ANNUAL AUDIT PLAN

FY2025

Report# 2025-03

OFFICE OF THE CITY CONTROLLER

CHRIS HOLLINS
CITY CONTROLLER

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The Honorable John Whitmire, Mayor

Subject: Office of City Controller Fiscal Year 2025 Annual Audit Plan

I am pleased to submit to you the Fiscal Year 2025 Audit Plan (the Plan). The Plan is designed to set the direction for audit activities within the City of Houston. It ensures transparency, accountability, and efficiency within each department or division while holding management accountable for carrying out their duties.

The basis of the Plan was the Enterprise Risk Assessment (ERA) (issued separately as report 2025-02) performed by the Audit Division of the City Controller's Office (Audit Division), as required by applicable professional standards. The Plan also considered input from other stakeholders, including City Council, the Mayor's Office, the City Controller's Office, Department Directors, other City staff, and constituents. The Plan includes performance, compliance, contract, monitoring, and cost recovery/savings audits. Additionally, the Plan provides for follow-up procedures and special projects. It is subject to change at the discretion of the Audit Division.

The status of progress in executing the Plan will be posted on a quarterly basis on the Audit Division webpage.

Respectfully submitted,

Christopher G. Hollins
City Controller

xc: City Council Members
    Department Directors
    Chris Newport, Chief of Staff, 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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ANNUAL AUDIT PLAN

Houston is the fourth largest city in the United States. The internal audit function provides crucial insights into the business of government. Key anticipated benefits of our activities are reflected in the graphic below.
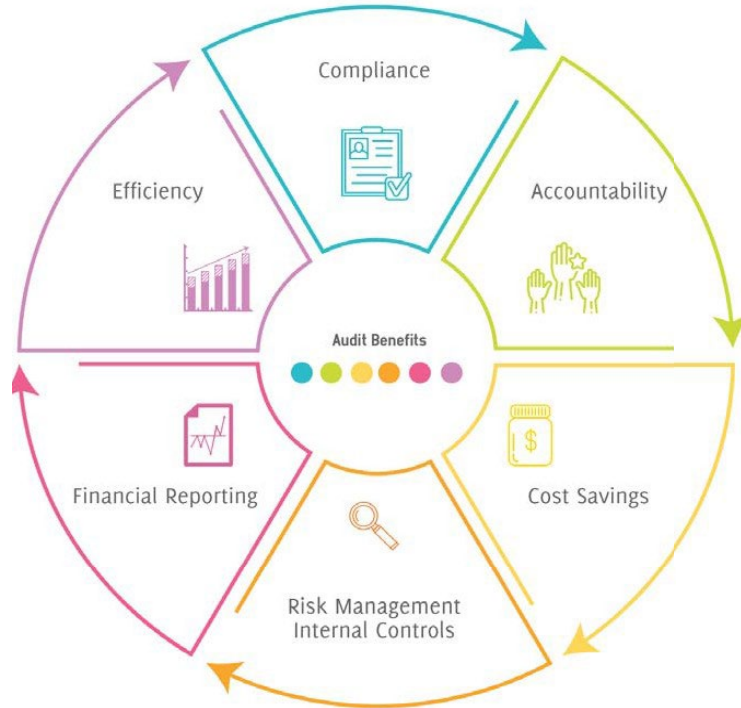
Our fiscal year (FY) 2025 Audit Plan provides a population of risk-based projects from which we will execute (a) financial or performance audits of city departments, contractors, and functions to improve efficiency and effectiveness of service delivery and business processes; (b) assist in the investigation of alleged fraudulent activities within the City as requested by the City's Office of Inspector General (OIG), any law enforcement agency or judiciary; and (c) Provide actionable audit recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government. The plan incorporates projects covering a diverse selection of departments and key business processes.

FY2025 ENGAGEMENTS (37)

The Audit Division staff provides audit-related services as our primary focus. We currently operate with a headcount of nine.
The following projects are those we plan to begin or have begun in FY2025.

