Permitting Center soft-launched the One-Step Pilot Program. The service is designed to provide quick and efficient permitting solutions for homeowners, contractors, and business owners. The audit will examine the consistency of the application review and approval process. Additionally, it will assess application fees and ensure compliance with administrative policies and regulations.
20	Post-Implementation: COH Contract Management System	Finance Department	The FY24 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.
21	Post-Implementation: Electronic Timekeeping Policy	Administration and Regulatory Affairs	The FY24 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.
22	Post-Implementation: Municipal Courts Jury Management System**	Municipal Courts Department	Municipal Courts deployed a modernized Jury Management System on March 6, 2026. The FY26 ERA identified Court Management System Failure and Manual Entry of Citations under Technology Reliability and Modernization. The audit will evaluate whether the implementation achieved its stated objectives, whether data conversion and migration were complete and accurate, and whether access and application controls were established at go-live.
23	Procurement Cycle Time**	Finance Department	The FY26 ERA identified procurement failure across three risk categories, with departments reporting issues such as delayed procurements, slow approvals, challenges procuring contracts under \$100,000, financial liability from prolonged contract cycles, payment delays, and vacant contract administrator roles. The audit will measure cycle time from requisition through award and payment, identify approval bottlenecks, evaluate the use and oversight of delegated authority below the City Council threshold, and assess how contract administrator vacancies affect cycle time.
24	Property Insurance Claims	City-Wide	Property damage insurance claims are an essential aspect of financial management for businesses and individuals. The audit will review and ensure that the City is consistently filing claims for property damage and that relevant third-party administrators are processing claims efficiently and accurately.

#	PROJECT	COH DEPARTMENT	SUMMARY
25	Purchase Card Program**	City-Wide	The FY26 ERA identified purchase card exposure in two separate categories: improper purchase card use under Controls and Audit, and purchase card expenditures under Financial Accounting Integrity. The audit will determine whether internal controls over the City's purchase card program are sufficient to ensure cardholder authorization, enforcement of transactions and merchant category limits, proper documentation and business purpose for purchases, and independent reviewer approval.
26	Real Estate Assessment	General Services Department	The Real Estate Division's primary objective is to develop and implement policies and procedures to expedite the acquisition, disposition, and leasing of the City's real estate portfolio while realizing the greatest value to the City of Houston. The audit will assess whether the system of internal controls over the City's Real Estate processes is adequate and appropriate.
27	Records Retention and Public Records Compliance**	City-Wide	The FY26 ERA identified Legal, Records, and Ethics as the second largest risk area, with nineteen risks related to records retention, litigation hold gaps, compliance with public records and open meetings laws, limited staffing for records custodians, and technology challenges in retrieving records. The audit will focus on whether retention schedules are in place and followed, litigation holds are timely, and the City can locate and produce records within statutory deadlines.
28	Right-of-Way Rental Fee**	Finance Department	The FY2027 budget established a right-of-way rental fee set at 5 percent of water and sewer utility gross revenues, projected at approximately \$104 million annually and transferred to the General Fund. The utility system carries approximately \$5 billion in first lien revenue bonds, and Finance has stated that master bond ordinance amendments addressing the fee are contemplated in a refund. The FY26 ERA identified Revenue Projection and Structural Budget Imbalance under Revenue Pressure and Budget Capacity, Financial Oversight for Public Works under Grant Management, and Non-compliance with City Charter or City Ordinances under Legal, Records and Ethics. The audit will verify the gross revenue base and rate applied, trace the transfer through the flow of funds, and assess compliance with the master bond ordinance as amended.
29	Solid Waste Utility Transition: Fee Implementation and Revenue Assurance**	Solid Waste Management Department	Effective July 1, 2026, Solid Waste Management moved into the Combined Utility System and a new \$5 monthly administrative fee was added to residential water bills for approximately 400,000 customers, projected at roughly \$24 million annually. The FY26 ERA identified Revenue Stream Limitations and Insufficient Budget Allocation under Revenue Pressure and Budget Capacity; Error in Cash Handling and Duplicate Online Payments under Financial Accounting Integrity; and Aged Fleet and Deferred Maintenance under Critical Asset and Infrastructure Lifecycle. The audit will determine whether the fee is billed to the correct customer population, collected and recorded completely, reconciled between the utility billing system and the general ledger, and applied to the department costs the ordinance contemplates.
30	Street Maintenance and Repairs: Potholes	Houston Public Works	A pothole is a hole in the roadway pavement that may vary in size and shape. A pothole forms when water has seeped under the pavement and into the road base. As vehicles run over these weakened areas, the pavement disappears, and the hole gets larger. In the City of Houston, a pothole is considered any area of missing or severely deteriorated pavement that is up to about 5 feet by 5 feet. The audit will evaluate the adequacy of planning, efficiency of repairs, and funding for pothole resolutions.
31	Street Maintenance and Repairs: Streetlights	Houston Public Works	Traffic, Street, and Bridge Maintenance is responsible for keeping the road network across Houston safe and passable. The audit will assess whether streetlighting operational and maintenance costs are consistent with industry standards. Additionally, the audit will determine whether adequate controls are in place to ensure that streetlight operability continues to improve safety and is operating efficiently to keep Houstonians effectively traveling the roads 24 hours a day.

