

HOUSTON FIRST CORPORATION FOLLOW-UP AUDIT

REPORT #2025-04
JUNE 16, 2025



OFFICE OF THE CITY CONTROLLER

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CITY OF HOUSTON
TEXAS**

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The Honorable John Whitmire, Mayor

SUBJECT: HOUSTON FIRST CORPORATION (HFC) – FOLLOW-UP AUDIT REPORT

We have completed follow-up procedures on remediation efforts carried out by HFC management relating to the following audit report:

REPORT NUMBER	REPORT TITLE	TOTAL FINDINGS
2020-06	Houston First Corporation – Procurement and Contract Compliance Performance Audit	15

Based on the follow-up procedures outlined in this report, and in accordance with professional auditing standards, we have obtained sufficient and appropriate evidence to support the conclusions presented in Appendix 1.

FINDINGS	FINDING REMEDIATION STATUS	DESCRIPTION
15	Fully Implemented	Successful implementation of processes to address the audit finding.

This assessment reinforces our commitment to conducting thorough and objective audits, ensuring that identified issues have been properly addressed and corrective actions have been effectively implemented.

We would like to thank the management and staff of HFC for their cooperation during the follow-up audit process.

Respectfully submitted,

Christopher G. Hollins
City Controller

xc: City Council Members
Dr. Cynthia Wilson, Chief of Staff, Mayor's Office
Frank Wilson, Chief Financial Officer, Houston First Corporation
Karen Williams, Senior VP of Finance, Houston First Corporation
Aubrey Hooper, Chief Administrative Officer, Office of the City Controller
Jennifer Pierce, Deputy Director, Office of the City Controller
Olaniyi Oyedele, CPA, Interim City Auditor, Office of the City Controller

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FOLLOW-UP AUDIT

SUMMARY

The Audit Division is tasked with providing independent and objective assurance services to enhance organizational performance, ensure compliance, and safeguard assets. As part of this mandate, follow-up audits are conducted to verify that corrective actions have been implemented for issues identified in prior audits.

This follow-up audit evaluates the remediation efforts taken by Houston First Corporation's management in response to the fifteen findings from Audit Report #2020-06, titled "Houston First Corporation - Procurement and Contract Compliance Performance Audit". The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and the Global Internal Audit Standards as established by the Institute of Internal Auditors (IIA).

AUDIT OBJECTIVES

The follow-up audit was conducted to:

- Determine the status of each of the fifteen open findings from Audit Report #2020-06.
- Evaluate the adequacy of HFC's remediation process to address these findings.

SCOPE

The audit focused on the remediation efforts for the fifteen findings identified in Audit Report #2020-06, covering fiscal years 2021 through 2024. A sample of procurement transactions and activities were reviewed during this follow-up audit.

CONCLUSIONS

OBJECTIVE 1: STATUS OF OPEN FINDINGS

All fifteen findings from Audit Report #2020-06 were closed. Management provided sufficient and appropriate evidence demonstrating that corrective actions were implemented to address each finding.

OBJECTIVE 2: REMEDIATION ASSESSMENT

Management fully implemented remediation efforts for fifteen findings. Please see Appendix 1: Detailed Remediation Assessment for details.

FINDINGS	FINDING REMEDIATION STATUS	DESCRIPTION
15	Fully Implemented	Successful implementation of processes to address the audit finding.
0	Substantially Implemented	Significant efforts and implementation of processes to address the audit finding.
0	Incomplete / Ongoing	Ongoing efforts to implement processes and/or efforts to address the audit finding.
0	Not Implemented	No effort to implement processes to address the audit finding.

ACKNOWLEDGMENT

We extend our appreciation to the management of Houston First Corporation for their cooperation and commitment to addressing the audit findings. Their efforts facilitated a thorough and effective follow-up audit process.