#	Project	COH Department	Summary
1	**Certification Process**	Office of Business Opportunity	The Office of Business Opportunities (OBO) promotes and enables an inclusive environment for entities doing business with the City. To ensure this, entities may be required to obtain certain certifications. Firms applying for certifications are required to meet certain basic requirements. OBO manages and supervises the process of these certifications. The audit will review the process for completing and distributing the certifications to determine whether they are efficient.
2	**Contract Compliance: 2023 Water Leak Spending**	Houston Public Works	The FY2024 ERA identified a "significant event" that has individually influenced the water the City operates. In October 2023, City Council approved emergency spending of approximately $48 million towards a plan to continue addressing the water leak problem (the City had been addressing water leaks, with City workers repairing 32% of active leaks since February 2023). This plan was intended to ensure that Houstonians have safe, clean, and accessible drinking water and to update the related water infrastructure. The $48 million funding was to be split among 11 contractors, with each slated to perform $3 to $12 million of work. The audit will review the billing between the 11 contractors and the City to ensure compliance with the contracted rates and timelines.
3	**Contract Compliance: Solid Waste Services**	Solid Waste Management Department	The Solid Waste Management Department (SWMD) is responsible for providing solid waste services to the citizens and residents of the City of Houston through collection, disposal, and recycling of discarded materials. To achieve this purpose, SWMD uses the services of third-party contractors. The audit will identify cost recovery opportunities, future cost savings for current contracts, and areas to leverage the City's spending power for improved pricing terms in future contracts.
4	**Contract Compliance: Unused Contract Allocations**	Finance Department	The Strategic Procurement Division (SPD) oversees the central procurement activities of the City. Procurements greater than $50,000 are presented to the City Council for approval. The approval of the City Council initiates a spending authority upon which supplemental allocations are developed by departments. The audit will examine whether there is a process established for tracking allocations and unspent monies arising from the spending authority.

#	Project	COH Department	Summary
5	Contract Compliance: Vendor Contract Reviews	City-Wide	The FY2024 ERA identified Project / Contract Management as a key business process with a "High" risk ranking. Specifically, the FY2025 Enterprise Assessment Risk Analysis performed by the Mayor's Office identified inefficiencies in contract management, non-standard pricing, non-standard terms and conditions, higher costs due to emergency services, and missed opportunities for bulk purchasing. The specific vendor audits will cover the relationship between the vendor and the City, crossing all departments. The audit will identify cost recovery opportunities, future cost savings for current contracts, and areas to leverage the City's spending power for improved pricing terms in future contracts.
6	Cybersecurity	Houston Information Technology Services	Cybersecurity is an ongoing risk for all governments. The audit will evaluate how the City monitors and manages cyber threats. Additionally, with the assistance of HITS, the audit will identify potential vulnerabilities and/or risks in systems and processes.
7	Drainage Efficiency (Spend and Process)	Houston Public Works	The Houston Public Works Department is responsible for drainage throughout the City. The audit will evaluate the adequacy and efficiency of drainage spending and operations.
8	ERP: SAP Evaluation	Houston Information Technology Services	SAP ERP is a comprehensive software system that streamlines processes, improves productivity, and provides real-time insights across organizations. The audit will focus on ensuring that the current SAP solution is the most effective ERP solution for the City's processes.
9	ERP: SAP Segregation of Duties	Houston Information Technology Services	Segregation of duties within SAP is the practice of distributing tasks and responsibilities among multiple individuals or roles to prevent a single user from having conflicting duties that could potentially lead to fraud or errors. The audit will evaluate all SAP roles to ensure that no individual has access to multiple parts of a process that could allow them to engage in financial or fraudulent activity.
10	ERP: SAP Spend Analysis	Houston Information Technology Services	SAP ERP is a comprehensive software system that streamlines processes, improves productivity, and provides real-time insights across organizations. The audit will evaluate the overall spend on SAP. This will include related additional payroll, infrastructure, and SAP-related technology contracts (e.g. consulting services).
11	Ethics: Investigation Process	Legal Department	As stated in the 2023 Ethics Report, Report #2024-04, issued by the Audit Division within the City Controller's Office, "analyses were conducted to review the design, implementation, and effectiveness of internal ethics-related activities in support of the City's strategies and objectives, as well as research and analysis of the ethical policies, procedures, and practices employed in other cities." Additionally, ethical expectations of employees were conveyed in a decentralized manner via departmental meetings, with conflict-of-interest training being administered centrally using the Talent Management System. The audit will assess the state of the City's ethics policies and processes, addressing specific issues identified during the audit.

