OFFICE OF THE CITY CONTROLLER

FISCAL YEAR 2011

AUDIT PLAN

Ronald C. Green, City Controller

David A. Schroeder, City Auditor

Report No. 2011-01

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

RONALD C. GREEN

August 16, 2010

The Honorable Annise D. Parker, Mayor
City Council Members
City of Houston, Texas

SUBJECT: Office of the City Controller
Fiscal Year 2011 Audit Plan

Dear Mayor Parker and Council Members:

I am pleased to submit to you the Fiscal Year 2011 Audit Plan. The City Auditor recently requested input from your office, City Departments and City Council as to possible areas of audit resource concentration and incorporated them into the process. This document will serve as the primary work plan to carry out the audit responsibilities in an efficient manner. The basis of this year's Audit Plan was an Enterprise Risk Assessment performed by the Audit Division as required by the applicable professional auditing standards (report to be issued under separate cover). To enhance our effectiveness, our approach is balanced by conducting the audits using in-house staff and by outsourcing some projects requiring certain technical or specialized skills.

This Audit Plan includes performance, compliance, monitoring, continuous auditing, and unannounced audits. Additionally, the plan provides for follow-up procedures and special projects.

We have begun an Audit Advisory Group (AAG), initially set-up to meet twice a year for status and progress of executing the Audit Plan and to discuss other pertinent audit issues. The AAG involves voluntary participation as coordinated by my Office, scheduled to meet twice during the fiscal year.

Respectfully submitted,

Ronald C. Green
City Controller

Xc: Waynette Chan, Chief of Staff, Mayors Office
        Lloyd Waguespack, Deputy Chief of Staff, Mayor's Office
        Department Directors

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BACKGROUND AND AUTHORITY –

The City Controller is an independently elected official who is granted the authority (through the City Charter, Article VIII, Section 7) 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 Audit Division, whose scope of work is contained under a separate Charter. Audit results are issued to the Mayor, City Council Members and Department Directors.

AUDIT DIVISION ORGANIZATION –

During FY2010, the previous City Auditor retired and was replaced by an existing employee familiar with the City; the function and mission of the Office of the City Controller; and the day-to-day operations of the Audit Division. The transition has prompted a change to the organizational structure which further accommodates the mission and objectives of the Audit Division as stated in its Audit Charter.

Each of the operating sections within the Audit Division provides audit related services as their primary focus. However, as auditors receive additional training, certifications, and experience, they will be better able to provide other services now commonly outsourced and/or those that have not been previously performed.

APPROACH AND METHODOLOGY –

The Audit Division adheres to: 1) the *Government Auditing Standards* (GAS – commonly referred to as the "Yellowbook") as promulgated by the Government Accountability Office (GAO) and 2) the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA – known as the "Redbook"). To assure compliance with these professional standards, the Audit Division undergoes a peer review every 3 years.

The Annual Audit Plan is a *flexible* commitment of the Audit Division within the Office of the City Controller to perform engagement activity related to the responsibility and authority identified in the City Charter as quoted above. The Audit Plan, which is approved by the City Controller, serves as a working document that considers items such as; the Enterprise Risk Assessment (ERA), input from City Council and Department Management, results from previous audits, etc. Due to the continual requests for audit services, the increasing demand for non-audit services, and the required testing for planned activities, the Audit Plan will be monitored and revised as necessary throughout the year. To enhance communication and facilitate transparency, the City Controller has initiated an Audit Advisory Group which is scheduled to meet twice a year.

The professional standards noted previously require that the Audit Plan be rooted in risk-based methodology. Historically, the Audit Division has outsourced its risk assessment process to external consultants and utilized the results provided in a report to assist in developing the annual audit plan. The previous risk assessments had been performed in 1994, 1999, and 2004 respectively. In FY 2010, the Audit Division conducted the ERA internally and utilized approximately 3 full-time equivalents (FTEs) approximating 6,000 hours. The information gathered throughout that project serves as the underpinning to this year's Audit Plan. ***Highlights of the ERA are provided in the following section.***[1]

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[1] FOR DETAILED BACKGROUND, METHODOLOGY, AND RESULTS OF THE ERA, SEE REPORT PROVIDED UNDER SEPARATE COVER.

