



**OFFICE OF THE CITY CONTROLLER
AUDIT PLAN
JULY 1, 2004 THROUGH JUNE 30, 2005**

**City of Houston
Office of the City Controller**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

August 26, 2004

The Honorable Bill White, Mayor
City Council Members
City of Houston, Texas

SUBJECT: Office of the City Controller
Fiscal Year 2005 Audit Plan

Dear Mayor White and Council Members:

I am pleased to submit to you the Fiscal Year 2005 Audit Plan. A draft plan had previously been provided to you for review and comment. This document will serve as the primary work plan to carry out the audit responsibilities in an efficient manner consistent with the priorities established by my Office. The plan was developed by utilizing the City-Wide Business Risk Assessment, which details specific risk profiles developed for each City department. Generally, those areas selected for audit are taken from the high and moderate risk categories as determined by the profile.

This audit plan includes performance, compliance, financial, revenue enhancement, and unannounced audits. Additionally, the plan provides for follow-up audits and special projects.

I hope you find this information useful and informative.

Respectfully submitted,

Annise D. Parker
City Controller

Xc: Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Department Directors

OFFICE OF THE CITY CONTROLLER

Fiscal Year 2005 Audit Plan Table of Contents

	<u>Page</u>
Background	1
Risk Assessment	2
Audit Focus Areas	2
Audit Programs	3
<i>Performance Audits:</i>	
• Fire Department – Life Safety Division	4
• Mayor’s Office – 3-1-1 Houston Service Center	4
• Planning and Development Department – Neighborhood Protection Division	4
<i>Compliance Audits:</i>	
• City-Wide Cash Handling	5
• City-Wide Purchasing Card Activity	5
• Finance and Administration Department – Cell Phone Charge Reimbursements	5
• Health and Human Services / Human Resources Departments – Health Insurance Portability and Accountability Act of 1996	6
• Parks and Receptions Department – After-School Achievement Program	6
<i>Financial Audits:</i>	
• Public Works and Engineering Department – Construction Contract Reviews	6
<i>Revenue Enhancement Audits:</i>	
• Aviation Department – Parking and Car Rentals	7
<i>Special Projects</i>	7
<i>Unannounced Audits</i>	8
<i>Follow-Up Audits</i>	8

OFFICE OF THE CITY CONTROLLER

Audit Plan

Fiscal Year 2005

The audit plan serves as a working document that incorporates the assessments documented in the comprehensive city-wide business risk assessment, City Council's and department management's input, and results from previous audits. As such, this plan will serve as the primary work plan to carry out the audit responsibilities in an efficient manner consistent with the priorities established by the City Controller.

Due to the continual request for audit services, unknown extent of findings, and the required testing for the planned audits, the plan will be monitored and revised as necessary throughout the year.

Background

The City Controller's Audit Division is an independent, objective assurance and consulting activity that issues its findings and recommendations to the Honorable Mayor and City Council Members. The mission of the City Controller's Audit Division is to provide the Mayor, City Council and department management with independent analyses, assurances, and recommendations concerning the adequacy and effectiveness of the City's internal control structure, effective safeguarding and utilization of City resources, and management's performance in carrying out assigned responsibilities.

The scope of activities carried out by the Audit Division may relate to any phase of City activities and includes activities such as:

- Evaluating and enhancing the City's accounting policies and procedures that constitute its internal control structure.
- Assessing compliance with appropriate City, State and Federal policies, laws and regulations. Evaluating the accuracy of reported data utilized by departmental and City management in making operational decisions.
- Appraising the economy, efficiency, and effectiveness of the City's organizations, programs, functions and activities.
- Assessing the efficiency of operations and developing recommendations for cost savings.
- Ascertaining all revenue of the City is maximized, safeguarded and controlled.
- Ascertaining all operational data is safeguarded and accurately maintained.
- Ascertaining the extent to which City assets are accounted for and safeguarded from losses.

- Assisting in the development of performance measurement systems throughout all operations.
- Investigating allegations of fraud, waste and abuse received through various sources.

Risk Assessment

On August 31, 2004, the City Controller will issue to the Mayor and City Council the updated City-Wide Business Risk Assessment that was prepared by the firm of Jefferson Wells International (JWI). JWI summarized the City's overall risk profile based on management's input and JWI's prior experience with the City, detailed analysis and experience in identifying risk factors. With JWI as the facilitator, the Mayor's Office, the City Controller's Office and management of each department assessed their potential business risks and the current management techniques used to mitigate those risks. Specific departmental risk assessments were developed for each department along with a city-wide risk profile by business process.

The risk assessment measured many different risk factors for each process, however JWI weighted the following key risk factors more heavily and considered them to be more critical to the achievement of the City's strategic objectives:

Personnel Competencies – Is there a risk that personnel do not possess the necessary skills/competencies to ensure effective and efficient achievement of the process' tasks/goals?

Technology – Are there information systems in place that enable management to conduct operations efficiently and effectively?

