OFFICE OF THE CITY CONTROLLER

CITY OF HOUSTON

2011 ENTERPRISE RISK ASSESSMENT

Ronald C. Green, City Controller

David A. Schroeder, City Auditor

Report No. 2012-05

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
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RONALD C. GREEN

November 29, 2011

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

SUBJECT: REPORT #2012-05
CITY OF HOUSTON – 2011 ENTERPRISE RISK ASSESSMENT

Dear Mayor Parker:

I'm pleased to submit to you the Enterprise Risk Assessment (ERA) performed by the Controller's Office Audit Division during Fiscal Year (FY) 2011. As you are aware, this is a process that supports our efforts in developing the Annual Audit Plan (see Report #2012-01) and deploying the necessary resources to execute.

As noted in last year's ERA report (#2011-02) the process going forward is being performed annually by selecting and updating five to six departments each fiscal year. This approach provides full coverage of all City Departments over a four to five year period rather than re-perform the entire process every year. Our methodology is consistent with professional standards and considers available resources, cost-benefit, and will allow us to advance the quality of the assessment each cycle.

In selecting the departments to update, we identified and considered several factors, including "Notable Changes since the FY2010 Enterprise Risk Assessment" (See Executive Summary, p.2). Based on this, the five departments selected and updated for the FY2011 ERA were:

- General Services Department (GSD)
- Housing and Community Development Department (HCDD)
- Houston Emergency Center (HEC)
- Legal Department (Legal)
- Public Works and Engineering Department (PWE)

The ERA Report contains two sections: Executive Summary and Separate Risk Profiles organized by key business processes within each department. There are two primary perspectives that are graphically presented within the Executive Summary, and shown in detail within each Risk Profile. These perspectives are described as follows:

KEY BUSINESS PROCESSES – analyzed by common functions performed across the organization, which can reveal potential efficiencies, overlap, redundancies, synergies, and leverage of resources. This perspective is looking at activities that the City performs without consideration of its organizational structure; and

DEPARTMENTAL - analyzed in terms of the impact and likelihood of risk associated with the organizational design in executing the City's overall mission and objectives.

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We appreciate the cooperation and professionalism extended to the Audit Division during the course of the project by personnel from GSD, HCDD, HEC, Legal, and PWE.

Respectfully submitted,

Ronald C. Green
City Controller

xc: City Council Members
       Chris Brown, Chief Deputy City Controller
       Waynette Chan, Chief of Staff, Mayor's Office
       Andy Icken, Chief Development Officer, Mayor's Office
       Scott Minnix, Director, General Services Department
       Jim Noteware, Director, Housing and Community Development Department
       David Cutler, Director, Houston Emergency Center
       Daniel Krueger, Director, Public Works and Engineering Department
       David Schroeder, City Auditor, Office of the City Controller

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ENTERPRISE RISK ASSESSMENT (ERA) –

PURPOSE AND INTRODUCTION

The Audit Division within the Office of the City Controller adheres to professional standards issued by the Government Accountability Office (GAO's *Yellowbook*) and the International Standards of the Professional Practice of Internal Auditing (*Redbook*) per the Institute of Internal Auditors (IIA). Both sets of standards require a risk-based approach to identify the scope and objectives of the audit planning and to properly design audit procedures. The *Redbook* specifically requires an Enterprise Risk Assessment process be performed annually as a primary driver to support the annual audit plan, while the *Yellowbook* requires that risk be considered at the engagement/process level.

As such, the Audit Division applies risk-based methodology in the following manner:

- Annual ERA on all major processes within five to six departments, which then provide a basis for input to the Audit Plan
- Risk Assessment procedures at the Engagement/Audit project level
- Risk Consideration in rendering conclusions and determining the impact and magnitude of findings and preparing the final audit report

NOTABLE CHANGES SINCE THE FY2010 ENTERPRISE RISK ASSESSMENT

Some of the significant structural and operational changes noted throughout the City are:

- The City laid off over 700 employees in various departments during FY2011 and mandated furloughs for non-classified employees not working in the Public Safety departments
- The City cut its operating budget by approximately 5 percent for FY2012
- A new Department (Fleet Management) was created that consolidated fleet maintenance and management activities previously performed within each of the following departments Houston Police Department (HPD), Houston Fire Department (HFD), Solid Waste Management Department (SWM) and Parks and Recreation Department (PARD). NOTE: Public Works and Engineering Department (PWE) and the Housing and Community Development Department (HCD) still maintains their own vehicles.
- Vehicle and equipment repair parts inventory was sold to NAPA along with a contract to maintain and provide adequate inventory levels on an immediate work order basis (as needed).
- The Convention and Entertainment Facilities Department was merged with Houston Convention Center Hotel Corporation forming a new local-government corporation known as Houston First.
- The Affirmative Action and Contract Compliance Division became Office of Business Opportunity that became part of a new department titled the Department of Neighborhoods, which also includes Citizens Assistance Office, 311 Services as divisions therein.
- A new contract was signed to address health benefits. This shifted the risk from the insurance company to the City by becoming self-insured using the services of an Administrator (CIGNA)
- Since end of FY2010; General Services Department (GSD), Housing and Community Development Department (HCDD), Information Technology Department (ITD), Legal Department, Finance Department (FIN), PWE, Municipal Courts, and Houston Airport Systems (HAS) all had new Directors appointed between FY2010 and FY2011.

BACKGROUND AND METHODOLOGY –

As indicated in the Annual Audit Plan (see Report# 12-02 FY2012 Controller's Audit Plan), The professional standards noted above 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 three full-time equivalents (FTEs). Starting with the FY2011 ERA[1], the process is being performed annually with selected Departments on a rotational basis for efficiency and to ensure full coverage of all City Departments over a four to five year period.

The FY2011 ERA process began with; preliminary planning, a review of last year's risk assessment report, consideration of Audit Reports issued during the FY, and significant changes that took place within the City (e.g. change in management, organizational restructure, change in major processes, etc.).

The assessment was then structured based on available resources, time constraints, and cost-benefit considerations. The ERA performed during the FY 2011 utilized three professional staff from the Audit Division who performed interviews with key operational and management personnel from the following five City Departments:

- General Services Department
- Housing and Community Development Department
- Houston Emergency Center
- Legal Department
- Public Works and Engineering Department

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

DATA GATHERING	ANALYSIS	OUTPUT
Previous Risk Assessments ***Changes to the Dept/Process since Last ERA*** *Mission Statement* *Organizational Structures* ***Business Objectives*** ***Questionnaires*** Financial Data City and Department Websites ***Interviews***	Analyze interview/discussions ***Identify Key Business Processes and related changes*** ***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 Perform Department-level risk assessments and validate with management	***Updated City-wide business risk profile*** ***Audit Division Planning tool***

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[1] **REPORT# 2011-02 2010 CITY OF HOUSTON – ENTERPRISE RISK ASSESSMENT** was released in September 2011 and involved a review of all City Departments.

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.

While the City-wide analysis identified 145 total key business processes, it was discovered that 19 of them were *common* throughout most Departments, so they were grouped together for more efficient analysis. Thus Graph 2 provides a perspective to see potential efficiencies, overlap, redundancies, synergies, and leverage of resources when looking at activities that the City performs without consideration of its organizational structure [2](*For a contrasting perspective, see Graph 1)*.

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 OBO, "Collection" for Solid Waste, etc.) For purposes of the report '**Security'** was combined primarily within '**Public Safety'**.*

RISK IDENTIFICATION AND RATINGS –

It is important to clarify the factors in determining the levels of risk as presented in the graphs departmental risk assessments. 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.

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[2] The ratings were determined by applying each KBP within each Department to the weighted criteria identified in the ERA Process Section. A "High" rating indicates that conditions and events which prevent the City from achieving its objective(s) within that process could have a significant impact. This is measured 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 or the likelihood of occurrence is remote.