APPENDIX 1: DETAILED REMEDIATION ASSESSMENT

#	PROJECT	RECOMMENDATION & MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
1	Lack of Timely Creation and Approval of POs	<p>Recommendation: Management should ensure either POs are created and approved prior to goods and services being purchased or the policy is revised to account for those situations when a PO might be created after an invoice has been received. If the policy is revised, Management should also describe in the policy the other controls that are in place to ensure commitments to purchase goods and services are made only after appropriate approvals.</p> <p>Management Response (09/20/2023): In section 4 of the General Purchase Order Protocols memorandum dated January 22, 2021 (the "PO Protocols" Exhibit "A") speaks of the issue. Additionally, POs used for tracking expenditures reference the relevant agreement and include a complete copy in the online file.</p>	Based on a review of a sample of 25 purchase orders (POs) audit determined that POs are generally created before service or delivery dates. Therefore, management has implemented processes to address this audit finding. This finding is considered fully implemented.	Fully Implemented
2	Inadequate Control of PO Authorization	<p>Recommendation: Management should consider affixing the signature of the delegated approver, rather than the Purchasing Agent's electronic signature, to any POs they approve. Further, the Purchasing Agent's subsequent review of all POs approved by the backup person should be documented.</p> <p>Management Response (09/20/2023): Section 1 of the Purchasing Order Protocols Exhibit "A" was written and issued to resolve this finding.</p>	Based on a review of Houston First Corporation's Exhibit "A", Section 1 of the General Purchase Order Protocols, the Chief Financial officer is authorized to approve POs in the event of any absence of the Purchasing Agent for any reason, regardless of duration. There was no evidence that procedures were not followed. Therefore, management has implemented processes to address this audit finding. This finding is considered fully implemented.	Fully Implemented

#	PROJECT	RECOMMENDATION & MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
3	Lack of Supporting Documentation for the Evaluation of Vendor Proposals	<p>Recommendation: Management should establish a uniform process for documenting the review and evaluation of vendor proposals to facilitate compliance with HFC's policies and promote transparency. The documentation should include guidance for scoring proposals as higher or lower and the names of the selection committee members. A record retention program should be implemented that includes creating electronic images of files to reduce paper copies and help ensure access to the records is safeguarded.</p> <p>Management Response (09/20/2023): Although the substantive finding was resolved by issuance of the Procurement Manual on January 19, 2019, as noted in the original Management Response, forms and a representative sample of documentation pertaining to the evaluation of proposals are attached as Exhibit "B".</p>	Upon review of the vendor evaluation sheets, it was confirmed that selection committee members signed documents required by HFC's policies indicating active participation in the evaluation process. During the COVID-19 period, email correspondences were used to document approvals and identify evaluators involved in the selection process. Therefore, management has implemented processes to address this audit finding. This finding is considered fully implemented.	Fully Implemented
4	Inadequate Documentation of Competitive Bidding Practices	<p>Recommendation: Management should consider the following: Document the date, location, time, and vendors, who are present when the public reading of bids is conducted. Ensure evidence of the General Counsel's review and recommendation for awarding contracts is included in the documentation. Establish a uniform process for the review, evaluation and selection of the lowest responsible vendors and retain such documentation</p> <p>Management Response (09/20/2023): The sign-in form referenced in the original Management Response is attached as Exhibit "C".</p>	A review of documentation of the bidding process and the uniformity in the process provided evidence that management has implemented processes to address this audit finding. This finding is considered fully implemented.	Fully Implemented

#	PROJECT	RECOMMENDATION & MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
5	Failure to Competitively Bid a Contract	<p>Recommendation: Management should ensure competitive bids are employed, as required by the purchasing policy, or revise the purchasing policy to address situations where an alternate approach may be warranted.</p> <p>Management Response (09/20/2023): As provided in the original Management Response, the Procurement Manual provides specific guidance regarding the various methods of procurement. Moreover, General Counsel has noted that procurement methods alternative to traditional competitive bidding are governed by statute, such as the competitive sealed proposal method, construction manager-agent method, construction manager-at-risk method, design-build method, and the job order contract method. For example, HFC is prohibited under Chapter 2254 of the Texas Government Code from awarding a contract for certain professional services by competitive bidding.</p>	A review of contracts over \$50,000 posted on HFC's website showed evidence of formal competitive bidding processes occurred in compliance with purchasing policy. Management has implemented processes to address this audit finding. This finding is considered fully implemented.	Fully Implemented
6	Inappropriate Procurement Method Used	<p>Recommendation: Management should ensure competitive bids are employed as required by HFC's purchasing policy or the policy is revised to describe those situations where an alternate approach is warranted and the approvals that are required, if there will be a departure from the primary procurement methods.</p> <p>Management Response (09/20/2023): Please refer to the original Management response, as no further action is required due to the January 19, 2019, edition of the Procurement Manual</p>	HFC updated their Procurement Manual to include the use of alternative procedures and requirement of approvals documenting appropriate procurement procedures are occurring for contracts over \$50,000. A review of those contracts posted on HFC's website showed evidence of formal competitive bidding processes occurring, as mandated by Section 3.1 of the HFC Procurement Manual. This finding is considered fully implemented.	Fully Implemented