#	Project	COH Department	Summary
12	**Garbage and Yard Waste**	Solid Waste Management Department	The Solid Waste Management Department (SWMD) is responsible for providing solid waste services to the citizens and residents of the City of Houston through collection, disposal, and recycling of discarded materials. SWMD provides weekly garbage and yard waste collection service to about 390,000 residential units and small commercial establishments. The audit aims to assess the efficiency and effectiveness of the City's solid waste management processes. Key objectives include evaluating whether trash collection services are performed in a timely manner, determining the accuracy and reliability of recycling practices, and identifying areas for improvement to enhance service delivery. The audit will also review compliance with City policies and environmental standards, measure operational performance against established targets, and analyze cost-effectiveness to ensure optimal resource utilization.
13	**Grant Management: Overall Program Review**	City-Wide	The ERA identified Grant Management as a key business process with a "High" risk ranking. The City of Houston developed Administrative Procedure 4.1 to provide a City-wide policy governing grant acquisition, management, and compliance procedures to ensure consistent use by City departments. The audit will review grant administration and management to ensure efficiency across all City departments.
14	**Grant Management: Specific Grant Reviews**	City-Wide	The audit will identify and mitigate financial and operational risks associated with specific grant-funded projects. It will examine financial records, internal controls, and processes to identify potential fraud, mismanagement, and/or inadequate financial controls. Additionally, the audit seeks to follow up on any audit findings reported in the prior four fiscal years.
15	**Houston Consent Decree**	Houston Public Works	The Houston Consent Decree is a legally binding document that formalizes a settlement agreement among the City of Houston, the Environmental Protection Agency (EPA), and the State of Texas. Signed in 2021, the decree mandates an investment of $6 billion (approximately $9 billion as of FY2024) over 15 years to upgrade Houston's aging wastewater infrastructure. This comprehensive effort aims to avoid severe penalties and catastrophic public health events while ensuring compliance with environmental regulations. The audit will evaluate the existence, effectiveness, and adequacy of controls related to governance, oversight, and project delivery. Additionally, it will identify opportunities for improvement in meeting cost, schedule, and scope objectives.
16	**HPD Administration Evaluation**	Houston Police Department	The mission of the Houston Police Department is to enhance the quality of life in the City of Houston by working cooperatively with the public and within the framework of the U.S. Constitution to enforce the laws, preserve the peace, reduce fear, and provide for a safe environment. The audit will evaluate the use of uniformed personnel in administrative roles where the function could be performed by non-uniformed personnel.
17	**Merging Government Services**	City-Wide	The audit will evaluate departments or divisions in which other surrounding government entities provide similar services to avoid duplication of effort and costs.
18	**Other Post-Employment Benefits**	City-Wide	Establishing a Section 115 OPEB Trust will help reduce the City's long-term unfunded liability for retiree health benefits. The audit will seek to identify a sustainable funding mechanism to reduce the City's long-term unfunded OPEB liability.

#	Project	COH Department	Summary
19	**Outcome-Based Budgeting**	Finance Department	Outcome-based budgeting is a government approach that links the allocation of resources to identified outcome targets. The audit will play a role in assessing the efficiency of the current budget process and determining how to allocate resources more effectively. Additionally, it will evaluate the efficacy of the City's current budgeting practices in achieving outcome-based budgeting. This evaluation aims to identify best practices, uncover inefficiencies, and provide recommendations for optimizing the City's budgetary processes to achieve maximum impact.
20	**Payroll: Off-Cycle Transactions**	Administration and Regulatory Affairs	The ERA identified Payroll as a key business process with a "High" risk ranking. The audit will determine whether off-cycle payroll transactions processed are appropriate, accurate, authorized, and processed in accordance with standard business operations. Additionally, the audit will identify opportunities to limit the need for off-cycle payroll.
21	**Payroll: Uniformed Overtime**	Houston Fire Department	The ERA identified Payroll as a key business process with a "High" risk ranking. The audit will assess whether internal controls are adequate to ensure appropriate use and accurate payment of overtime, and whether procedures and practices are following City policies. Key objectives of the audit include assessing the management of overtime to minimize financial and operational risks, as well as identifying instances of waste or misuse. The scope of the audit will cover the past four years and will also include a review of backpay to ensure compliance and accountability.
22		Houston Police Department	
23	**Permitting: One-Stop Pilot Program**	Houston Public Works	In February 2025, the Houston Permitting Center soft-launched the One-Step Pilot Program. The service is designed to provide quick and efficient permitting solutions for homeowners, contractors, and business owners. The audit will examine the consistency of the application review and approval process. Additionally, it will assess application fees and ensure compliance with administrative policies and regulations.
24	**Post-Implementation: COH Contract Management System**	Finance Department	The ERA identified these significant information systems that have individually impacted the flow of data and related processes. The post-implementation audits will evaluate the success of the implementation and determine if the organization has achieved the desired results. Additionally, the audits will evaluate the quality of the System Development Life Cycle (SDLC) testing and deliverables to ensure that the data conversions and migrations were performed accurately.
25	**Post-Implementation: Electronic Timekeeping Policy**	Administration and Regulatory Affairs	
26	**Property Insurance Claims**	City-Wide	Property damage insurance claims are an essential aspect of financial management for businesses and individuals. The audit will review and ensure that the City is consistently filing claims for property damage and that relevant third-party administrators are processing claims efficiently and accurately.