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 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 determined by applying each Key Business Process within each Department to the weighted criteria identified below. 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 or aggregated occurrences would be minimal.

The following graphs summarize the Audit Division's assessment of risk from two different perspectives: (1) Department and (2) Key Business Processes. *Each KBP 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

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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 DEPARTMENT[4] –
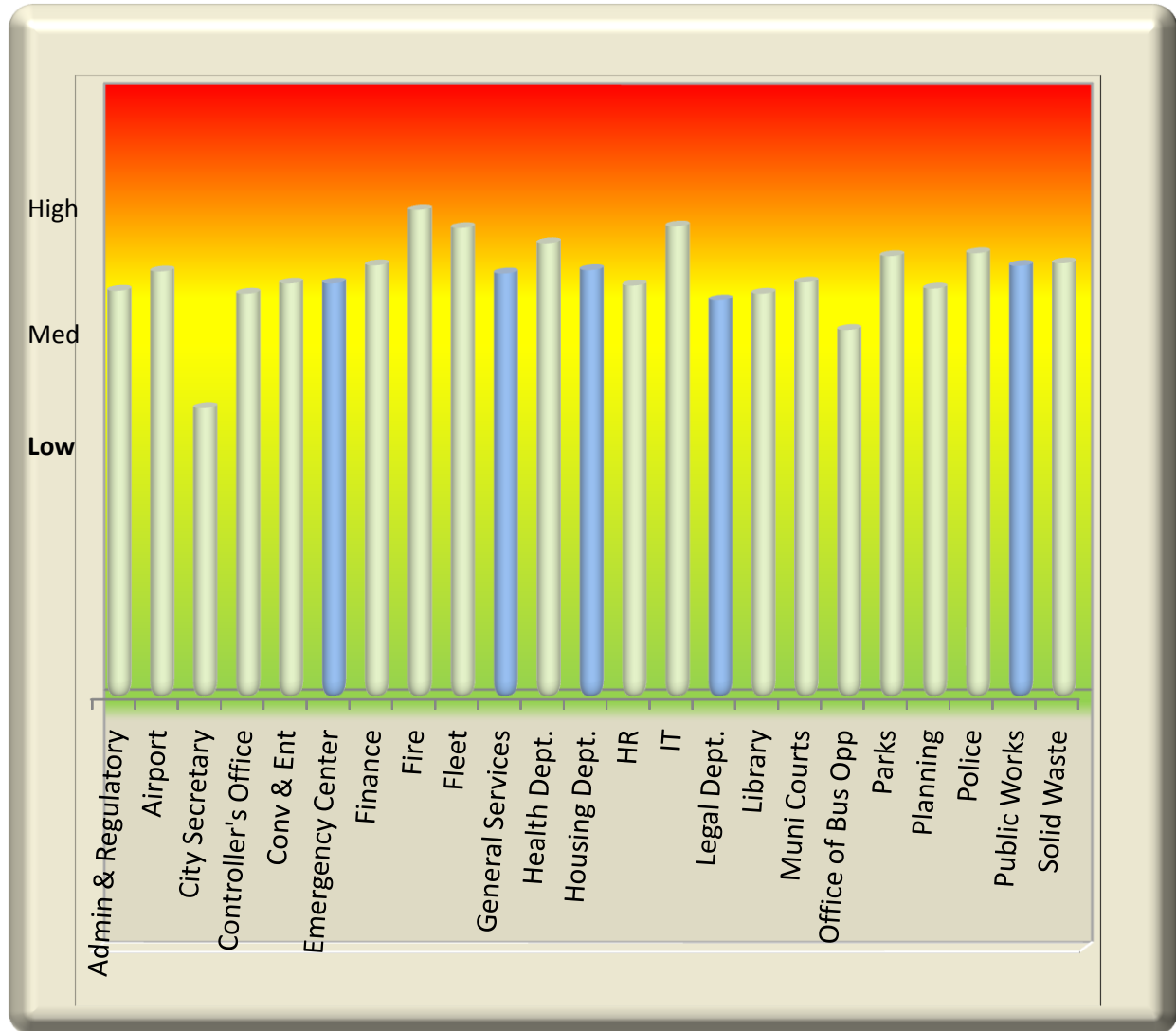
Evaluating all of these various factors provides indicators on prioritizing the potential projects for the upcoming year. In other words, this points us in the direction of "*what*" to audit. We then identify the available resources to determine the volume of activity to include in our plan.

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[4] The blue vertical bars represent the 5 departments updated for the FY2011 ERA. "Muni Courts" includes both: Municipal Courts-Judicial and Municipal Courts-Administration; Convention and Entertainment Facilities Department is shown based on the structure in place as of 06/30/2011

GRAPH 2 – RISK PROFILE BY KEY BUSINESS PROCESS[5] –
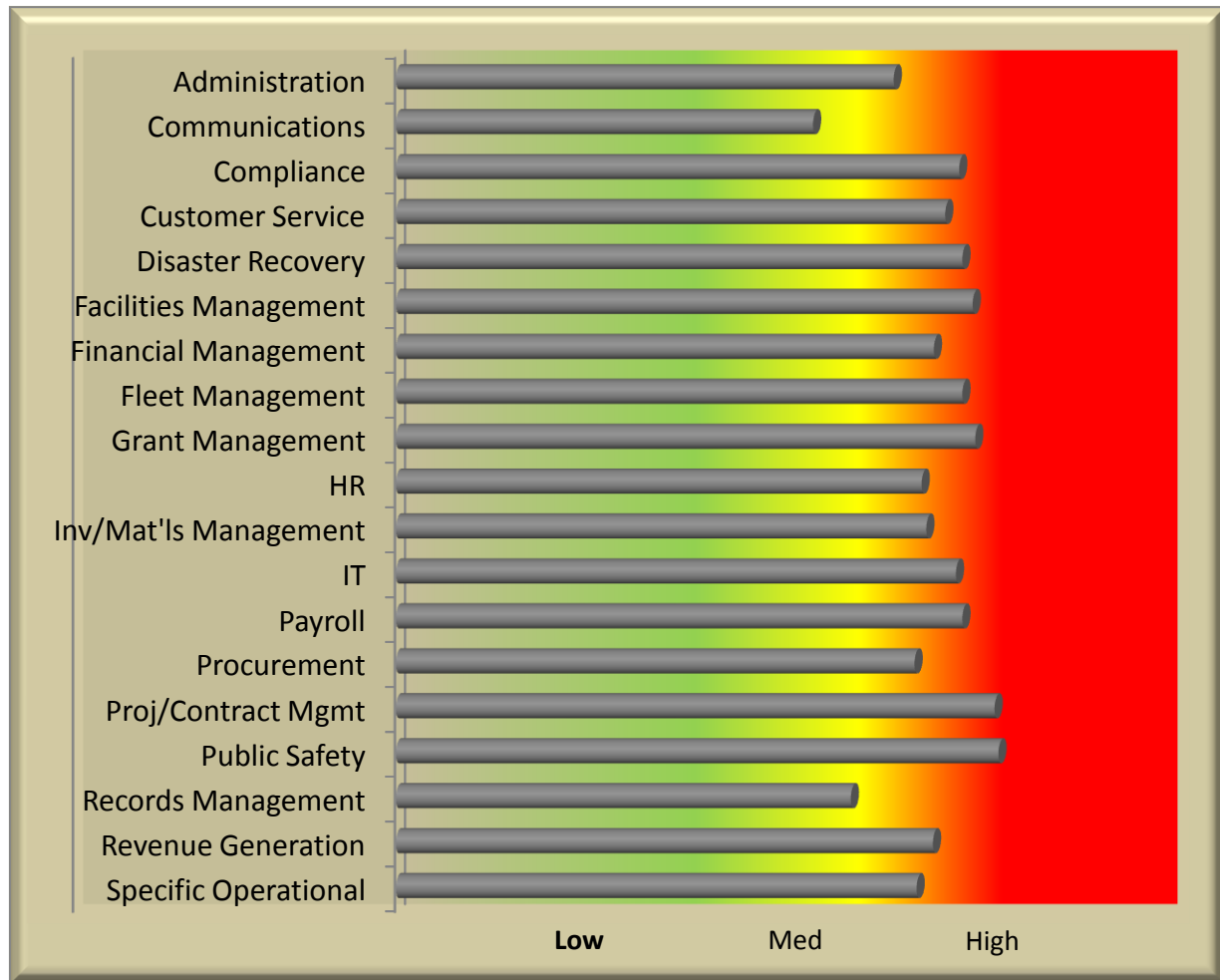
The risk assessment indicated that the areas of: Disaster Recovery, Grant Management, Project/Construction Management, Public Safety, Compliance, Facilities Management, Fleet Maintenance, IT, and Payroll fall within the high risk category (*Graph 1 above*).