ENTERPRISE RISK ASSESSMENT (ERA)[2] –

The ERA process began with preliminary planning, which involved; research of current professional standards as they relate to an ERA, a review of previous risk assessment reports, and industry best-practices. The assessment was then framed based on available resources, time constraints, and cost-benefit considerations. The ERA performed during the FY 2010 utilized six professional staff from the Audit Division who performed approximately 175 interviews with more than 280 different City employees that involved all City Departments.

The Audit Division uses a template similar to the previous assessments performed by outside consultants. The substance from which the risk assessment decisions were made came from a combination of:

- Review of financial data (FY2009 actual);
- Identifying and creating weighted risk criteria as a basis for rating;
- Analyzing completed management self-reporting questionnaires;
- Conducting Audit team discussions and interviews with responsible management;
- Performing Audit team reviews of all relevant data;
- Identifying the auditable units (entities) to which ongoing assessments can be made;
- Assessing risk ratings and applying to each entity;
- Accumulating and aggregating the individual auditor's assessment of each entity;
- Providing the opportunity for review by and obtaining feedback from all department management

The ERA engagement was performed using three basic components; Data gathering, Analysis, and Output.

DATA GATHERING	ANALYSIS	OUTPUT
Previous Risk Assessments *Mission Statement* *Organizational Structures* *Business Objectives* *Questionnaires* Financial Data City and Department Websites *Interviews*	Analyze interview/discussions *Identify Key Business Processes* *Identify Potential Risks* *Identify Risk Management techniques as stated by management* Map identified risks to stated risk management techniques Evaluate process significance to the Department and overall City operations Department-level risk assessments and validate with management	Citywide business risk profile *Audit Division Planning tool*

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[2] FOR DETAILED BACKGROUND, METHODOLOGY, AND RESULTS OF THE ERA, SEE REPORT PROVIDED UNDER SEPARATE COVER.

KEY BUSINESS PROCESSES –

In context of the ERA, "Key Business Process" is defined as a vital business procedure, function or activity on which a Department spends a significant amount of financial or personnel resources to perform, or an activity over which they have primary responsibility within the City. Key Business Processes also represent areas upon which audits or reviews can be conducted by internal auditors or external consultants. We identified 19 Key Business Processes that are common throughout most Departments.

The common Key Business Processes are identified as follows:

- Administration
- Communications
- Compliance
- Customer Service
- Disaster Recovery
- Facilities Management
- Financial Management
- Fleet Maintenance
- Grant Management Human Resources (HR)
- Inventory/Materials Management

- Information Technology (IT)
- Payroll
- Procurement
- Project/Construction Management
- Public Safety
- Records Management
- Revenue Generation (and Collection)
- Security
- *Specific Operational*

NOTE: 'Specific Operational' is made up of processes that are unique to the operations of the various Departments (e.g. "Call-Taking" for the HEC center, "Certification" for MWDBE for AACC, "Collection" for Solid Waste, etc.)

RISK RATINGS –

It is important to clarify the factors in determining the levels of risk as shown in the graphs below. For audit purposes, risk is evaluated by distinguishing between types of risk. For purposes of the ERA and its support for the Annual Audit Plan, the following definitions are provided:

INHERENT RISK – the perceived likelihood and impact associated with an entity or activity that exists simply from the perspective of its current environment. This assumes no significant actions taken by management to mitigate (address) those risks. For example, the City of Houston has *inherent risks* associated with its geographic location, funding sources, population, global economy, structure of federal and state government, etc. This can then begin to be refined to the Departments within the City government.

CONTROL RISK –the perceived likelihood and impact of deficiencies in management controls put in place to ensure the achievement of objectives, protection of assets, financial reporting, etc. These are based on managerial decision-making, risk management techniques and strategy, which are generally within the accountability and control of operational management. For example the design of the organizational chart, structure of reporting lines, and development of major processes to execute the mission and objectives are high-level examples of management controls and risk management techniques.

RESIDUAL RISK – the level of impact and likelihood of an adverse event occurring to impede the City, Department, and/or Key Business Processes from achieving success *after identifying and testing of management (internal) control structure.*

AUDITOR RISK – this is the probability that the Auditor will render erroneous conclusions to the audit objectives based on; insufficient and/or inappropriate evidence, lack of reasonable auditor judgment, lack of proficiency or competency, lack of sufficient resources or tools to perform substantive procedures.