#	Project	COH Department	Summary
27	**Real Estate Assessment**	General Services Department	The Real Estate Division's primary objective is to develop and implement policies and procedures to expedite the acquisition, disposition, and leasing of the City's real estate portfolio while realizing the greatest value to the City of Houston. The audit will assess whether the system of internal controls over the City's Real Estate processes is adequate and appropriate.
28	**Street Maintenance and Repairs: Potholes**	Houston Public Works	A pothole is a hole in the roadway pavement that may vary in size and shape. A pothole forms when water has seeped under the pavement and into the road base. As vehicles run over these weakened areas, the pavement disappears, and the hole gets larger. In the City of Houston, a pothole is considered any area of missing or severely deteriorated pavement that is up to about 5 feet by 5 feet. The audit will evaluate the adequacy of planning, efficiency of repairs, and funding for pothole resolutions.
29	**Street Maintenance and Repairs: Streetlights**	Houston Public Works	Traffic, Street, and Bridge Maintenance is responsible for keeping the road network across Houston safe and passable. The audit will assess whether streetlighting operational and maintenance costs are consistent with industry standards. Additionally, the audit will determine whether adequate controls are in place to ensure that streetlight operability continues to improve safety and is operating efficiently to keep Houstonians effectively traveling the roads 24 hours a day.
30	**Talent Recruitment**	City-Wide	The HR department is responsible for the management of recruitment of job candidates. The audit will focus on optimizing recruitment efforts to enhance attracting and retaining talent City-wide.
31	**Talent Retention**	City-Wide	All City departments share the management of retaining talent; however, overall City policy governs the limitations around performance rewards and retention programs. The audit will assess the City's strategies for retaining employees, including engagement, development, and benefits in comparison to competitors (private and public).
32	**Telecom and Cable TV Provider Review**	Houston Information Technology Services	SB 1152, which became effective on September 1, 2019, amended the Texas Local Government Code § 283.051 and Texas Utilities Code § 66.005 to allow entities that are members of an "affiliated group" to avoid paying cities either a cable franchise fee or access line fees. These statutory provisions require telecommunications providers and cable television providers to pay access line fees and cable franchise fees, respectively, to municipalities for the privilege of occupying the public rights-of-way. The audit will identify a list of entities required to pay the fees, recovery amounts for vendors that have not historically paid, and process improvements.
33	**Texas Prompt Payment**	City-Wide	The City of Houston's standard payment term is 30 days after receipt of invoice or receipt of goods or services, whichever is later, according to the Texas Prompt Payment Act (Tx. Government Code, Ch. 2251). However, the City will pay in less than 30 days in exchange for an early payment discount from vendor as follows: 2/10; 1/20; net/30. The audit will assess the process and procedures used to recognize and collect the early payment discounts.