OUTPUT –

The primary output of the ERA is to utilize the profile as one of the catalysts in designing the Controller's Office Annual Audit Plan. The changes in the risk profile of the City are reflected in some of the Audits selected to perform for FY2012. Of the High Risk processes identified above, the Audit Plan includes projects that will audit Project/Construction Management, Compliance, IT, HR (benefits) that reside within the following departments: GSD, HAS, HR, ARA, HCDD, PWE, PARD, Library, and FIN.[6]

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[5] **'Specific Operational'** is comprised of processes that are unique to the operations of the various Departments (e.g. "Call-Taking" for the Houston Emergency Center (HEC), "Certification" for Minority, Women, and Disabled Business Enterprise (MWDBE) for Office of Business Opportunity (OBO), "Collection" for Solid Waste, etc.)

[6] See **REPORT 2012-02 FY2012 CONTROLLER'S AUDIT PLAN,** which was released in September 2012.

ACKNOWLEDGEMENT AND SIGNATURES –

The Project Team would like to express our appreciation to the participating Departments and their representatives who gave their time and efforts. Their input was and is critical to the success of this project by actively responding to questionnaires, interviews, discussions, and review of data presented in this report. It was evident throughout the process that the City of Houston continues to have a significant number of qualified professionals who strive to serve the constituency by providing quality services in an economically challenged environment and who are proud of the work that they do.

Courtney E. Smith, CPA, CFE
Audit Manager

David A. Schroeder, CPA, CISA
City Auditor

UPDATED DEPARTMENT RISK PROFILES

General Services Department

Mission and Objectives

The General Services Department (GSD) provides a variety of City-Wide management and operational support services to other City departments. This allows those other departments, acting as external service providers to concentrate on their core functions.

Notable Changes since the Previous Risk Assessment

A previous risk assessment of the General Services Department took place in fiscal year 2010. Since that assessment, the Parking Management Division, which provides enforcement of parking areas as set by the Traffic Engineer and the collection of parking rates has been transferred to the Administration & Regulatory Affairs Department. Other changes include: (1) A newly formed Fleet Management Department (FMD) has taken responsibility for the Fuel Section; and (2) Human Resources (HR) functions and personnel were transferred to Central HR.

In addition, budget reductions for FY2012 had a significant impact on (1) building maintenance, (2) security, (3) janitorial services, (4) small renovations and (5) energy conservation. While the Department's budget has been significantly reduced, the number of buildings and overall square footage managed is increasing.

Note: FMD's original appointed Director resigned and the current Director of GSD has assumed the responsibilities until further notice.

Significant Activities

GSD supports the operational needs of client departments through centralized management of energy, property, security, real estate, and environmental programs, and project management for renovations or construction related to Capital Improvement Projects. Operational decisions in client departments impact the daily allocation and deployment of resources made by GSD. Additionally, the new Director of GSD, appointed in FY2010 is also presently Director of newly formed Fleet Management Department. Department activities include:
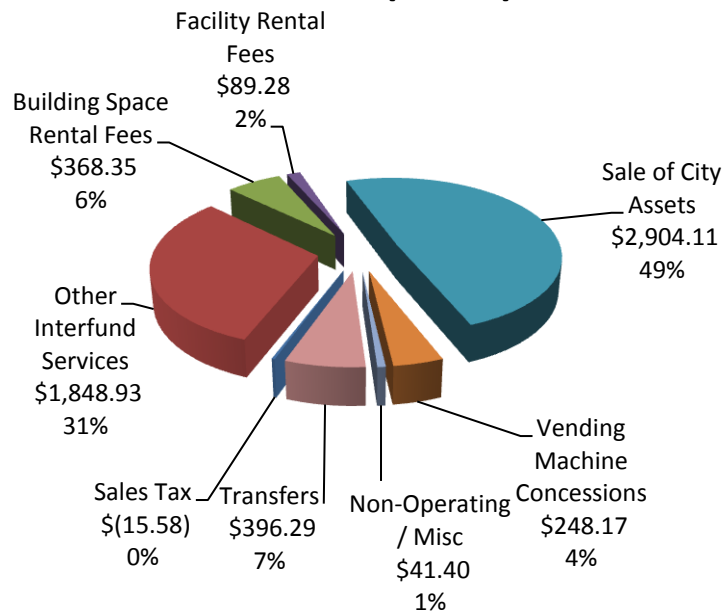
- ▪ Maintaining and managing property for over 300 city owned or leased facilities;
- ▪ Reviewing and revising periodic disaster recovery / business continuity plans;
- ▪ Managing energy and energy conservation efforts;
- ▪ Procuring over $190 million in electricity and natural gas;
- ▪ Performing environmental inspections, evaluations, and remediation or abatement of contaminated materials;
- ▪ Providing oversight of physical security for various properties;
- ▪ Administering and maintaining photo identification badges for access control; and
- ▪ Providing financial transaction accountability to all client departments for activities managed through the department.
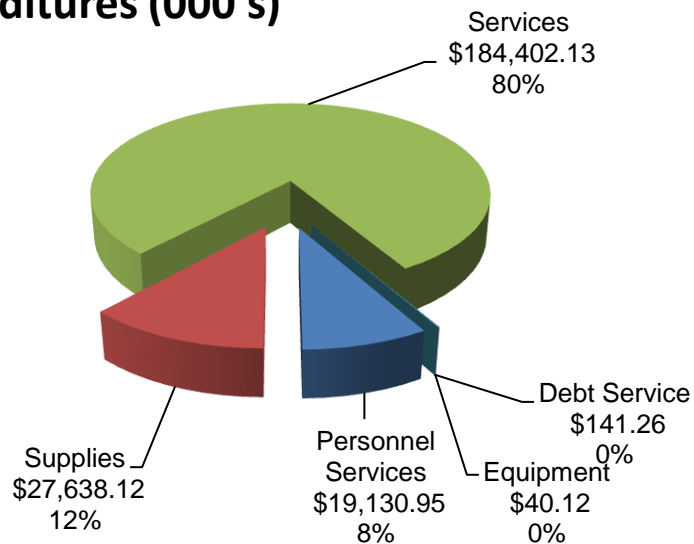
General Services Department

Financial Data

The Fiscal Year 2010 financial data shown below indicates (1) the external Revenues that GSD provides from two major sources, (2) the cost to the City for operating enterprise related activities of GSD, (3) the Operational spending authority of GSD, and (4) the Capital base that GSD maintains in relationship to the City's total.