#	PROJECT	COH DEPARTMENT	SUMMARY
32	Talent Retention	City-Wide	All City departments share the management of retaining talent; however, overall City policy governs the limitations around performance rewards and retention programs. The audit will assess the City's strategies for retaining employees, including engagement, development, and benefits in comparison to competitors (private and public).
33	Telecom and Cable TV Provider Review	Houston Information Technology Services	SB 1152, which became effective on September 1, 2019, amended the Texas Local Government Code § 283.051 and Texas Utilities Code § 66.005 to allow entities that are members of an "affiliated group" to avoid paying cities either a cable franchise fee or access line fees. These statutory provisions require telecommunications providers and cable television providers to pay access line fees and cable franchise fees, respectively, to municipalities for the privilege of occupying the public rights-of-way. The audit will identify a list of entities required to pay the fees, recovery amounts for vendors that have not historically paid, and process improvements.
34	TIRZs: Overall Program Review	Mayor's Office	The FY24 ERA identified a "significant event" that has individually influenced the way the City operates. In August 2023, the City of Houston implemented a formal policy for its Tax Increment Reinvestment Zones, known as TIRZs. The policy addresses how TIRZs are created, terminated, and the timeline of a zone. The audit will evaluate if TIRZs are being utilized for their intended purpose, including a review of the new investment and growth opportunities. Additionally, the audit will advise if changes to the initial boundaries, leadership, or scope are recommended based on best practices.
35	TIRZs: Specific TIRZ Reviews	Mayor's Office	Expanding upon the Mayor's investigation into the Midtown Redevelopment Authority, the TIRZ-specific audits will review historical spending to find cost reductions and operational efficiency across the 28 TIRZs. Additionally, each audit will follow up on any findings that result from the Mayor's investigations with recommended internal controls and mitigating activities to reduce the related risks.
36	Vendor Master Data Review	Office of Business Opportunity	The FY25 Enterprise Assessment Risk Analysis performed by the Mayor's Office identified instances in which vendor master data was incomplete, duplicative, and inaccurate. The audit will identify specific vendors and recommend the appropriate next steps (e.g. consolidation, deletion). Additionally, the audit will evaluate internal controls surrounding vendor validation, setup, modification, and maintenance.
37	Voluntary Retirement Incentive: Savings Realization and Succession Exposure**	Human Resources	The City reported approximately \$99 million in savings from the voluntary retirement incentive program and roughly \$35 million in reduced annual General Fund labor cost. The FY26 ERA identified Workforce Succession Planning, Succession Planning Readiness and Aging Staff in HITS under Succession Planning, and Concentrated Institutional Knowledge, Leadership Transition Disruption and Attraction and Retention of Mid-Level Employees under Workforce Recruitment and Retention. The audit will determine whether claimed savings were realized net of backfill, contract labor and overtime, whether critical positions vacated were identified in advance, and whether knowledge transfer occurred before separation.
38	Water Line Repairs	Houston Public Works	The FY24 ERA identified a "significant event" that has individually influenced the way the City operates. In May 2024, a former Houston Public Works employee was criminally charged for allegedly defrauding more than \$700,000 in emergency City funds in a scheme related to water line repair and inspection contracts. The alleged fraud included bribery by at least four vendors and the receipt of kickbacks by the employee. The audit will assess the process for vendor selections and awards to ensure controls are in place to prevent and detect fraud or inappropriate awarding of contracts for services, with a focus on inspections and emergency repairs.

IN-PROGRESS ENGAGEMENTS

The following projects were in progress during FY2025 or FY2026 and are targeted for completion in FY2027.