#	Project	COH Department	Summary
34	**TIRZs: Overall Program Review**	Mayor's Office: Economic Development	The ERA identified a "significant event" that has individually influenced the way the City operates. In August 2023, the City of Houston implemented a formal policy for its Tax Increment Reinvestment Zones, known as TIRZs. The policy addresses how TIRZs are created, terminated, and the timeline of a zone. The audit will evaluate if TIRZs are being utilized for their intended purpose, including a review of the new investment and growth opportunities. Additionally, the audit will advise if changes to the initial boundaries, leadership, or scope are recommended based on best practices.
35	**TIRZs: Specific TIRZ Reviews**	Mayor's Office: Economic Development	Expanding upon the Mayor's investigation into the Midtown Redevelopment Authority, the TIRZ-specific audits will review historical spending to find cost reductions and operational efficiency across the 28 TIRZs. Additionally, each audit will follow up on any findings that result from the Mayor's investigations with recommended internal controls and mitigating activities to reduce the related risks.
36	**Vendor Master Data Review**	Office of Business Opportunity	The FY2025 Enterprise Assessment Risk Analysis performed by the Mayor's Office identified instances in which vendor master data was incomplete, duplicative, and inaccurate. The audit will identify specific vendors and recommend the appropriate next steps (e.g. consolidation, deletion). Additionally, the audit will evaluate internal controls surrounding vendor validation, setup, modification, and maintenance.
37	**Water Line Repairs**	Houston Public Works	The 2024 ERA identified a "significant event" that has individually influenced the way the City operates. In May 2024, a former Houston Public Works employee was criminally charged for allegedly defrauding more than $700,000 in emergency City funds in a scheme related to water line repair and inspection contracts. The alleged fraud included bribery by at least four vendors and the receipt of kickbacks by the employee. The audit will assess the process for vendor selections and awards to ensure controls are in place to prevent and detect fraud or inappropriate awarding of contracts for services, with a focus on inspections and emergency repairs.

IN-PROGRESS ENGAGEMENTS (7)

The following projects were in progress during FY2024 and are being completed in FY2025.

#	Project	COH Department	Summary	Audit Phase
38	**Contract Compliance: General Services Department**	General Services Department	The General Services Department (GSD) provides a comprehensive suite of design, construction, and maintenance services for City of Houston facilities. The audit will identify cost recovery opportunities, future cost savings for current contracts, and areas to leverage the City's spending power for improved pricing terms in future contracts.	Reporting Phase
39	**Data and Device Security**	Houston Information Technology Services	Houston Information Technology Services (HITS) is responsible for providing City-wide information security operations, cyber-threat analysis, security governance, security architecture and engineering. The audit will assess whether departmental policies and practices are adequate to ensure that data and devices are safeguarded.	Reporting Phase
40	**Fuel Card Program**	Fleet Management Department	The Fleet Management Department manages a variety of services for the City's combined municipal fleet totaling 13,000 units. The audit will assess whether internal controls are adequate to determine if fuel card purchases are managed and used appropriately.	Fieldwork Phase
41	**Parking Benefit District**	Administration and Regulatory Affairs	An ordinance to create the Washington Avenue Parking Management District was adopted by Houston City Council. The goal of the district is to manage parking supply and demand in the area, and to re-invest parking revenue into projects benefiting the Washington Avenue Corridor. The audit will evaluate the revenue collection process and reinvestment activity.	Reporting Phase
42	**Payroll: Application Security Control**	Administration and Regulatory Affairs	The Payroll Services Division of the Administration and Regulatory Affairs (ARA) Department is responsible for the bi-weekly remuneration of City employees. The audit will review general, and application systems controls within the City's payroll application to determine if they are adequate to ensure payments are accurate, made to the appropriate person and access is authorized.	Fieldwork Phase
43	**Payroll: Civilian Overtime**	City-Wide	The City of Houston has spent an average of $40 million per year on civilian overtime costs in recent fiscal years. The audit will assess whether internal controls are adequate to ensure appropriate use and accurate payment of overtime, and whether procedures and practices follow City policies. The audit will evaluate how overtime is managed, limit financial and operational impact, and identify waste or abuse.	Planning Phase
44	**Water Utility**	Houston Public Works	Customer Account Services, a Division of Houston Public Works, provides customer information, billings, credit, collections, and all meter associated services to approximately 2.1 million water and wastewater utility customers within the City of Houston. A phased approach will be used to evaluate policies, processes, and procedures to administer the water utility function.	Planning Phase

ANNUAL ENGAGEMENTS (10)