The following graphs summarize the Audit Division's assessment of risk from two different perspectives: (1) Key Business Processes and (2) Department. Each Key Business Process was evaluated within each department and then rated based on the weighted criteria below:

- Complexity of Operations
- Council & Public Interest
- Financial Impact/Concerns
- Human Resources Concerns
- Regulatory and/or Compliance Risk/Concerns
- Technology Concerns
- Time Since Last Audit
- Mission Criticality
- Internal Control Consideration (as reported by management)
- Legal Claims
- Public and Employee Safety Concerns

The ERA considered primarily inherent risks, with limited identification of control risk as self-reported by management. We did not substantively test specific management controls in detail and therefore do not render an opinion on the effectiveness of design nor the efficiency in implementation or existence. The ratings do not imply a judgment on how management is addressing risk and thus is not a specific assessment of management performance nor concludes on 'Residual Risk'. The actual projects[3] performed will allow us to test more comprehensively where necessary. Additionally, as we continue the annual ERA, we will be able to bring the assessment to a deeper level, and thus help us to effectively adjust our course and focus our efforts.

The ratings were ranked by applying each Key Business Process within each Department to the weighted criteria identified above. For example, a "High" rating indicates that conditions and events which prevent the City from achieving its objective within that process could have a significant impact in terms of disruption to essential services, financial loss, ability to protect public health and safety, impediments to economic development, or negative perception. In contrast, a "Low" rating indicates that the impact of such an occurrence would be minimal.

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[3] NOTE: Where the term 'projects' is used in the Audit Plan, this includes audits, reviews, monitoring, and other ongoing procedures, etc.
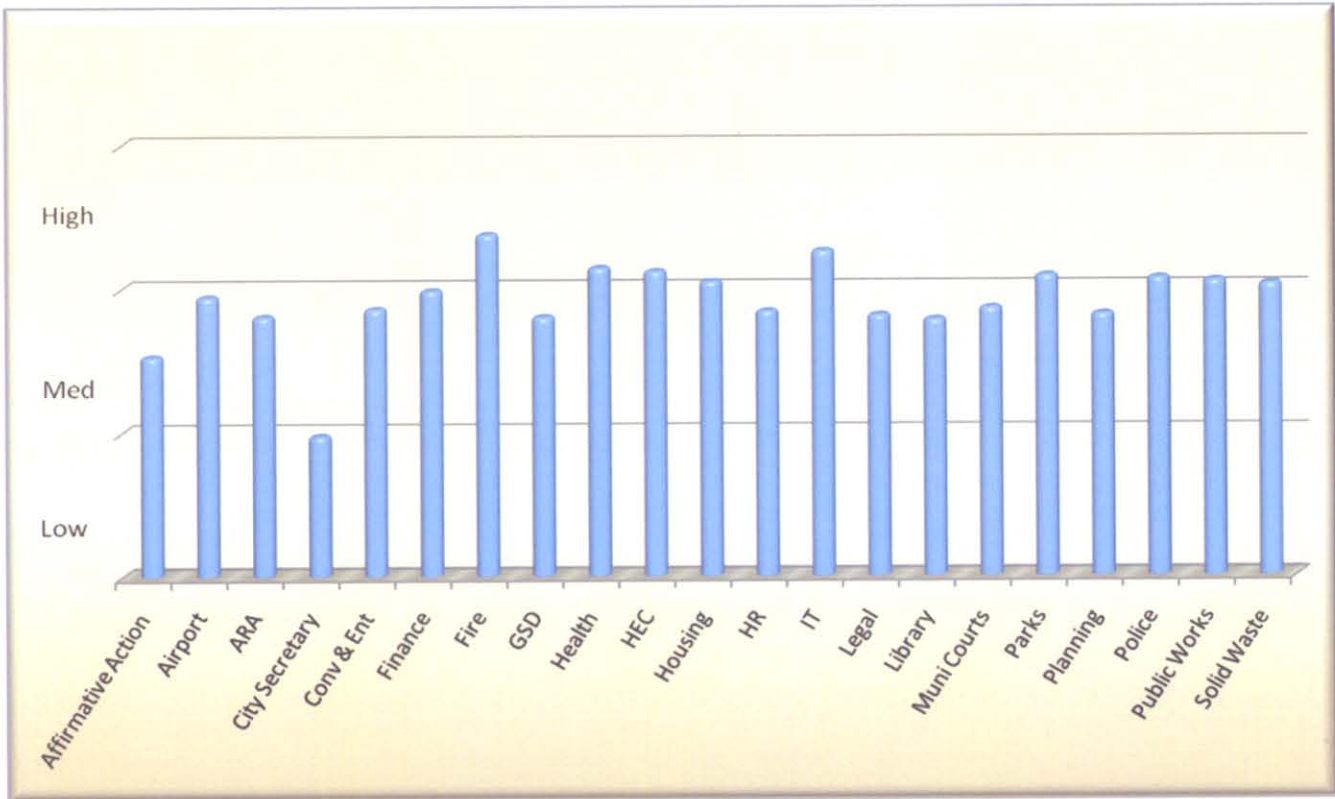
GRAPH 1 – RISK PROFILE BY KEY BUSINESS PROCESS –