Revenues (000's)

Facility Rental Fees
$89.28
2%

Building Space Rental Fees
$368.35
6%

Sale of City Assets
$2,904.11
49%

Other Interfund Services
$1,848.93
31%

Vending Machine Concessions
$248.17
4%

Sales Tax
$(15.58)
0%

Transfers
$396.29
7%

Non-Operating / Misc
$41.40
1%

Expenditures (000's)

Services
$184,402.13
80%

Debt Service
$141.26
0%

Supplies
$27,638.12
12%

Personnel Services
$19,130.95
8%

Equipment
$40.12
0%

General Services Department   Risk Profile

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Disaster Recovery	- Inability to access facilities - Inability to establish safe working environment - Loss of computing and operational equipment - Loss of data	- Established city-wide recovery plans - Periodic update of plans	High
Facilities Management	- Unsafe buildings - Unknown history of infrastructure maintenance - Ineffective preventive maintenance - Insufficient building services - Catastrophic events - Services are provided as a reaction to prioritized problems, not as a preventive maintenance program	- Computerized Maintenance Management System - Tracking of operational costs - Monitor percentage completion of work orders and special projects	High
Project / Contract Management	- Inadequate project specifications - Ineffective change order management - Improper contractor solicitation	- Consultants required to have Errors and Omissions Insurance - City Engineer Policies and Procedures address contract management procedures - Project Status Reports are reviewed and analyzed - Policies and procedures for soliciting contractors and consultants	High

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Compliance	▪ Non-compliance with contractual stipulations ▪ Vague contract language ▪ Non-compliance with PCI requirements ▪ Non-compliance with local or DOL regulations ▪ Lack of environmental compliance · Ineffective or inadequate adherence to building codes	▪ Legal Department assists with drafting of contracts ▪ Contracts are managed by end-users ▪ Environmental manager handles inspections and manages reporting ▪ City Engineer reviews compliance to applicable circular(s)	Medium
Financial Management	▪ Reduced funding ▪ Inaccurate or untimely recording of financial transactions ▪ Budget overruns ▪ Lack of accounting skills	▪ Monthly monitoring and reconciliation of reports ▪ Analysis of expenditures ▪ Review of job tasks and completion dates ▪ Regular audits	Medium
Information Technology	▪ Lack of server communication ▪ Inadequate systems / server backup ▪ Loss of data ▪ Non-integrated systems ▪ Inadequate support during systems implementations	▪ Central ITD handles systems / server backups ▪ Systems upgrades ▪ Monthly monitoring and reconciliation of reports	Medium
Inventory Management	▪ Lack of inventory availability to complete work orders ▪ Failure of computerized system ▪ Ineffective management of warehouses	▪ Integrated work order planning process ▪ Manual inventory lists kept for each warehouse location	Medium
Procurement	▪ Non-compliance with contractual stipulations ▪ Non-compliance with procurement policies and procedures ▪ Price volatility	▪ Monitoring and analysis of monthly reports ▪ Energy vendors perform hedging activities on the ▪ City's behalf	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Revenue Generation	▪ Access to cash collections ▪ Inaccurate / incomplete title searches ▪ Unauthorized property sales	▪ Formally documented cash handling procedures ▪ Analysis and reconciliation of periodic reports ▪ Audit capability built into systems ▪ Use of internal and external real estate professionals ▪ Formal property sales process	Medium

Housing and Community Development Department

Mission and Objectives

Houston's Housing and Community Development Department (HCDD) focuses on providing economic opportunity, revitalization, and improvement of the City's low to moderate income neighborhoods by: (1) developing and maintaining an adequate supply of safe, sanitary, and decent affordable and accessible housing, (2) expanding sustainable homeownership opportunities of low to moderate income families, (3) reducing chronic and family homelessness, (4) ensuring that City residents with long-term support needs have access to appropriate services and accessible, community housing options, (5) ensuring full and fair access to housing, and (6) enhancing the economic well being of the City while ensuring that economic growth is compatible with the community.

Notable Changes since the Previous Risk Assessment

A previous risk assessment of HCDD took place in fiscal year 2010. Since that assessment, there have been major changes in the Department's organizational structure including consolidation of some operations, the addition of a new Division, (*Compliance and Monitoring)*, and a reduction in force of 31 employees. The Division has implemented processes to assist other internal managers with compliance related to the external regulatory environment. Other changes include the Planning and Risk Management Division is now titled Planning and Grants Management Division. The division has implemented the Uniform Project Assessment and Funding (UPAF) procedures that provide uniform procedures for processing all projects through the Department and has been recognized by HUD. Existing ratings were updated based on information gathered as a result of the risk assessment process.

Significant Activities

HCDD addresses housing needs in the community through the development, implementation, and administration of programs along five major product lines. Each product line; (1) single family home repair assistance, (2) single family housing down payment assistance, (3) commercial (multi and single family housing development), (4) municipal/private public facilities, and (5) public services (including HOPWA Services) contains programs designed to encourage home ownership, maintain safe and attractive housing stock, renovate or improve public facilities, and alleviate homelessness. Activities include:
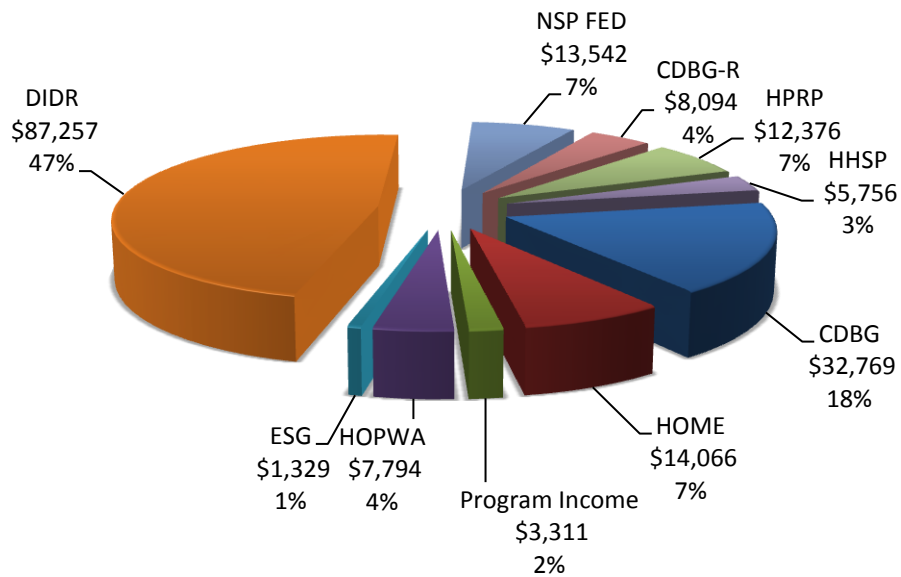
- Preparing grant applications for the appropriate funding sources;
- Developing 5 year planning data and coordinating annual performance reporting;
- Educating citizens about available programs and eligibility requirements;
- Assisting low income citizens with home repairs needed to alleviate threats to health, life, and safety of homeowners;
- Providing transitional housing, case management, transportation, rental and utility assistance, meals on wheels, counseling to mentally challenged citizens, and services to the elderly through a network of local agencies;
- Providing homeless prevention programs;
- Managing construction or rehabilitation of publicly and privately owned public facilities; and
- Conducting inspections of construction and renovation work done on behalf of HCDD

Housing and Community Development Department

FISCAL YEAR 2010 Financial Data:

In FY 2010 HCDD grant funding awards totaled $180 million with an additional 3.8 million in revenue from program income.