#	Project	COH Department	Summary
45	**Ethics**	City-Wide	The audit will identify ethical policies and/or standards that may need strengthening and assess how well employees are complying. Additionally, the audit will recommend policy improvements and additional compliance issues that may need to be addressed through training, communications, or subsequent audits. The objectives will be incorporated in each individual engagement as required under the new internal audit standards issued by the Institute of Internal Auditors.
46	**Fraud Hotline Monitoring and Reporting**	City-Wide	There are two primary vehicles for reporting fraud, waste, and/or abuse: 1) The City Controller's Office telephone hotline maintained by the Audit Division and 2) a link to report fraud available from the Office of the City Controller's website. Additionally, we provide auditing support based on requests from the OIG and/or other authorities. Each reported concern is addressed. The initial contact, work performed, and/or referrals are documented to support disposition of the issues.
47	**Liaison Program**	Internal Audit	To foster open communication and ensure that our team remains informed about the changing environment, processes, and procedures, we will interview City Council Members and the heads of department to identify audit opportunities.
48	**Prior Audit Follow-Up**	City-Wide	We maintain a database of findings and respective management responses that were included in previously issued audit reports. Open findings related to high-risk areas are selected for follow-up procedures which can include testing samples of items. The results of follow-up procedures are published as formal reports that disclose the status of open items and assess the overall remediation process employed by management.
49	**Process Workflow**	City-Wide	A process is a series of events and workflows established by management geared towards the accomplishment of the organization's objectives. Over time, these processes may become obsolete, ineffective, or inefficient, leading to possible fraud, waste, and/or abuse. As a result, processes require periodic review to ensure they are working optimally to safeguard the City's assets and ensure their relevance to its objectives. The audit will seek to examine and assess workflows to identify conditions that may give rise to fraud, waste, and abuse while strengthening the City's internal controls and improving overall operational efficiency.
50	**Quality Control Review**	Internal Audit	Professional standards require that the audit function has a system of quality control/assurance to ensure all necessary elements are in place and operating effectively. Each audit/project is reviewed by professional staff who are not directly assigned to the audit. The goal is to verify that sufficient, and appropriate evidence is gathered and documented to adequately support conclusions based on procedures that are designed to test relevant audit objectives (this includes consideration of fraud, professional judgment, competency, and supervision).

#	Project	COH Department	Summary
51	**Risk Assessment: Enterprise**	City-Wide	Annually, we will work with Department and Division leadership to look at risk from the perspective of the entire City. This top-down strategy aims to identify, assess, and prepare for potential losses, dangers, hazards, and other hazards that interfere with the City's operations and objectives. The assessment will have an impact on the annual audit plan.
52	**Risk Assessment: Information Technology**	Houston Information Technology Services	Annually, we will work with HITS to perform an IT Risk Assessment. This assessment is to mitigate the risk related to security failures and compliance incidents. This assessment will have an impact on the Enterprise Risk Assessment and the Annual Audit Plan.
53	**Risk Assessment: Open Audit Findings**	City-Wide	Professional standards require that "the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management". In addition, "the chief audit executive must establish follow-up process to monitor and ensure that management actions have been effectively implemented". Annually, we will work with Department and Division leadership to assess the validity of each open audit finding and perform a risk analysis on each recommendation. Open Findings from audit reports older than 5 years with high risk factors will be included as part of an audit in the annual audit plan.
54	**Special Projects**	City-Wide	An audit may be initiated based on the request by others. These audits will focus on a specific process or activity in response to a particular concern or suspicion.

APPENDIX 1: BACKGROUND AND AUTHORITY

CITY CONTROLLER

The City Controller is an independently elected official who is granted authority through Article VIII of the City Charter. Article VIII, Section 7, Audits, requires the City Controller to:

> "…be responsible for conducting internal audits, in accordance with professionally recognized auditing standards, of the operations of all City departments, offices, agencies and programs. The scope of internal auditing shall encompass an objective and systematic examination of evidence to provide an independent assessment of the efficiency and effectiveness of the city's system of internal controls and the quality of performance based on quantifiable criteria in meeting objectives…".

The City Controller assigns this responsibility to the City Auditor (through appointment) to be the executive in charge of the Audit Division, whose scope of work is contained under a separate charter (Audit Division Charter). Audit results are issued to the Mayor, City Council Members, and Department Directors.