#	PROJECT	RECOMMENDATION & MANAGEMENT RESPONSE	CONCLUSION	REMEDIAATION STATUS
7	No Evidence to Support Incentive-Based Payments	<p>Recommendation: Management should ensure incentive payments are not made without a documented report card or other written evaluation of performance, as described in HFC policy, and the documentation should be retained as evidence of the evaluation.</p> <p>Management Response (04/02/2025): See Procurement Manual effective December 6, 2024.</p>	Upon review of the updated Procurement Manual dated December 6, 2024, incentive payments are no longer included or referenced. HFC's revision of the policy was sufficient to address this audit finding. This finding is considered not applicable.	Fully Implemented
8	Lack of Purchase Requisitions	<p>Recommendation: Management should either employ requisitions in conformance with the current policy any time goods or services will be purchased or establish alternative processes that mitigate the specific risks the purchase requisition was designed to address and revise the purchasing policy, accordingly.</p> <p>Management Response (04/02/2025): See Procurement Manual effective December 6, 2024.</p>	Based on review of the 25 purchases, generally, requisitions are created and retained, as required by HFC's updated Procurement Manual effective December 6, 2024. This finding is considered fully implemented	Fully Implemented
9	No Periodic Review of Policies	<p>Recommendation: Management should consider requiring a periodic review of HFC's policies and procedures on an established frequency, such as annually. The review should be documented.</p> <p>Management Response (04/11/2024) Biannual Procurement Policy Meetings with Procurement, and General Counsel have been held in person May 9, 2022, November 7, 2022, April 3, 2023, October 2, 2023, and April 1, 2024. The next scheduled review meeting will be held October 7, 2024.</p>	HFC did not provide meeting minutes showing documentation of HFC's periodic review of their policies and procedures as mentioned in the "Updated Management Response" dated 04/11/2024" but there was physical evidence of periodic review of Procurement Policies and procedures after the initial audit, as they were updated twice to include January 2019 and December 2024. This finding is considered fully implemented.	Fully Implemented

#	PROJECT	RECOMMENDATION & MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
10	Lack of Guidance for Credit POs	<p>Recommendation: Management should consider establishing formal procedures to ensure the appropriate use, supporting documentation and authorized approval for credits in POs.</p> <p>Management Response (09/20/2023): Section 2 of the Purchasing Order Protocols Exhibit 'A' was written and issued to resolve this finding.</p>	HFC added Section 2 to the Purchasing Order Protocols Exhibit "A" to address the supporting documentation and authorized approval for credit POs. Audit confirmed that credit memos were adequately documented and attached to HFC software. Th finding is considered fully implemented.	Fully Implemented
11	Inadequate Guidance for Monitoring, Closing and Cancelling POs	<p>Recommendation: Management should consider revising the purchasing procedure to establish processes for monitoring, cancelling and closing POs. Consideration should be given to utilizing the system to automatically flag POs without activity in the past 60 days for evaluation and action.</p> <p>Management Response (09/20/2023): Section 3 of the Purchasing Order Protocols Exhibit 'A' was written and issued to resolve this finding.</p>	Audit determined after review of a cancelled and closed purchase order that there was adequate documentation of purchases and supporting documentation attached as backup in HFC's software, in accordance with HFC's General Purchase Order Protocol. The supporting documentation was found sufficient to remediate this finding. This finding is considered fully implemented.	Fully Implemented
12	Lack of Comprehensive Guidance for Emergency POs	<p>Recommendation: Management should consider revising the requirements for emergency purchases to require written justification that includes a description of the damage that would occur if the need is not satisfied immediately, an explanation as to why the requirements could not have been anticipated and met through normal procurement methods, and it should be approved by someone at a level higher than the approver for other Pos.</p> <p>Management Response (09/20/2023): The substantive finding was resolved January 19, 2019, with the approval of the Procurement Manual, as noted in the original Management Response</p>	After reviewing the HFC procurement manual, it was noted that written justification for emergency POs has been addressed in Section 12 of the Procurement Manual. The supporting documentation was found sufficient to remediate this finding. This finding is considered fully implemented.	Fully Implemented