Grant Funding Sources (000s)

- NSP FED $13,542 7%
- CDBG-R $8,094 4%
- HPRP $12,376 7%
- HHSP $5,756 3%
- DIDR $87,257 47%
- CDBG $32,769 18%
- ESG $1,329 1%
- HOPWA $7,794 4%
- Program Income $3,311 2%
- HOME $14,066 7%

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Compliance	• Non compliance with federal, state, local laws • Inability to monitor contracts • Non compliance with grant requirements • Non-compliance of sub recipients • Non compliance with building codes or ADA regulations	• Inspectors monitor compliance of contractor project work • Train staff on relevant policies and procedures • Monitor sub-recipients for contract compliance • Construction plans must adhere to building and ADA regulations	High
Grant Management (*Includes Financial Management and Procurement activities*)	• Loss of funding from HUD • Failure to meet Federal spending requirements • Inadequate management of grant activities • Lack of timely and accurate reporting on grant activities • Inability to accurately manage and track grant activity resulting in loss of funding • Inadequate recordkeeping • Changes in grant requirements • Improper use of funds • Lack of control over sub-recipients • Miscalculations in reporting • proper allocation of expenses across multiple grants • Reduction in funding • Budgetary constraints • Various types of funding with specific compliance requirements • Risk of noncompliance with financial requirements • Inadequate documentation to support expenditures • Noncompliance with federal, state, or local regulations	• Internal and external audits performed • Grant activity monitored by HCDD leadership • Sub-recipients monitored and audited by independent auditors • Provide grant reports in accordance with requirements • Implemented Uniform Project Assessment and Funding (UPAF) Procedures • Review of calculations by multiple staff members • Use of KRONOS system to assist in allocation of administrative costs • Assignment of grant managers to specific grant sources • The department has a policy to assist in complying with regulations	High

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
IT	▪ Lack of capacity to perform financial analysis ▪ Lack of resources to upgrade systems ▪ Lack of strong computer skills among staff ▪ Inability to use grant funds for systems changes ▪ Lack of coordination / compatibility between grantor's system and our systems	▪ Implemented some automated procedures through in-house database programming ▪ Providing training for staff on updated procedures due to technology changes ▪ Many IT functions have been centralized ▪ Ensure staff hired have requisite desktop skills	High
Project Management	**Single Family Housing Projects** ▪ Ability of contractors to cut corners on projects ▪ Lack of qualified construction inspectors ▪ Inefficient project management causes cost overruns **Multifamily Housing Projects** *(includes all non-single family activity)* ▪ Ability of contractors to cut corners on projects ▪ Lack of qualified construction inspectors ▪ Inefficient project management causes cost overruns	**Single Family Housing Projects** ▪ Developed project tracking and monitoring procedures ▪ Staff includes dedicated project managers ▪ Inspectors review work performed ▪ Use Project Management Reporting system **Multifamily Housing Projects** *(includes all non-single family activity)* ▪ All general contractors must provide a payment and performance bond ▪ Require a property condition assessment prior to commencement of construction ▪ Department completed an RFQ and selected three qualified inspection firms for construction oversight on commercial projects	High
Fleet Management	▪ Aged stock of vehicles impacts employee safety ▪ Limited number of available vehicles ▪ Non-adherence to vehicle maintenance schedules	▪ Utilize City's fleet system to manage vehicles	Medium
Payroll	▪ Non competitive compensation levels ▪ Incomplete staff time reporting ▪ Lack of recordkeeping procedures ▪ Lack of training on payroll specific financial or operational systems	▪ Maintain time and attendance reporting ▪ Use SAP for payroll reporting and recordkeeping ▪ Manually allocate time among grants for accurate payroll reporting ▪ Implementing KRONOS time and attendance system	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
HR	▪ Lack of sufficient staff ▪ Inability to recruit qualified staff ▪ Non competitive compensation levels ▪ Lack of recordkeeping procedures ▪ Lack of training on HR specific or operational systems	▪ Maintain time and attendance reporting ▪ Use SAP for HR reporting and recordkeeping ▪ Affect recruitment and selection by conducting staff planning and job analysis consistent with current and future departmental objectives	Medium

Houston Emergency Center

Mission and Objectives

The Houston Emergency Center (HEC) processes calls reporting situations that threaten life, health, safety, and property in an efficient, accurate and professional manner. The department operates the public safety communications system and works with the Mayor's Office of Emergency Management to coordinate and manage disasters and emergency situations.

Notable Changes since the Previous Risk Assessment

A previous risk assessment of HEC took place in Fiscal Year 2010. Since that assessment, there were minor changes in the Department's organizational structure that do not impact the mission, objectives, or overall execution of processes.
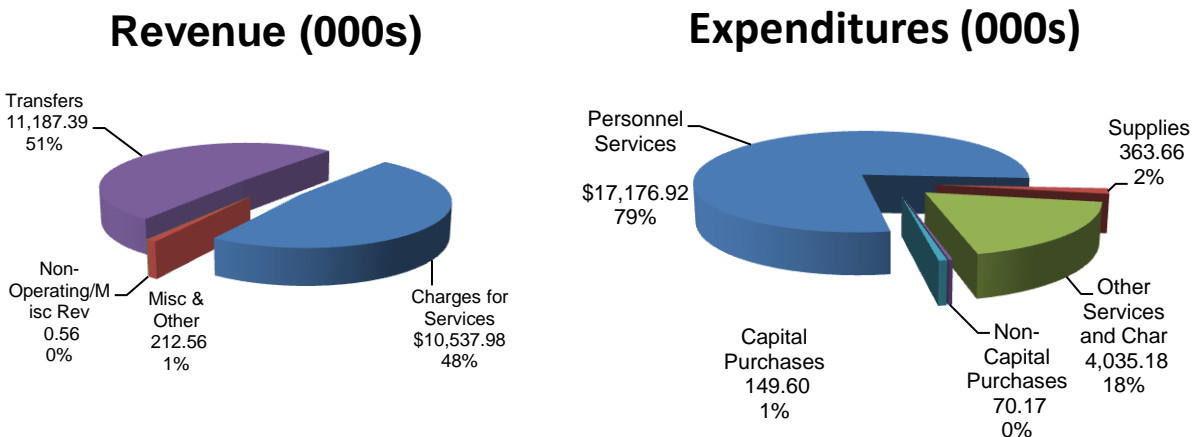
Significant Activities

HEC is the result of a consolidation of the Neutral Public Safety Answering Point, Police Department Emergency Communications Division, and Fire Department Emergency Communications Operations. Core operations include call taking and dispatch however HEC quickly becomes a command center during major emergency or disaster events. The department's activities include:

- Processing over 9,000 emergency and non-emergency calls each day;
- Answering 90% of emergency calls within 10 seconds;
- Processing ten-digit calls;
- Answering 80% of non-emergency calls within 10 seconds;
- Coordinating Texas Public Information Act responses;
- Evaluating emergency call protocols periodically to refine and improve response;
- Maintaining systems infrastructure to ensure availability of mission critical dispatch applications, consoles, and servers and managing tape backups;
- Updating Computer Aided Dispatch (CAD) data and call protocols (scripts) to improve response times;
- Conducting classroom and on-the-job training for call takers; and
- Serve as benchmarking reference for other jurisdictions.

Fiscal Year 2010 Financial Data

During FY 2010, HEC received reimbursement from Greater Harris County 911 (GHC911) for COH employee's salaries and benefits. The remainder of HEC's budget comes from the General Fund. Total operating budget for FY 2010 was $21.8 million.