AUDIT DIVISION CHARTER

The Audit Division is granted authority through its charter, which defines the mission, scope authority, responsibility, and accountability of this function. The charter states that we are to:

> "…perform the Audit function for the Office of the City Controller. This includes provision of independent, objective assurance and consulting services designed to add value and improve the City's operations."

The projects we perform use a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. We adhere to 1) Government Auditing Standards (GAS - commonly referred to as the "Yellow Book") and 2) Global Internal Audit Standards as issued by the Institute of Internal Auditors (IIA - known as the "Red Book").

AUDIT RESOURCE ALLOCATION

The Annual Audit Plan prioritizes our limited resources and emphasizes audits or projects with a perceived high or moderate risk profile rating. Specific risk factors related to internal controls, estimated liability and levels of exposure are used to identify and prioritize risks. As such, the City's audit function serves as a risk evaluation resource.

The number of audits or projects included in the Annual Audit Plan are based on consideration and an evaluation of:

- Current Audit Division headcount (9).
- Average number of hours used on a typical audit engagement (currently 1,000 hours per audit).
- Other services provided by the City Controller's Office.
- Unplanned requests from the Mayor, Controller, City Council and/or other department management.

For audits or projects that involve circumstances where: 1) the use of experts/specialists is required, 2) our independence as an organization is impaired, or 3) there is the potential for significant political sensitivity, the Office of the City Controller may elect to use external consultants. A budgeted dollar amount is approved for the use of these resources.

If resources are available, we will also aid City management or City Council when special projects are requested. Our ability to assist will also depend on the context and priority of the request. If the assistance requires the use of external consultants, additional funds may need to be provided by the appropriate departments and/or City Council.

APPENDIX 2: AUDIT PLAN DEVELOPMENT

DEFINITION

The Annual Audit Plan is a flexible commitment we make which establishes areas that will be prioritized for audits in accordance with the responsibility and authority identified in the City Charter.

DEVELOPMENT

Developing the Annual Audit Plan is a process. The professional auditing standards noted in the Background and Authority section require the Audit Plan to be based on a documented risk-based methodology. This is achieved by conducting an ERA annually for selected departments on a rotational basis to ensure efficiency and full coverage of all City departments over a four- to six-year period. Evaluation of the risk factors in the ERA process provides indicators for prioritizing potential audits and projects for the upcoming fiscal year.

In addition, input is gathered from a variety of sources including the City Council, department management, citizens, and results from previous audits. This points us in the direction of what audit projects to select.