NOTE: The risk assessment indicated that the areas of: Disaster Recovery, Grant Management, Project/Construction Management, Public Safety, Security, Compliance, Facilities Management, Fleet Maintenance, IT, and Payroll fall within the high risk category (*Graph 1 above*).

GRAPH 2 –RISK PROFILE BY DEPARTMENT[4] –

Evaluating all of these various factors provides indicators on prioritizing the potential projects for the upcoming year. In other words, this points us in the direction of *what* to audit. We then identify the available resources to determine the volume of activity to include in our plan (see Audit Resource Allocation section below).

AUDIT RESOURCE ALLOCATION –

Annually, the Audit Plan prioritizes the Audit Division's limited resources of budgeted staff and funds based on the previously referenced risk assessment. The Audit Plan, therefore prioritizes expending efforts on either common Key Business Processes or Departments having a perceived high or moderate risk profile rating. 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.

The quantities of projects that are proposed are based on consideration and an evaluation of:

- Current headcount within the Audit Division;
- Average number of hours used on a typical audit engagement[5];
- Other types of ongoing services that the Controller's Office provides; and
- Unplanned requests from Mayor, City Council, or other Department Management,

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[4] "Muni Courts" includes both: Municipal Courts-Judicial and Municipal Courts-Administration
[5] The Audit Division is a member of the Association of Local Government Auditors (ALGA), which provides aggregated data on internal auditing for local governments, including resource utilization (average number of hours per project.

USE OF EXTERNAL CONSULTANTS

For projects that involve circumstances where; the use of experts/specialists is required, independence of the Audit Division as an organization is impaired, or where there is the potential for significant political sensitivity, the Office of the City Controller may elect to use external consultants. A budgeted dollar amount is maintained for the use of these resources that are selected through the City's contract and procurement process (including approval of the Mayor and City Council).

AUDIT PROGRAMS –

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, 2011. The audit programs will be designed with regard to business services, compliance, requirements, performance considerations, management input, 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 Standards for the Practice of Internal Auditing (*Red Book*). Where applicable, disclosure of nonconformance will be provided.

STATUS AND UPDATES TO AUDIT PLAN –

The specific projects conducted throughout the year may be a sub-set of the listing provided in the Audit Plan. As indicated earlier, the Annual Audit Plan is a flexible commitment to complete projects selected based on several inputs (risk, requests, changing circumstances, and discovery of relevant information) that involve estimation and subjectivity, albeit according to a professional methodology. The nature, extent, and timing of 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.

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

Executing the Audit Plan involves an update and status process that is performed monthly between the City Auditor and the City Controller. Additionally, the Audit Division posts a high-level status report on the Audit Division website, accessible from the City Controller's Webpage. Post-Audit Surveys are completed and Requests for Audit Services are also available from the Audit Division website. As mentioned earlier, the City Controller has initiated an Audit Advisory Group which is scheduled to meet twice a year that will enhance communication and facilitate transparency of the Audit function.[6]

The following section identifies projects that meet the criteria for performing our services and represents the starting point from which to execute the Annual Audit Plan for the FY 2011.