Revenue (000s)

Transfers 11,187.39 51%
Non-Operating/Misc Rev 0.56 0%
Misc & Other 212.56 1%
Charges for Services $10,537.98 48%

Expenditures (000s)

Personnel Services $17,176.92 79%
Supplies 363.66 2%
Other Services and Char 4,035.18 18%
Non-Capital Purchases 70.17 0%
Capital Purchases 149.60 1%

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Call Taking	• Inadequate shift coverage • Ineffective equipment • Inadequate call protocols delay appropriate response • Incorrect mapping data in CAD • Negative impact of budget reduction	• Implemented power shifts to ensure adequate coverage • Equipment provided by GHC 911 and the City • Protocol reviewed and updated regularly with input provided from HFD and HPD • CAD updated weekly to ensure staff can determine locations • GHC 911 pays approximately 100% of expenses associated with 911 calls	High
IT	• Inadequate support from external service providers • Failure of power grid or network infrastructure • Facility reaches capacity for personnel or utilities • Insufficient staff to maintain level of service expected by internal and external customers • Inadequate funding	• Facility has built in redundancy to minimize disruption of operations • Implemented extensive problem identification and solution framework • Immediate escalation of issues which threaten Public Safety and Emergency response functions	High
Administration	• Unfunded legislative mandates • Lack of formal policies and procedures • Non-compliance with policies and procedures • Lack of transparency in decision making process	• Suggestions for new or revised policies are formally considered for approval • Non-compliances issues or complaints are formally investigated	Medium
Financial Management	• Lack of funding	• Adhere to established practices • Compliance with federal, state, and local ordinances and regulations • Comply with established policies and procedures	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
HR	- Lack of funding - Inability to attract qualified staff - Lack of employee awareness about policies and procedures - Negative impact of budget reduction	- Internship program with High School for Law Enforcement increases candidate pool - Implemented formal committee structure to increase visibility of policies	Medium
Training	- Inadequate staff training - Lack of qualified instructors - Inability to schedule training without jeopardizing shift coverage	- New hires receive 13 weeks of classroom and floor training - Additional training required for HEC Fire/EMS staff - Training and trainers provided by GHC911 and HEC managers - Staff encouraged to obtain Emergency Communications certification	Medium

Legal Department

Mission and Objectives

The Legal Department is the City's law firm and as such, provides municipal legal services to the City of Houston. Services include providing legal advice to the Mayor, other Departments, and to administrative entities.

Notable Changes since the Previous Risk Assessment

A previous risk assessment of the Legal Department took place in fiscal year 2010. Since then, the Legal Department has undergone significant organization and structural changes. Several Divisions within the Department were merged and others remained unchanged. However, all Divisions are now known as Sections. Changes include: (1) the Governmental Regulations Division merged with General Counsel; (2) the Land Use Division with Real Estate; and (3) Defense Litigation Division attorneys and staff were divided between Business Litigation and Labor & Employment, now named Labor, Employment and Civil Rights Section. .

Other changes include renaming Sections as follows: Business Litigation to General Litigation, Labor & Employment to Labor, Employment, and Civil Rights, and Criminal Law to Municipal Prosecution. As a result of these changes, the Department provides more legal services in-house and refers fewer matters to outside counsel.

In addition, per Executive Order 1-39 "Establishment of Office of Inspector General for Investigation of Employee Misconduct" the Department now houses the Office of Inspector General, which is tasked with investigating fraud, corruption, waste, mismanagement, conflicts of interest, ethics violations, discrimination and violations of state or federal law, the City Charter, City Ordinances, City Council Code of Conduct, Executive Orders, Administrative Procedures, or Mayor's Policies. The Division is responsible for investigations of those violations involving City employees (excluding classified police officers subject to Chapter 143 of the Texas Local Government Code and civilian personnel employed with the Houston Police Department), elected officials, Mayoral appointees (boards, commissions and authorities), vendors and contractors doing business with the City.

These changes required the addition of "Investigations" as a key business process to encompass the activities of the OIG Division along with the potential risks, reported management techniques and risk rating. Existing ratings were updated based on information gathered as a result of the risk assessment process.

Significant Activities

Attorneys in the Legal Department represent the City in a wide range of matters including litigation, labor, transactional real estate, municipal legislation, contracts, and taxation. Activities of the department include:
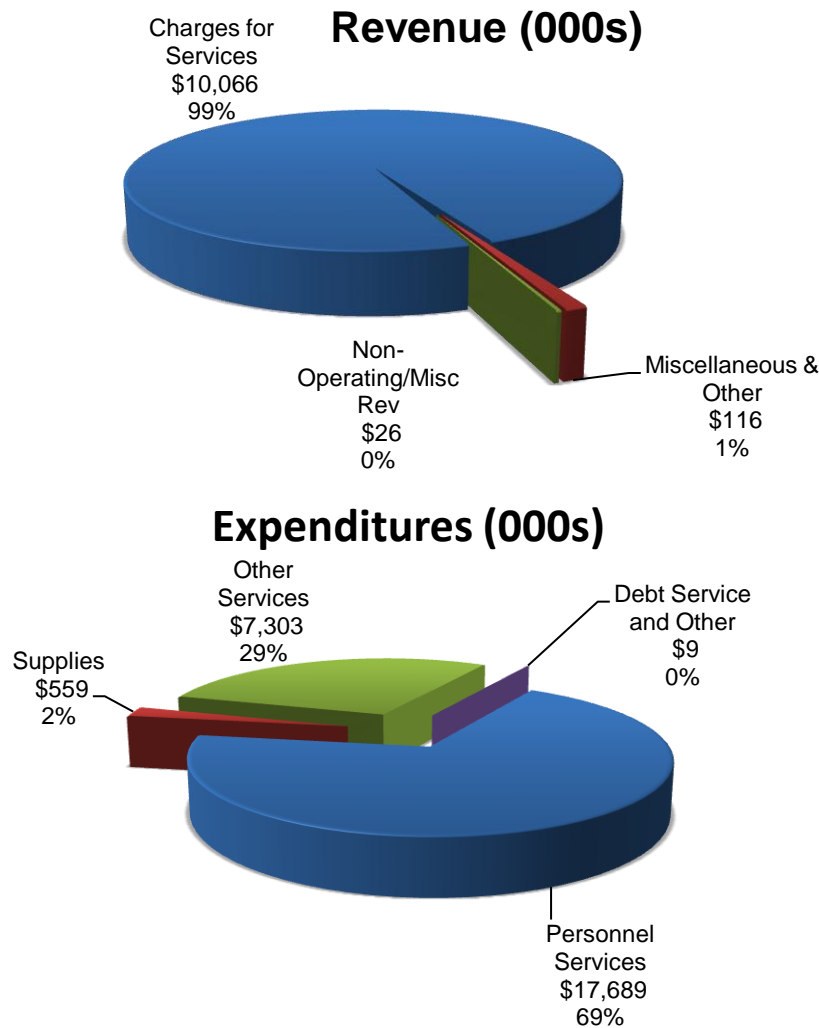
- Negotiating and drafting contracts and facilitate closings;
- Defending the city in lawsuits;
- Prosecuting claims for debts owed to the City, eminent domain proceedings, municipal court misdemeanors, and lawsuits and administrative proceedings for injunctive relief;
- Researching and preparing ordinances and legislation;
- Providing legal analysis and support for the City's legislative team;
- Researching and preparing legal opinions;
- Representing the City in negotiations with employees;
- Investigating and recommending responses to operational problems;
- Supervising outside counsel;

Legal Department

- Advising and providing training for client Departments regarding changes in statutory regulatory and case law;
- Representing the City in labor, employment, and civil rights related matters;
- Serving as problem-solving "utility players" for all levels of City management;
- Representing the City in real estate transactions; and
- Investigating allegations of employee misconduct.

Financial Data

During fiscal year 2010, the Legal Department's total revenue was $10.2M with expenditures for the same period totaling $25.6M. Revenue collected goes into the General Fund. Graphical representations of the revenues and expenditures below depict the amount and source of each.

Revenue (000s)

- Charges for Services $10,066 99%
- Non-Operating/Misc Rev $26 0%
- Miscellaneous & Other $116 1%

Expenditures (000s)

- Other Services $7,303 29%
- Debt Service and Other $9 0%
- Supplies $559 2%
- Personnel Services $17,689 69%

** Claim activities also generate revenue that is credited directly to the Department on whose behalf legal action was pursued.