#	PROJECT	RECOMMENDATION & MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
13	No Written Hazard Communication Plan	<p>Recommendation: Management should ensure a written hazard communication plan is in place for each facility or work area where hazardous chemicals are stored that complies with all requirements of the Texas Hazard Communication Act (THCA).</p> <p>Management Response (09/20/2023): The Hazard Communications plan, implemented at all facilities managed by HFC, has been provided by the Chief Operating Officer.</p>	Audit verified that the Hazard Communication Plan for George R. Brown is the same plan used in all facilities managed by HFC. This finding is considered fully implemented.	Fully Implemented
14	Lack of Remediation Plans After a Federally Declared Disaster	<p>Recommendation: Management should establish appropriate disaster recovery procedures and ensure they are approved by both HFC and the City of Houston.</p> <p>Management Response (09/20/2023): The Disaster Protocols for Repair or Restoration of City of Houston-Owned Property in a Federally Declared Disaster Area are attached as Exhibit "E. Additional protocols on the topic may be issued in the future.</p>	Audit confirmed evidence that the Federal-Declared Disaster procedure was approved by both HFC and City of Houston. This finding is considered fully implemented.	Fully Implemented
15	Monthly Reconciliations Not Provided	<p>Recommendation: HFC Management should ensure these reconciliations are provided monthly to the City's Finance Department, as required by the Interlocal Agreement.</p> <p>Management Response (09/20/2023): Procurement is informed that monthly reconciliation reporting continues to be sent to the appropriate contact in the City of Houston's Finance Department, as noted in the original Management Response.</p>	Audit confirmed that the required monthly reconciliations of HOT collections were provided to the City Finance Department. This finding is considered fully implemented.	Fully Implemented

APPENDIX 2: FOLLOW-UP AUDIT PLAN

AUDIT OBJECTIVES

The objectives of the follow-up audit were to:

- Determine the status of each open item.
- Evaluate the adequacy of the department's remediation process to resolve open findings.

PROCEDURES PERFORMED

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed and assessed management's status updates to open findings.
- Determined the findings for which management's status updates indicated remediation.
- Determined and requested the documentation necessary to support the status of each finding reported by management.
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

AUDIT APPROACH

Our follow-up audit process utilizes a risk-based approach, which contains the two primary components:

- Management Status Updates
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Our follow-up audit process includes sending requests for status updates related to management's progress toward the remediation of open findings. Management provides status updates through an online portal. This information is then assessed by the follow-up auditor, who considers responsiveness to the original issue and remediation of the issue.

AUDIT TESTING / VERIFICATION:

A management status update indicating that a finding has been remediated is then tested/verified by the follow-up auditor prior to being closed.

The information received through management status updates form the basis for follow-up testing. If needed, additional supporting information is gathered by the follow-up auditor to provide sufficient and appropriate evidence to achieve our objectives. Once the testing and verification of a department's remediation processes have been completed, Audit then assess each finding based on one of the following four categories:

- **Fully Implemented:** Successful implementation of processes to address the audit finding.
- **Substantially Implemented:** Significant efforts and implementation of processes to address the audit finding.
- **Incomplete/Ongoing:** Ongoing development of a process or efforts towards a policy to address the audit finding.
- **Not Implemented:** No effort to implement processes to address the audit finding.

AUDITING STANDARDS

The Audit Division conducted follow-up audit procedures in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and the Global Internal Audit Standards as established by the Institute of Internal Auditors (IIA).

These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusions drawn in alignment with audit objectives.

GOVERNMENT AUDITING STANDARDS (YELLOW BOOK)

GAGAS 8.30

“Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives. Requirements: Assigning Auditor”

GLOBAL INTERNAL AUDIT STANDARDS (RED BOOK)

IIA Standard 11.5

“Internal auditors must confirm that management has implemented internal auditors’ recommendations or management’s action plans following an established methodology, which includes:

- Inquiring about progress on the implementation.
- Performing follow-up assessments using a risk-based approach.
- Updating the status of management’s actions in a tracking system.
- The extent of these procedures must consider the significance of the finding.”

AUDIT TEAM

AUDIT STAFF

- Theresa Watson, CIA, CGAP, Audit Manager
- Temitope Obagbamigbe, CISA, Lead Auditor

INTERIM CITY AUDITOR

Olaniyi Oyedele, CPA