

HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT AND MAYOR'S OFFICE OF ECONOMIC DEVELOPMENT FOLLOW-UP AUDIT

REPORT #2026-01

JULY 10, 2025



OFFICE OF THE CITY CONTROLLER

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**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS HOLLINS

The Honorable John Whitmire, Mayor

SUBJECT: HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT (HCDD) AND MAYOR'S OFFICE OF ECONOMIC DEVELOPMENT (ECONOMIC DEVELOPMENT) FOLLOW-UP AUDIT REPORT

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

REPORT NUMBER	REPORT TITLE	TOTAL FINDINGS
2018-01	Housing and Community Development and Mayor's Office of Economic Development Fund 2409 – Affordable Housing Performance Audit	5

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
3	Fully Implemented	Successful implementation of processes to address the audit finding.

* Two (2) findings were assessed as low risk and as such not considered eligible for follow-up audit procedures.

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 HCDD and Economic Development 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
Michael Nichols, Director, Housing and Community Development Department
Gwendolyn Tillotson-Bell, Director, Mayor's Office
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 HCDD and Economic Development management in response to the findings from the Audit Report #2018-01, titled “Houston Housing and Community Development and Mayor’s Office of Economic Development Fund 2409 – Affordable Housing 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 five (5) open findings from Audit Report #2018-01.
- Evaluate the adequacy of HCDD and Economic Development’s remediation processes to address these findings.

SCOPE

The initial Audit Report #2018-01 had five findings. Two of the findings were considered low risk and were not included in the follow-up audit. As a result, the scope of the follow-up audit was limited to the remediation efforts performed by management on the three high or medium risk findings arising from the report.

CONCLUSIONS

OBJECTIVE 1: STATUS OF OPEN FINDINGS

All three (3) findings were successfully closed after management provided clear and sufficient evidence that corrective actions were fully implemented.

OBJECTIVE 2: REMEDIATION ASSESSMENT

Management’s remediation efforts were Fully Implemented for the three (3) findings. Please see Appendix 1: Detailed Remediation Assessment for details.

FINDINGS*	FINDING REMEDIATION STATUS	DESCRIPTION
3	Fully Implemented	Successful implementation of processes to address the audit finding.
0	Partially 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.

* Two (2) findings were assessed as low risk and as such not considered eligible for follow-up audit procedures.

ACKNOWLEDGMENT

We extend our appreciation to the management of Houston Housing and Community Development Department and the Mayor's Office of Economic Development for their cooperation and commitment to addressing the audit findings. Their efforts facilitated a thorough and effective follow-up audit process.

AUDIT TEAM

Deputy Director: Jennifer Pierce

Interim City Auditor / Audit Manager: Olaniyi Oyedele, CPA

Lead Auditor: Jessica Varner

Quality Assurance: Mohammad Haroon

APPENDIX 1: DETAILED REMEDIATION ASSESSMENT

#	PROJECT	RECOMMENDATION AND MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
1	Inadequate Documentation to support expenditures	<p>Recommendation: HCDD should ensure payments and disbursement of funds from Fund 2409 for work performed by vendors is adequately supported by documentation to ensure proper internal control and oversight. In addition, proper documentation is required to ensure that work was performed and completed in accordance with the contract specifications.</p> <p>Management Response (12/02/2024): Since the last audit, the Comprehensive Financial Services Standard Operating Procedure (SOP) has been revised and implemented. The revised SOP requires that adequate and appropriate supporting documentation is provided before payments are processed by the Accounts Payable team. Additionally, per the Account Payable SOP, both the Request for Payment and Certification of Service Contract documents are required to be included with each payment package. This ensures review and approval of all supporting documentation prior to invoice payments and verifies that the vendor has performed all services associated with the service. Incomplete packages are returned. The Accounts Payable team has been trained in the payment process procedures as outlined in the aforementioned SOPs. New staff are trained during the onboarding process through the Talent Management System, ensuring consistency in the procedural knowledge.</p>	<p>Upon reviewing a sample of eight (8) expenditures, it was concluded that HCDD has improved the accounts payable policy to include documentation to support TIRZ related expenditures.</p> <p>Upon review of the staff training and approved certifications, it was concluded that each assigned staff member completed the required training based on their assigned SAP roles. Consequently, this finding is considered fully implemented.</p>	Fully Implemented

DETAILED REMEDIATION ASSESSMENT

#	PROJECT	RECOMMENDATION AND MANAGEMENT RESPONSE	CONCLUSION	REMEDATION STATUS
2	Failure to include proper cash management options for funds transfer in agreements	<p>Recommendation: The Housing Department should establish procedures to ensure that contracts include clear indication regarding the cash management option to be adopted in connection with the transfer of funds out of Fund 2409 for payment to third parties on transactions involving affordable housing project costs. Such options must state clearly whether payment shall be in advance or on reimbursement basis. Where payment is in advance, payment methods should minimize the time lapse between the transfer of funds from the City treasury and the disbursement of funds by the third party entity. Conversely, where payment is on reimbursement basis, contact agreements should specify that third party entities make payments with their own funds prior to seeking reimbursements.</p> <p>Management Response (12/02/2024): Since the last audit, the Advance Payments Policy was implemented, providing cash advances to subrecipients on a limited basis. Each cash advance must be pre-approved by the Director and Chief Financial Officer.</p>	Upon reviewing a sample of six (6) Cash Advance Requests, it was concluded that HCDD has effectively implemented an Advance Payments Policy that complies with the Federal Payment Code 200.305 of the Treasury Code of Regulations and applied the Cash Advance Policy when processing cash advance transactions. Consequently, this finding is considered fully implemented.	Fully Implemented
3	Incorrect tax increment amounts transferred to Fund 2409 for TIRZs 5 and 21	<p>Recommendation: Each of the TIRZs should be appropriately funded in accordance with the provisions of the affordable housing agreement in operation. This is necessary in order to fulfill the requirements under which the TIRZs were created.</p> <p>Management Response (10/15/2024): The two agreements have not been modified. Currently, we are working with City Legal to have the agreement for TIRZ 21, Hardy Near Northside Redevelopment Authority modified to reflect the methodology that is used to calculate the set-aside for affordable housing. An adjustment for TIRZ 5 cannot be done as the affordable housing agreement terminated in 2016.</p>	<p>It was confirmed by management that TIRZ 21 is appropriately funded.</p> <p>On June 25, 2025, the Hardy Near Northside Redevelopment Authority Board approved the request to modify the TIRZ 21 affordable housing agreement to reflect the methodology used to calculate the set-aside for affordable housing. This is necessary to establish the appropriate legal framework upon which the activities of the TIRZ are conducted to ensure improvement to the infrastructure and the increase of revenue of the TIRZ zone. Consequently, the finding is considered fully implemented.</p>	Fully Implemented

APPENDIX 2: FOLLOW-UP AUDIT PLAN

AUDIT OBJECTIVES

The objectives of the follow-up audit were to:

1. Determine the status of each open item.
2. 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.
- **Partially 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.”

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.