Due to continued requests for audit services and the required testing for planned activities, the Annual Audit Plan will be monitored and revised as necessary throughout the year.
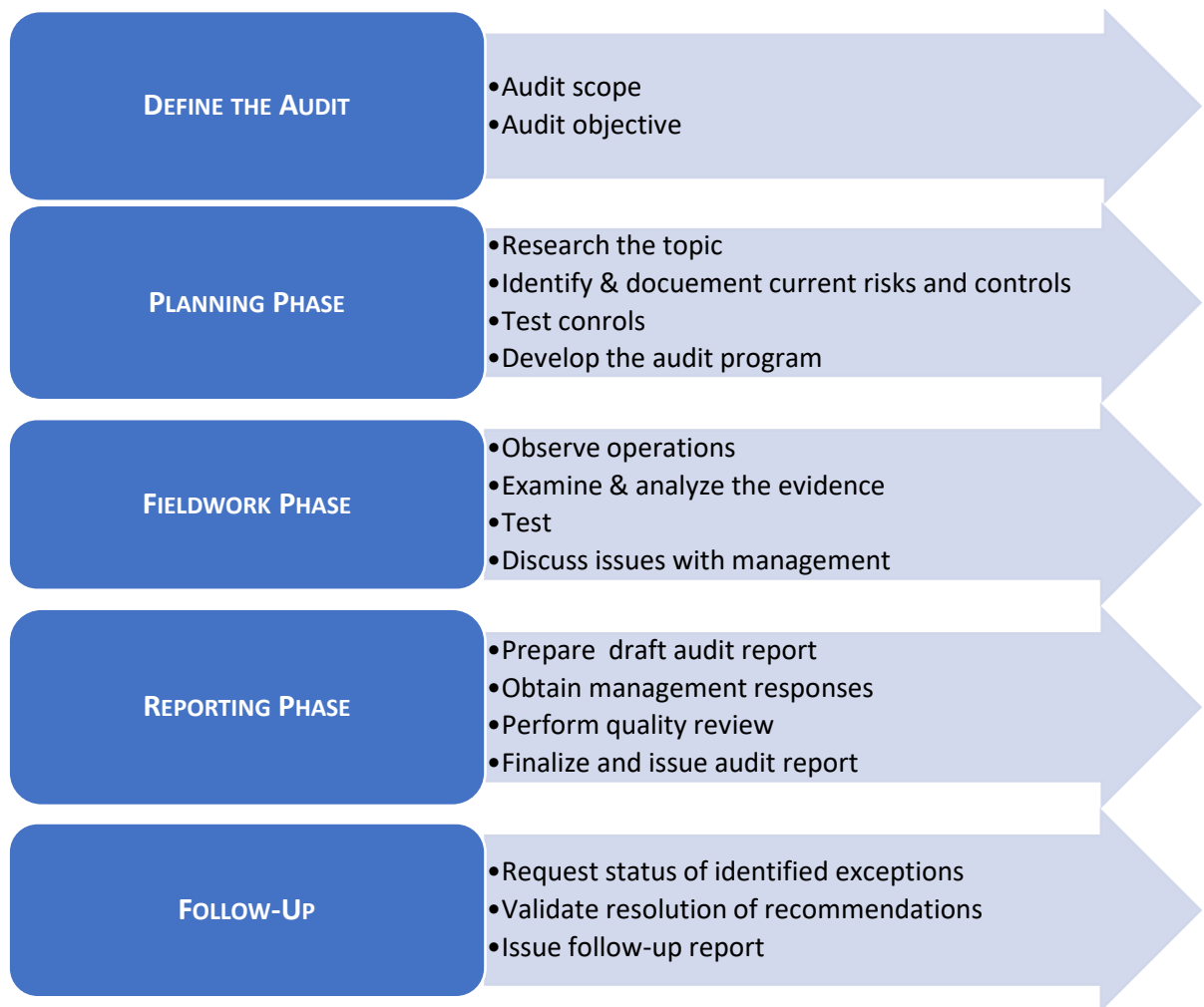
AUDIT PROGRAMS

Execution of the Annual Audit Plan requires the development of specific audit programs for each activity to be audited. Audit programs will be designed with consideration for business services, compliance, performance considerations, management input and specialized skills to meet the specific audit objectives of each project. All audit programs, workpapers and reports are prepared in accordance with:

- U.S. Government Accountability Office's Government Auditing Standards (Yellow Book).
- The Institute of Internal Auditors' Global Internal Audit Standards (Red Book).
- Relevant standards issued by the American Institute of Certified Public Accountants.

Where applicable, disclosure of nonconformance will be provided.

ELEMENTS OF AN AUDIT

The audit process is depicted in the diagram below as linear in nature; however, it is a dynamic process and adjusts to evidence, impact, and magnitude of discovery, as it occurs during the engagement process. Each audit contains these elements.

DEFINE THE AUDIT	• Audit scope • Audit objective
PLANNING PHASE	• Research the topic • Identify & docuement current risks and controls • Test conrols • Develop the audit program
FIELDWORK PHASE	• Observe operations • Examine & analyze the evidence • Test • Discuss issues with management
REPORTING PHASE	• Prepare draft audit report • Obtain management responses • Perform quality review • Finalize and issue audit report
FOLLOW-UP	• Request status of identified exceptions • Validate resolution of recommendations • Issue follow-up report

AUDIT PLAN AND STATUS UPDATE

The specific projects conducted throughout the year may be a subset of the list provided in the Audit Plan. The nature, extent and timing of audit activities will vary because of the differences in operations, organizational structure and resource availability.

High-level status reports are posted on our webpage, which are accessible from the City Controller's website at http://www.houstontx. gov/controller/audit/projects.html.

Interim City Auditor
Olaniyi Oyedele, CPA

Audit Plan reports available at:
http://www.houstontx.gov/controller/audit/auditplan.html

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http://www.houstontx.gov/controller/audit/auditreports.html