#	PROJECT	COH DEPARTMENT	SUMMARY
AUDIT PHASE: REPORTING			
1	Follow-Up Audit	General Services Department	Assesses the status of open findings from prior audit reports and evaluates whether management's corrective actions, particularly for higher-risk items, have been effectively implemented.
2		Houston Information Technology Services	
3		Mayor's Office: Economic Development	
4	Hiring Process	Human Resources	The City's ability to recruit and onboard qualified personnel is essential to achieving its mission and strategic objectives. The audit examines the end-to-end hiring process from requisition through onboarding to determine compliance with applicable laws, regulations, and policies, and the design and effectiveness of key internal controls.
5	Payroll: Civilian Overtime	City-Wide	The City of Houston has spent an average of \$40 million per year on civilian overtime costs in recent fiscal years. The audit will assess whether internal controls are adequate to ensure appropriate use and accurate payment of overtime, and whether procedures and practices follow City policies. The audit will evaluate how overtime is managed, limit financial and operational impact, and identify waste or abuse.
6	Policy and Procedure Update	Audit Division	Update the Audit Division policies and procedures to align with current GAGAS and IIA Global Internal Audit Standards.
7	Texas Prompt Payment	City-Wide	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.
AUDIT PHASE: FIELDWORK			
8	Payroll: Off-Cycle Transactions	Administration and Regulatory Affairs	The ERA identified Payroll as a key business process with a "High" risk ranking. The audit will determine whether off-cycle payroll transactions processed are appropriate, accurate, authorized, and processed in accordance with standard business operations. Additionally, the audit will identify opportunities to limit the need for off-cycle payroll.

#	PROJECT	COH DEPARTMENT	SUMMARY
9	Payroll: Uniformed Overtime - HFD	Houston Fire Department	The ERA identified Payroll as a key business process with a “High” risk ranking. The audit will assess whether internal controls are adequate to ensure appropriate use and accurate payment of overtime, and whether procedures and practices are following City policies. Key objectives of the audit include assessing the management of overtime to minimize financial and operational risks, as well as identifying instances of waste or misuse. The scope of the audit will cover the past four years and will also include a review of backpay to ensure compliance and accountability.
10	Payroll: Uniformed Overtime - HPD	Houston Police Department	The ERA identified Payroll as a key business process with a “High” risk ranking. The audit will assess whether internal controls are adequate to ensure appropriate use and accurate payment of overtime, and whether procedures and practices are following City policies. Key objectives of the audit include assessing the management of overtime to minimize financial and operational risks, as well as identifying instances of waste or misuse. The scope of the audit will cover the past four years and will also include a review of backpay to ensure compliance and accountability.
AUDIT PHASE: PLANNING PHASE			
11	ERP: SAP Segregation of Duties	Houston Information Technology Services	Segregation of duties within SAP is the practice of distributing tasks and responsibilities among multiple individuals or roles to prevent a single user from having conflicting duties that could potentially lead to fraud or errors. The audit will evaluate all SAP roles to ensure that no individual has access to multiple parts of a process that could allow them to engage in financial or fraudulent activity.
AUDIT PHASE: PRE-PLANNING PHASE			
12	Follow-Up Audit	Administration and Regulatory Affairs	Assesses the status of open findings from prior audit reports and evaluates whether management's corrective actions, particularly for higher-risk items, have been effectively implemented.
13		Department of Neighborhoods	
14		Finance Department	
15	Water Utility	Houston Public Works	Customer Account Services, a Division of Houston Public Works, provides customer information, billings, credit, collections, and all meter associated services to approximately 2.1 million water and wastewater utility customers within the City of Houston. A phased approach will be used to evaluate policies, processes, and procedures to administer the water utility function.

ANNUAL ENGAGEMENTS

The following projects are performed annually by the Audit Division.