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Case Management	• Threat of increased litigation • Ineffective litigation strategy / tactics • Inability to handle increasing caseload with limited number of staff attorneys • Loss of computer access to HPD database • Inefficient administrative hearing process • Personnel lack specific skills/training • Litigation errors or malpractice • Lack of access to key witnesses impairs case preparation • Limited access to documents • Engagement of outside counsel without appropriate credentials	• Cases are analyzed and evaluated • File management system used to track cases • Backups performed on server data • Scheduling process monitored • Provide funding for staff training and certifications • City Attorney does not recommend engagement of outside counsel if in house attorneys have the appropriate experience	Medium
Financial Management	• Lack of training on the City's financial system • Inadequate staffing levels • Inadequate cost benefit analysis prior to engagement of outside counsel • Unfunded mandates	• Support staff attend training on the City's official financial system • City Attorney does not recommend engagement of outside counsel if in house attorney's have the appropriate experience	Medium
Investigations	• Potential lack of Independence • Office of Inspector General – Inadequate staffing • Lack of cooperation • Budget constraints • Lack of adequate expertise • Lack of Subpoena authority	• Cross training • Hiring practices • Experience	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Legal Enactment and Enforcement	▪ Insufficient resources to effectively monitor and assist City's legislative program ▪ Insufficient resources knowledgeable about laws ▪ Citizens unaware of complexities of deed restriction requirements	▪ Temporarily reallocate personnel to cover high volume areas ▪ Educate citizens regarding deed restriction requirements ▪ Research issues and draft new or amended ordinances	Medium
Preemptive Legal Services	▪ Provide inaccurate or incomplete legal advice ▪ Insufficient resources to provide preventive training and counsel ▪ Inadequate understanding of specialized contract terms ▪ Inadequate drafting and review of contracts or ordinances ▪ Inadequate negotiation during construction or professional service contracts ▪ Ineffective representation of City's interests in labor negotiations ▪ Failure to provide complete and timely responses to open records requests	▪ Provide training opportunities for staff and attorneys on compliance matters ▪ Educate the City's personnel, boards, commissions, and committees on compliance issues ▪ Contracts undergo multiple reviews ▪ Coordinate responses to subpoenas and open records requests	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Records Management	▪ Diverse retention periods for various document types ▪ City personnel unaware of retention periods ▪ Inability to locate records jeopardizes cases ▪ Limited access to documents ▪ No comprehensive system to manage electronic data	▪ Educate personnel on retention period requirements ▪ Respond to all department inquires regarding records management laws ▪ Collaborating on study of records management systems	Medium

Public Works and Engineering Department

Mission and Objectives

The City of Houston Public Works and Engineering (PWE) Department is responsible for:
(1) planning, designing, constructing, operating and maintaining Houston's critical public infrastructure systems, (2) establishing and enforcement of the City's building and development codes, and (3) providing drinking water, wastewater collection and treatment, stormwater drainage, and streets in an effective, efficient, and environmentally responsible manner to serve our customers.

Notable Changes since the Previous Risk Assessment

A previous risk assessment of PWE took place in fiscal year 2010. Since that assessment, the Department has been additionally tasked with the responsibility for planning and implementing Rebuild Houston as a result of the passage of Proposition 1 in November 2010 Election. This change will require the Department to monitor the operating & maintenance, and capital expenditures for compliance in accordance to the definitions and provisions of Article IX, Section 22 of the Charter and further adopted by Chapter 47, Article 14, Section 47-822, (Ordinance 2011-254) of the Code of Ordinances[7]. Key business process ratings were updated based on information gathered as a result of the risk assessment process.

Significant Activities

The responsibilities of PWE are distributed among six divisions: Engineering and Construction, Planning and Development Services, Public Utilities, Resource Management, Street & Drainage (formerly Right-of-Way and Fleet Maintenance), and Traffic Operations. The department's activities include:

- Producing and distributing of over 146 billion gallons of water per year;
- Maintaining the drinking water system "Superior" rating from the Texas Commission on Environmental Quality (TCEQ);
- Maintaining 40 wastewater treatment plants and providing treatment of 277 million gallons per day generated by residential, commercial and industrial customers;
- Maintaining more than 14,000 miles of water distribution and sanitary sewer collection lines throughout the City;
- Providing fleet maintenance for 5,100 vehicles;
- Maintaining over 16,000 lane miles of streets, 60,000 storm water manholes, 100,000 storm water inlets, 3,200 miles of storm sewer lines, and 3000 miles of roadside ditches;
- Implementing design and construction infrastructure projects in the City's five year CIP;
- Installing & maintaining **1,100,000 traffic signs, 2,450 signalized intersections, 1,600 school zone flashers**, as well as **180,000 streetlights** & **1,800 freeway lights; and**
- Providing utility planning, permitting, and inspection for new residential/commercial developments.
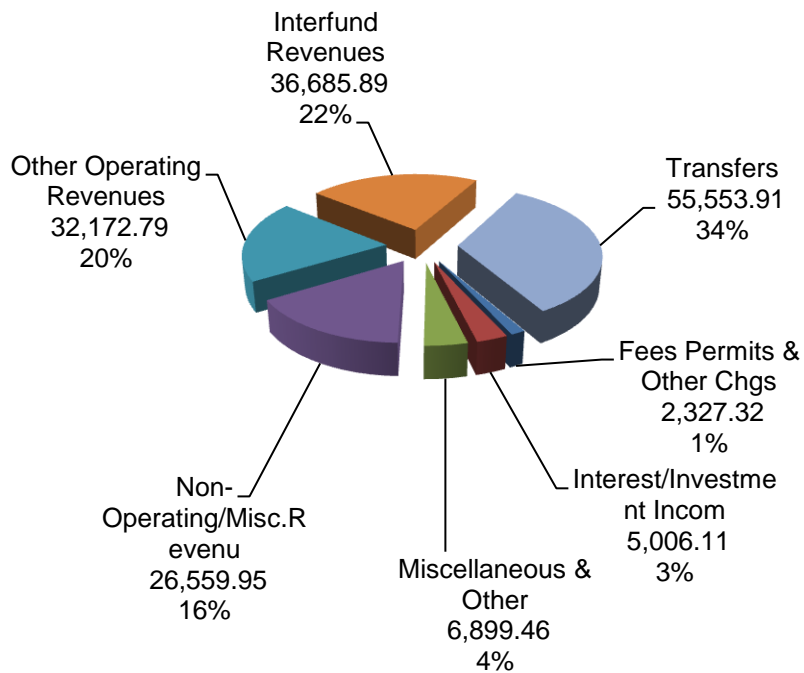
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[7] This establishes and provides guidelines for the implementation and management of the Municipal Drainage Utility System
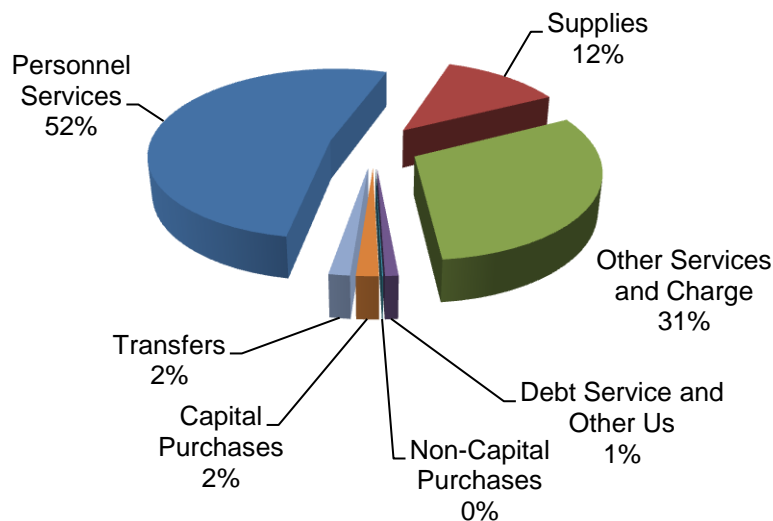
Public Works and Engineering Department

Financial Data

The annual operating budget of the department is approximately $1.2 billion. Operating funds are derived from a number of sources including user fees, utility charges and General Fund revenue. The graphical representations of the revenues and expenditures depict the amount and source of each for FY 2010.