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[6] The Audit Division has a website accessible from the Controller's website, which post results of audits, follow-up procedures, and status of progress. SEE: http://www.houstontx.gov/controller/audit

FISCAL YEAR 2011 PLANNED ACTIVITY (PROJECTS)

The following is a list of projects for the FY 2011 Annual Audit Plan. *As mentioned earlier, the plan is a living document that adjusts and is flexible based upon other factors that may develop throughout the year.* The audit process, while often tracked in a linear fashion, is truly dynamic and reacts to evidence, impact, and magnitude of discovery occurring during the entire engagement process. That being the case, the list provided, gives a population of projects from which to execute. The Office of the City Controller's Audit Division has initiated an Audit Advisory Group, which will be a vehicle for interaction between the governing body, operations, and the monitoring group. This will also provide a level of transparency and accountability for meeting our goals and objectives as set herein.

COMPLIANCE AUDITS

HOUSTON AIRPORT SYSTEM (HAS)–

1. **CONTRACT COMPLIANCE AUDIT - CONSTRUCTION ACTIVITY (USE OF EXTERNAL CONSULTANT)**

DESCRIPTION: HAS engages in significant contract activity for airport, terminal, facilities, security, maintenance, improvements, and repairs. HAS generates revenue from gate and concession contracts, parking, and additional revenue sharing agreements with private enterprises that service air transport and other logistical activities. One construction contract type that has potential for cost recovery and effective partnership is referred to as a Construction Manager at Risk (CMAR). This is a contract whose billings are based on actual costs which will be audited to ensure underlying activities are measureable and accurate at a determinable cut-off period (closeout of Phase 1).

ANTICIPATED BENEFITS:

Stronger Controls

Improved Risk Management

Cost Savings

NOTE: This audit is a collaborative effort involving the Controller's Office, HAS, and an external consultant. This will provide substantive results in addition to knowledge transfer from the external consultant to both the Controller's Office and HAS. The cost of the external consultant is a shared cost based on mutual benefit of operations and fiscal oversight.

HAS (cont.)

2. CONTRACT COMPLIANCE AUDIT – CONCESSION CONTRACTS

DESCRIPTION: HAS has several contracts for concessions, parking management and off-site parking. The concession contracts and the off-site parking are based primarily on self-reporting by the vendor, while the parking management is a paid contractor to handle cash for the parking facilities located at the various airport terminals. The estimated revenue for terminal parking is $65 - $70 million per year. The audit team will perform a contract compliance audit of the self-reporting vendors for concessions and the internal controls associated with the cash handling procedures performed by the vendor managing the airport terminal parking lots.

ANTICIPATED BENEFITS:

Improved Accountability

Cost Savings

Stronger Controls

PUBLIC WORKS AND ENGINEERING DEPARTMENT (PWE) –

3. COMPLIANCE AUDIT – CONSTRUCTION-IN-PROGRESS – CONTRACT/BILLING ESTIMATES

DESCRIPTION: During FY2010, PWE had approximately $770 million in Construction in progress. Additionally, the department engages in a significant number of construction contracts. The audit team will verify Construction-in-Progress set-up and accuracy according to GASB and City Policies and Procedures. To evaluate contract compliance, the audit team will utilize the current billing estimates as a source population to select and test at regular intervals. This will provide coverage of multiple contracts and processes involved on a continual basis.

ANTICIPATED BENEFITS:
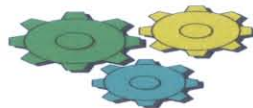
Stronger Controls

Increase Efficiency

Improved Accountability

ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT (ARA) –

1. PERFORMANCE AUDIT –VENDOR MASTER LIST

DESCRIPTION: The vendor master file potentially contains a significant number of redundancies and errors that contribute to the possibility of duplicate payments, and excessive override activity. One such activity is the use of a type/category of vendor intended for one-time (exception) basis. Because of some other possible process inefficiencies, this type of vendor is sometimes used as a way to address temporary payroll situations, etc. Initial testing of this process has begun and the audit is a part of the initiative to implementing a continual auditing process that collaborate resources from the Controller's Office and ARA to eliminate duplication, and provide a basis for ongoing monitoring.