Performance Measures – Is there a risk that adequate measurement is not occurring for critical objectives?

Public/Media – What is the risk of public exposure for this process?

Dollars – What is the financial risk related to this process?

Department processes or activities with high or moderate residual risk are noted in the City's current Business Risk Assessment.

Audit Focus Areas

The Business Risk Assessment serves as a planning tool to determine the best investment for audit efforts. Annually the audit plan prioritizes the Audit Division's limited resources of people and budget dollars based on the City of Houston's Business Risk Profile and management's need for vital information. This audit plan prioritizes audit focus on either city-wide processes or departments with processes or activities having high or moderate residual risk. As such, the City's audit function serves as a risk management tool through the development of improved control processes as a result of performance improvement and financial auditing, as well as a detective control with the performance of the revenue enhancement, financial, and compliance audits.

Audit Programs

Audit activities will vary as a result of the differences in the nature of operations, organizational structure, management style and by the competence, employee capabilities, and concepts of operating control. To enhance the Audit Division's effectiveness, the audit approach is balanced by conducting some of the audits using in-house staff and by outsourcing audits requiring certain technical or specialized skills.

On the City Controller's approval of the audit plan, specific audit programs will be developed for each activity to be audited within the year ending June 30, 2005. Audit programs will be designed in regards to business services, compliance requirements, performance considerations, and specialized skills required for each project. All audit programs, workpapers and reports will be conducted in accordance with the AICPA's Professional Standards, Institute of Internal Auditors and Government Auditing Standards, as appropriate.

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

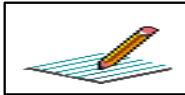
PERFORMANCE AUDITS

Fire Department Life Safety Division

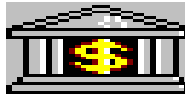
SCOPE:

The Audit Team will perform an independent assessment of the Fire Department's various specialty Inspection Teams. The auditors will examine operational practices, resources, technology tools and training to provide recommendations for improving the coordination and effectiveness of division functions to improve the quality of the processes and the overall cost efficiency and deployment of City resources.

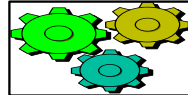
ANTICIPATED BENEFITS:



Improved
Accountability



Cost Savings



Improved
Effectiveness



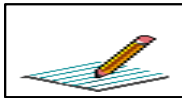
Operational
Ideas

Mayor's Office 3-1-1 Houston Service Center

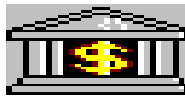
SCOPE:

The Audit Team will perform an independent assessment of the Mayor's Office 3-1-1 Houston Service Center. The team will examine department practices, resources, technology tools and training to provide recommendations for improving the coordination and effectiveness of 3-1-1 functions and to improve the quality of the processes and the overall efficiency and deployment of City resources related to the operations.

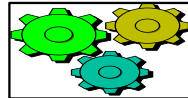
ANTICIPATED BENEFITS:



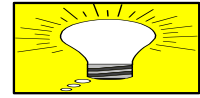
Improved
Accountability



Cost Savings



Improved
Effectiveness



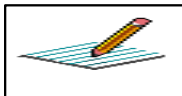
Operational
Ideas

Planning and Development Department Neighborhood Protection Division

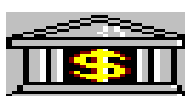
SCOPE:

The Audit Team will perform an independent assessment of the Planning and Development Department's Neighborhood Protection Division functions that help reduce substandard living conditions: open and dangerous buildings; weeded lots; junk motor vehicles; graffiti; and other nuisances on private property. The team will examine operational practices, resources, technology tools and training to provide recommendations for improving the coordination and effectiveness of division functions to improve the quality of the processes and the overall cost efficiency and deployment of City resources related to division operations.

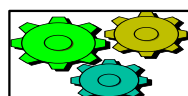
ANTICIPATED BENEFITS:



Improved
Accountability



Cost Savings



Improved
Effectiveness



Operational
Ideas

COMPLIANCE AUDITS

City-Wide Cash Handling

SCOPE:

The Audit Division will perform cash handling audits at various departments. The audit's objective will be to assist management with assessment of the adequacy and effectiveness of internal controls related to the Department's cash handling process. In addition, the audits will evaluate the Department's compliance with Administrative Procedure 2-17.

ANTICIPATED BENEFITS:



Stronger Controls



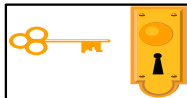
Improved Risk Management

City-Wide Purchasing Card Activity

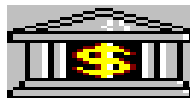
SCOPE:

The Audit Team will perform audits to determine if Purchasing Card (P-Card) expenses are supported, computed, approved, recorded, and reported properly in compliance with Administrative Procedure 1-42 which governs procuring goods and services using a P-Card. All Departments that have used P-Cards are subject to audit.