#	Project	COH DEPARTMENT	Summary
1	Ethics	City-Wide	The audit will identify ethical policies and/or standards that may need strengthening and assess how well employees are complying. Additionally, the audit will recommend policy improvements and additional compliance issues that may need to be addressed through training, communications, or subsequent audits. The objectives will be incorporated in each individual engagement as required under the new internal audit standards issued by the Institute of Internal Auditors.
2	Fraud Hotline Monitoring and Reporting	City-Wide	There are two primary vehicles for reporting fraud, waste, and/or abuse: 1) The City Controller's Office telephone hotline maintained by the Audit Division and 2) a link to report fraud available from the Office of the City Controller's website. Additionally, we provide auditing support based on requests from the OIG and/or other authorities. Each reported concern is addressed. The initial contact, work performed, and/or referrals are documented to support disposition of the issues.
3	Liaison Program	Internal Audit	To foster open communication and ensure that our team remains informed about the changing environment, processes, and procedures, we will interview City Council Members and the heads of department to identify audit opportunities.
4	Prior Audit Follow-Up	City-Wide	We maintain a database of findings and respective management responses that were included in previously issued audit reports. Open findings related to high-risk areas are selected for follow-up procedures which can include testing samples of items. The results of follow-up procedures are published as formal reports that disclose the status of open items and assess the overall remediation process employed by management.
5	Process Workflow	City-Wide	A process is a series of events and workflows established by management geared towards the accomplishment of the organization's objectives. Over time, these processes may become obsolete, ineffective, or inefficient, leading to possible fraud, waste, and/or abuse. As a result, processes require periodic review to ensure they are working optimally to safeguard the City's assets and ensure their relevance to its objectives. The audit will seek to examine and assess workflows to identify conditions that may give rise to fraud, waste, and abuse while strengthening the City's internal controls and improving overall operational efficiency.
6	Quality Control Review	Internal Audit	Professional standards require that the audit function has a system of quality control/assurance to ensure all necessary elements are in place and operating effectively. Each audit/project is reviewed by professional staff who are not directly assigned to the audit. The goal is to verify that sufficient, and appropriate evidence is gathered and documented to adequately support conclusions based on procedures that are designed to test relevant audit objectives (this includes consideration of fraud, professional judgment, competency, and supervision).
7	Risk Assessment: Enterprise	City-Wide	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.

#	Project	COH DEPARTMENT	Summary
8	Risk Assessment: Open Audit Findings	City-Wide	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.
9	Special Projects	City-Wide	An audit may be initiated based on the request by others. These audits will focus on a specific process or activity in response to a particular concern or suspicion.

APPENDIX 1: BACKGROUND AND AUTHORITY

CITY CONTROLLER

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. We adhere to:

1. Government Auditing Standards (GAS - commonly referred to as the “Yellow Book”) and
2. Global Internal Audit Standards as issued by the Institute of Internal Auditors (IIA - known as the “Red Book”).

AUDIT RESOURCE ALLOCATION

The Annual Audit Plan prioritizes our limited staff and emphasizes audits or projects with a perceived high or moderate risk profile rating. Specific risk factors related to internal controls, estimated liability and levels of exposure are used to identify and prioritize risks. As such, the City’s audit function serves as a risk evaluation resource to prevent fraud, waste, and abuse.

The number of audits or projects completed in a fiscal year are based on consideration and an evaluation of:

- Current Audit Division headcount (11).
 - Average number of hours used on a typical audit engagement (currently 1,200 hours per audit).
 - Other services provided by the City Controller's Office.
- Unplanned requests from the Mayor, Controller, City Council and/or other department management.

For audits or projects involving circumstances in which:

- the use of experts or specialists is necessary;
- the Office of the City Controller's organizational independence is impaired; or
- significant political sensitivity may exist,

the Office of the City Controller may elect to engage external consultants. A budgeted amount is authorized for the use of these resources.

If resources are available, we will also assist City management or City Council when special projects are requested. Our ability to assist will also depend on the context and priority of the request. If the assistance requires the use of external consultants, additional funds may need to be provided by the appropriate departments and/or City Council.

APPENDIX 2: AUDIT PLAN DEVELOPMENT

DEFINITION

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

DEVELOPMENT

Developing the Annual Audit Plan is a process. The professional auditing standards noted in the Background and Authority section require the Audit Plan to be based on a documented risk-based methodology. This is achieved by conducting an Enterprise Risk Assessment (ERA) annually for selected departments on a rotational basis to ensure efficiency and full coverage of all City departments over a four- to six-year period. Evaluation of the risk factors in the ERA process provides indicators for prioritizing potential audits and projects for the upcoming fiscal year.

In addition, input is gathered from a variety of sources including the City Council, department management, citizens, and results from previous audits. This points us in the direction of what audit projects to include in the audit plan.

Due to continued requests for audit services and the required testing for planned activities, the Annual Audit Plan will be monitored and revised as necessary throughout the year.