ANTICIPATED BENEFITS:

Stronger Controls

Improved Risk Management

Increase Efficiency

NOTE: See also 'Data Analytics and Continuous Monitoring' on page 16

GENERAL SERVICES DEPARTMENT (GSD) –

2. PERFORMANCE AUDIT – JOB ORDER MAINTENANCE VS. REPLACEMENT COSTS

DESCRIPTION: Maintenance, repair and improvements are a significant portion of the City's asset base. Most of these are performed under the control of GSD and includes consideration of scheduling maintenance, replacement, etc. The audit will focus on the efficiency of balancing scheduled maintenance over time on selected assets vs. the cost to replace. This would also reflect the risk of deferral to repairs in time of economic and budgetary challenges.

ANTICIPATED BENEFITS:

Stronger Controls

Cost Savings

Increase Efficiency

Improved Accountability

HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT (HCDD) –

3. PERFORMANCE AUDIT - REVIEW OF GRANT MONITORING

DESCRIPTION: HCDD receives more than 90% of its funding from federal grants and has experienced turnover in executive management 3 times in the last 5 years. There were significant findings in prior years that have jeopardized continued funding through the Department. The audit will focus on creating an ongoing process that reviews the departments monitoring mechanism and creates an opportunity for a collaborative effort with the Department to help ensure that a strong system of internal controls and compliance exists.

HOUSTON DEPARTMENT OF HEALTH AND HUMAN SERVICES (HDHHS) –

4. PERFORMANCE AUDIT - REVIEW OF GRANT MONITORING

DESCRIPTION: HDHHS receives a significant amount of funding from federal grants (approximately 52 to 53%). As either the final spending authority and/or as a pass-through entity, the department has the responsibility for compliance and/or monitoring sub-recipients. The audit will focus on creating an ongoing audit process that reviews the departments monitoring mechanism and creates an opportunity for a collaborative effort with the Department to help ensure that a strong system of internal controls and compliance exists.

ANTICIPATED BENEFITS (BOTH #3 & 4):

Stronger Controls

Improved Accountability

PARKS AND RECREATION DEPARTMENT (PARD) –

5. PERFORMANCE AUDIT[7] OF GOLF COURSES

DESCRIPTION: PARD has four City-run golf courses and three that are run by contracted parties (privatized). This is an enterprise activity with significant cash handling responsibilities and non-integrated accounting systems. The audit is focused on selecting a combination of both City-run and privatized golf courses to engage in a performance audit of internal controls over revenue recognition/recording, cash handling, expenses, inventory, and fixed assets.

ANTICIPATED BENEFITS:

Stronger Controls

Cost Savings

Increase Efficiency

Improved Accountability

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[7]NOTE: The Audit Team will be considering compliance factors in performing an Audit on the Privatized Golf Course, while also executing a Performance Audit of the City-run locations.

CITY-WIDE –

6. PERFORMANCE AUDIT – FLEET MAINTENANCE/MANAGEMENT

DESCRIPTION: Several City Departments acquire, maintain, and dispose fleet vehicles that vary from standard automobiles (fuel, hybrid, and electric), trucks (pick-up, straight, dump, etc.), heavy equipment, and specialized vehicles for specific purpose (Fire, EMT, waste, etc.). A large number of these include take-home vehicles for personnel required to respond 24 hours a day, 7 days a week. The audit team will examine either the fleet maintenance or take-home vehicles for selected Department(s)
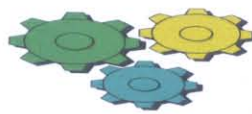
ANTICIPATED BENEFITS:

Stronger Controls

Cost Savings

Increase Efficiency

Improved Accountability

NOTE: The most significant Departments related to fleet are; HFD, Houston Police Department (HPD), PWE, PARD, and Solid Waste Management Department (SWM).

SPECIAL PROJECTS & ONGOING MONITORING PROCEDURES

1. A-133 SINGLE AUDIT ASSISTANCE = 1,750 HOURS

DESCRIPTION: The external audit of the Comprehensive Annual Financial Report (CAFR) has typically involved approximately 2,000 hours of billable time to perform testing and preparing the report associated with grants that are subject to the A-133 compliance requirement. Due to the recovery act, the required amount of testing has substantially increased. These services represent a significant portion of the annual audit, in part, because of material weaknesses and deficiencies identified during the auditor's previous years fieldwork. These results rate the City as a "non-low risk" entity which creates the need to perform additional substantive work for the external auditors to render their opinion. The Audit Division's involvement in this process is to perform the substantive testing for the grant programs, thus reducing associated A-133 fees by at least 50-75% in the first year. There are synergetic benefits beyond the immediate cost-savings. The mid and long-term goals are to increase knowledge of the significant grant activities that the City is involved in and to help the City achieve an assessment of a "low risk" entity, which reduces the required A-133 testing by 50%. Additionally, this becomes a mechanism that assists City Management in designing and developing a stronger internal control structure. This also results in a further reduction to the required substantive testing because the external auditor is then able to rely on internal controls in performing the rest of the financial statement audit. Further benefits also come from identifying inefficiencies in business processes and helping identify, develop, and share best practices.
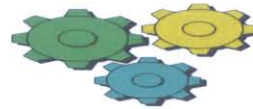
ANTICIPATED BENEFITS:

Stronger Controls   Cost Savings   Increase Efficiency

2. ENTERPRISE RISK ASSESSMENT

DESCRIPTION: Each year the Audit Division develops the Audit Plan based upon risk (primarily business, financial, operational, etc). Historically this process was outsourced, having been performed in 1996, 1999, and 2004. In FY2010, the Audit Division assigned a team to perform this assessment internally. Key benefits were gains in significant knowledge, goodwill, and succession planning by having a diverse team exposed to all the major operations of the City. Professional auditing standards (both GAO and IIA) require audit resources to be allocated to projects based on continued risk assessment methodology. Going forward, annual risk assessments will be performed on approximately 5-6 Departments per year, allowing full coverage of the City on a recurring 4-year rotation.

ANTICIPATED BENEFITS:

Stronger Controls   Increase Efficiency

3. AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) MONITORING

DESCRIPTION: The stimulus program initiated by the federal government has awarded the City approximately $150 million to date, with the associated expenditures being approximately $20 Million as of March 2010. Because there are additional reporting requirements associated with this funding, its intended purpose, and transparency, the Audit Division is implementing a monitoring process specific to this activity.

ANTICIPATED BENEFITS:

Stronger Controls

Improved Accountability

4. FOLLOW-UP PROCEDURES

DESCRIPTION: As issues are identified during the course of conducting audits/engagements, they are documented and reported accordingly. In order for to help initiate change and continued improvement, we are modifying our follow-up procedures to effectively monitor progress on implementation of management responses to our recommendations. Rather than perform follow-up audits, we will be communicating with responsible management at regular intervals, inquiring as to the progress on implementation of corrective actions. These communications will be formally documented and published. Additionally, a sample of items will be tested on a periodic basis, depending on the magnitude, impact, and cost-savings with the results published as well.

ANTICIPATED BENEFITS:

Stronger Controls

Cost Savings

Increase Efficiency

Improved Accountability

5. FRAUD HOTLINE/REPORTING

DESCRIPTION: The Office of the City Controller provides two primary vehicles for reporting fraud, waste and/or abuse: (1) Fraud Hotline that accesses the Audit Division within the department and (2) a link to report fraud available from both the Controller's and Audit Division Websites. Additionally, the Audit Division provides auditing support based on requests from the OIG and/or other authorities. Each reported concern has to be validated and potentially investigated. This may result in performing substantive procedures, such as an audit, or may be referred to an outside agency or department for follow-up. The initial contact, work performed, conclusions and/or referral are documented to support their disposition. In some instances, this may also require subsequent follow-up or monitoring to adequately resolve. This is a function performed by the Audit Division on a regular basis and has direct involvement by professional staff that are licensed Certified Fraud Examiners.

DATA ANALYTICS AND CONTINUOUS AUDITING

DESCRIPTION: 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 2011 based upon resource availability[8].

The first phase of Continuous Auditing is integrating the tools capabilities within the Enterprise Resource Planning (ERP) 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:
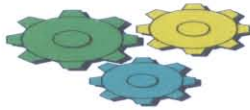
- . Payroll
- Accounts Payable
- Purchasing/Procurement Cards (P-Cards)
- Accounts Receivable

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

ANTICIPATED BENEFITS:

Cost Savings   **Increase Efficiency**   **Improved Accountability**

UNANNOUNCED AUDITS

DESCRIPTION: 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/Controls)

ANTICIPATED BENEFITS:

Stronger Controls   **Cost Savings**   **Improve Reporting**

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[8] **NOTE:** In order to continue successful implementation, the Audit Division needs to fill a current vacancy with the specialized skills to utilize CAATs.