Revenue - Non Utility System (000s)

Interfund Revenues 36,685.89 22%

Other Operating Revenues 32,172.79 20%

Transfers 55,553.91 34%

Fees Permits & Other Chgs 2,327.32 1%

Non-Operating/Misc.Revenu 26,559.95 16%

Interest/Investment Incom 5,006.11 3%

Miscellaneous & Other 6,899.46 4%

Expenditures - Non Utility System (000s)

Supplies 12%

Personnel Services 52%

Other Services and Charge 31%

Transfers 2%

Capital Purchases 2%

Non-Capital Purchases 0%

Debt Service and Other Us 1%

Public Works and Engineering Department

Utility System - Revenue (000's)

Operating Revenue
692,081.86
95%

Non-Operating
14,469.12
2%

Impact Fees
9,825.32
1%

Interest
12,574.12
2%
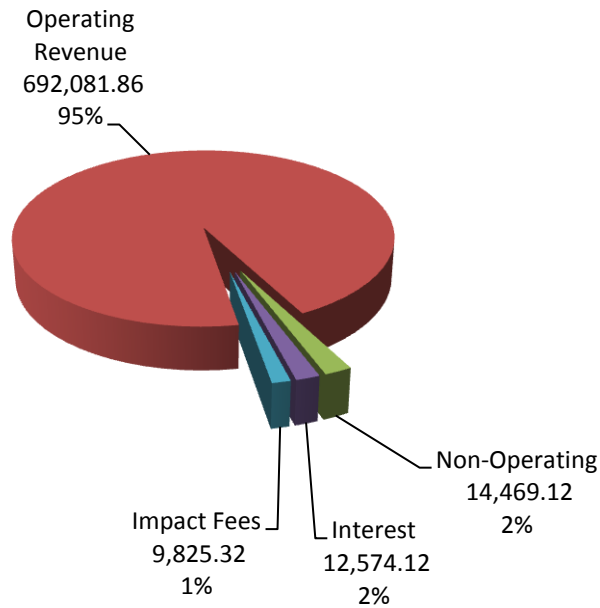
Utility System - Expenses (000s)

Other Services and Charg
193,913.95
25%

Debt Service and Other ' '
342,317.46
43%

Non-Capital Purchases
1,871.07
0%

Supplies
35,964.23
5%

Capital Purchases
8,170.62
1%

Personnel Services
147,600.15
19%

Transfers
55,672.93
7%

Other Interest
3,812.00
0%

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Compliance	▪ Unaware of regulations governing various types of construction and engineering projects ▪ Non-compliance to federal and statutory laws ▪ Inability to perform timely inspections ▪ Inspections are not carried out based on current code ▪ Lack of coordination in scheduling inspections ▪ Ineffective monitoring of grant funded activity ▪ Non-compliance with federal grant reporting requirements Lack of safety procedures to protect staff from physical injuries	▪ Establish and maintain relationships with regulators ▪ Monitor proposed legislation ▪ Inspections are implemented in accordance with National Inspection Standards ▪ Flood plain regulations are enforced through field inspections and plan reviews ▪ Street & Drainage improvements are implemented according to Infrastructure Design Manual and local laws ▪ Water quality is tested and measured against TCEQ standards ▪ Safety group provides safety training for the entire department	High

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Project Management	▪ Inadequate planning of infrastructure to support expanding population and annexation ▪ Aging infrastructure increases backlog of construction and design projects ▪ Ineffective project prioritization ▪ Increased public expectations of design and construction process ▪ Lack of coordination in scheduling inspections ▪ CIP projects are not monitored ▪ Lack of highly qualified staff	▪ The Planning Division implements a development plan for the creation of additional wastewater facilities when the City reaches 80% capacity ▪ Wastewater capacity managed through wastewater commitment process for new development or major renovation ▪ 400 data elements of a project are entered into CIPMS (from design through planning and construction) ▪ Individual Development Plan enforces cross training to develop knowledge and skills in the Engineering, Construction and Geo-technical areas	High

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Revenue Generation	▪ Lack of automated payment options ▪ Limited revenue sources ▪ Lack of customer-focused service ▪ High volume of Customer Refund activity ▪ Poor management of Accounts Receivable (collection, monitoring, timely billing etc.)	▪ Credit card / electronic payments are handled exclusively through the current Banking relationship ▪ Other automated pay options available through City website and telephone system and online permitting ▪ Customer service initiatives such as Houston Permitting Center and customer contact centers, etc ▪ Funding from grants and permit/impact fees supplement utility billing revenues ▪ Routine monitoring of call center service levels, customer satisfaction, and timely payment processing ▪ City offers payment agreements and information on agencies that provide payment assistance ▪ Use of A/R aging schedules with escalated follow-up ▪ Daily monitoring of bill generation	High

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Financial Management	- Lack of funding - Lack of contractor labor and material costs tracking - Inadequate management of City owned real estate properties - Overpriced real property purchases for right of way easements - Insufficient rate increases to adequately recover water and sewer costs - Inaccurate fixed asset accounting	- Contract Management System is used to manage public utility contracts - City properties are maintained in the CIPMS database and older property paper files are in a secured file room - Real estate purchases are based on appraisals - Inventory system for all real estate transactions - Perform periodic rate studies and cost of service reviews and implementation of recommendations from the Combined Utility Service (CUS) with Council approval if the increase is above the Producer Price Index (PPI) - The fixed assets section of this division handles amortization/ capitalization of fixed assets	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Fleet Management	▪ Fleet not available to support workforce in accomplishing Operating & Maintenance (O&M) ▪ Aging fleet ▪ Failure / crash of fleet management system ▪ Inadequate monitoring system for regular maintenance and repair ▪ Lack of funding to replace and repair vehicles ▪ Increasing prices of automotive parts and supplies	▪ Capital replacement based on cost analysis of repair vs. replace from the annual Equipment Acquisition Plan, which guidelines are developed annually for vehicles ▪ New fleet management system installed ▪ Individual users are responsible for the maintenance and repair of their assigned vehicles ▪ Reports are generated to monitor vehicle availability rate, status of units under repair, total units under repair, average of fleet in operating condition ▪ Contract with NAPA assures lower prices and discounts	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Information Technology	▪ Inability to hire and retain qualified and skilled staff ▪ Antiquated radio communication system ▪ Multiple data center locations ▪ Slow / inadequate support of field locations ▪ Lack of a backup plan in emergency situations ▪ Frequent hardware crashes	▪ ITD is currently upgrading the range and capacity of the City's radio system ▪ Centralization of 28 data centers (Leeland location) ▪ Technical staff is housed at large remote sites, deployed to smaller sites and use remote access software tools ▪ Centralized Help Desk and Desk Side support ▪ Established and implemented fail over computing at Leeland Data Center and Bryan College Station ▪ Disaster recovery center in Bryan College Station ▪ Established equipment lifecycle replacement program	Medium
Inventory / Materials Management	▪ Increasing prices of supplies ▪ Inventory and supplies are inadequate to support operations ▪ Theft of valuable supplies (i.e. copper)	▪ Inventory items are bar-coded and inventory levels are tracked with daily cycle counts ▪ Installation of security cameras and copper inventory is counted everyday ▪ Data Stream 7i tracks all assets and provides a preventive maintenance schedule	Medium

Key Business Process	Potential Risks	Reported Risk Management Techniques	Risk Rating
Procurement	• Timeliness of procurement fails to meet needs of supported operations • Failure to adhere to procurement policies and procedures • Inappropriate items purchased using PCards • Unauthorized users of PCards	• Procurement and contracts are continually monitored for meeting delivery times specified • PCard coordinators audit purchases on a monthly basis • Procurement training is provided by SPD as well as PWE/Resource Management Division/Materials Mgmt Branch (MMB), which also provides training for each new PCard holder and annual updates for current cardholders and approving managers • PWE/Director's Office/Management Support/Contract Compliance also sponsors a quarterly City-Wide Contract Compliance Network Training	Medium