AUDIT PROGRAMS

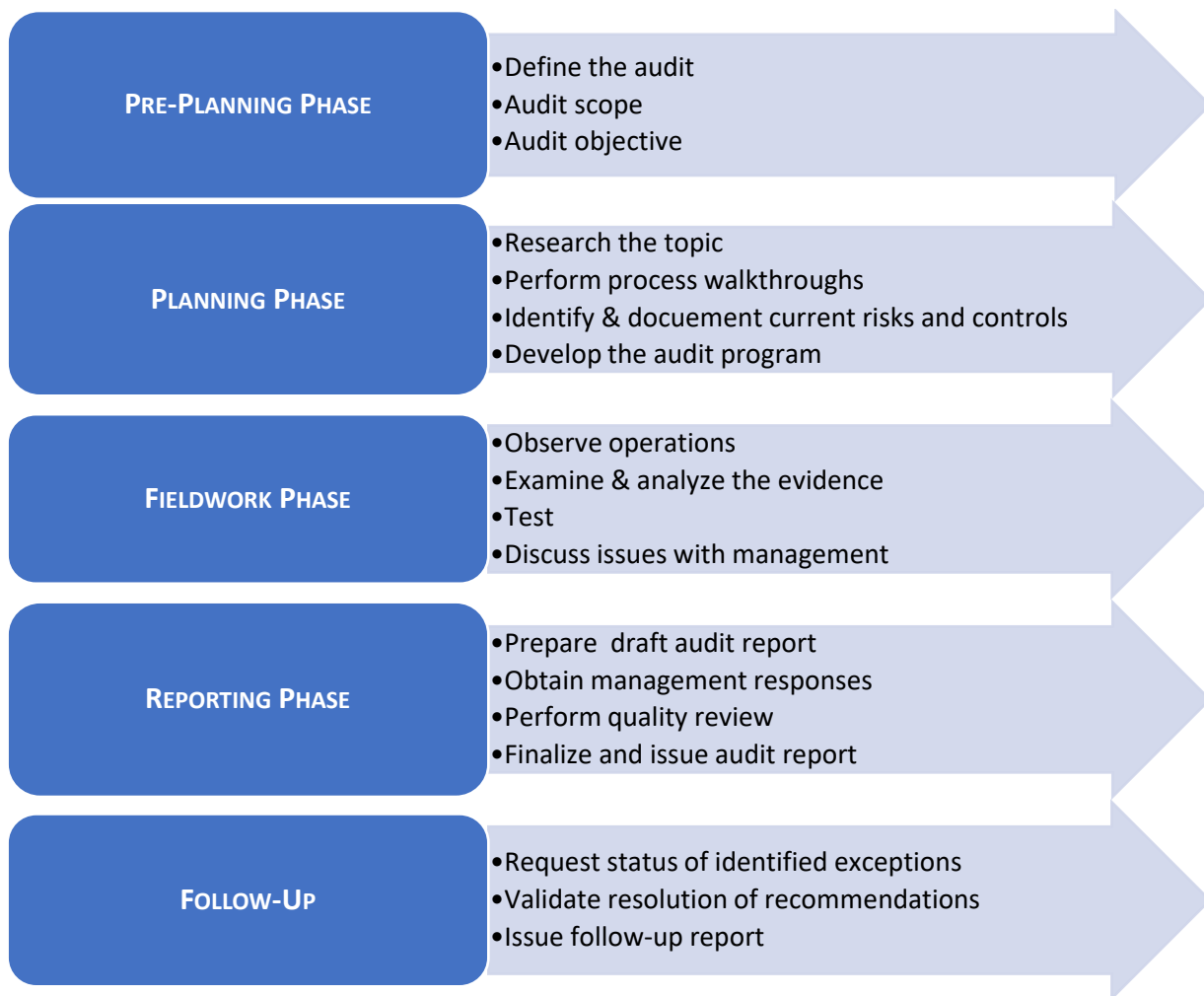
Execution of the Annual Audit Plan requires the development of specific audit programs for each activity to be audited. Audit programs will be designed with consideration for business services, compliance, performance considerations, management input and specialized skills to meet the specific audit 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.

Where applicable, disclosure of nonconformance will be provided.

ELEMENTS OF AN AUDIT

The audit process is depicted in the diagram below 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.



AUDIT PLAN AND STATUS UPDATE

The specific projects conducted throughout the year may be a subset of the list provided in the Audit Plan. The nature, extent and timing of audit activities will vary because of the differences in operations, organizational structure and resource availability.