ANTICIPATED BENEFITS:



Stronger Controls



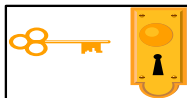
Cost Savings

Finance and Administration Department Cell Phone Charge Reimbursements

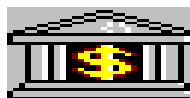
SCOPE:

The Audit Team will perform a city-wide audit to determine if various departments are collecting reimbursements from individual cell phone users for any nonbusiness-related usage of their city cell phones.

ANTICIPATED BENEFITS:



Stronger Controls



Cost Savings

Health and Human Services / Human Resources Departments HIPAA

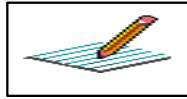
SCOPE:

The Audit Division will assess compliance with the policies and procedures for administering and documenting the requirements of the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

ANTICIPATED BENEFITS:



**Improved Risk
Management**



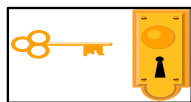
**Improved
Accountability**

Parks and Recreation Department After-School Achievement Program

SCOPE:

The Audit Team will assess various programs and their related expenses to determine if they were appropriate, adequately supported, and in compliance with contract terms and federal regulations. The team will also review internal controls related to oversight of the programs.

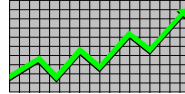
ANTICIPATED BENEFITS:



**Stronger
Controls**



**Improved
Accountability**



**Improved
Reporting**

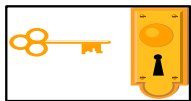
FINANCIAL AUDITS

Public Works and Engineering Department Construction Contract Reviews

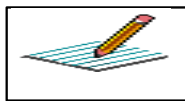
SCOPE:

The Audit Team will conduct financial reviews of various construction contracts. The audits will focus on budgets, overruns, if any, and change orders. In addition, audits may be performed of contractor records, and City policies and procedures with respect to the contracts.

ANTICIPATED BENEFITS:



**Stronger
Controls**



**Improved
Accountability**



**Improved Risk
Management**

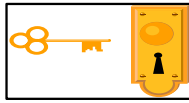
REVENUE ENHANCEMENT AUDITS

Aviation Department Parking and Car Rentals

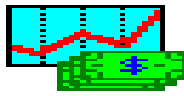
SCOPE:

The Audit Team will develop an understanding of the appropriate laws and contracts related to parking and car rental agencies revenue. The Audit Team will test the appropriate auditee's records to ensure the reported City revenue was derived from the source reflected on the auditee's records and the revenue remitted was in full compliance with the appropriate ordinance or contract and that the remittance of such revenue was timely. The City will then bill the auditee for any additional revenue identified.

ANTICIPATED BENEFITS:



**Stronger
Controls**



**Additional
Revenue**

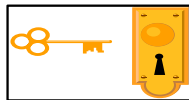
SPECIAL PROJECTS

SCOPE:

The Audit Division will address special projects throughout the year as requested by the Mayor, City Controller, City Council, and Department Directors. Also, projects will be initiated as a result of information received from taxpayers, vendors, and City employees. Projects planned include:

- Auditing Services Requested By The Office Of Inspector General
- City Controller's Office External Audit Assistance
- Computer Assisted Auditing Tools & Techniques
- Public Works and Engineering Department Construction Program Audit:
The Audit Team will focus on examining and evaluating overall construction program management controls. The Audit Team will evaluate the adequacy of internal controls and related processes as they relate to project management; planning/design; budgeting; construction; management reporting; and monitoring.

ANTICIPATED BENEFITS:



**Stronger
Controls**



Cost Savings



**Policy
Alternatives**



**Improved Risk
Management**

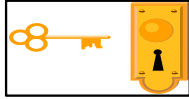
UNANNOUNCED AUDITS

SCOPE:

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/Control)

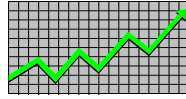
ANTICIPATED BENEFITS:



Stronger Controls



Cost Savings



Improved Reporting

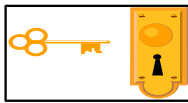
FOLLOW-UP AUDITS

SCOPE:

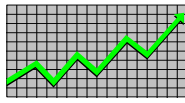
During various audits performed in Fiscal Years 2003 and 2004, recommendations were identified that should result in improvement to the internal controls, procedures and processes in the various areas. The Audit Team will determine what actions have been taken in response to recommendations presented in the report. The team will also report on any new significant findings and recommendations observed during the follow-up process. These will include:

- Building Services Department – Security Services Contract Compliance
- Health and Human Services Department – Unannounced Inventory
- Housing and Community Development Department – Federal Grant Administration
- Public Works and Engineering Department – Cost Recovery Of Infrastructure Damages Caused By Outside Parties

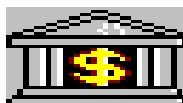
ANTICIPATED BENEFITS:



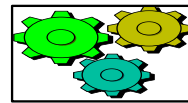
Stronger Controls



Improved Reporting



Cost Savings



Improved Effectiveness