



# Controller's Office Audit Update



## Goals

- Beginning formal and consistent dialogue between City Auditor and BF&A –
- Additional layer of Transparency for the Controller's Office Audit Function
- Identify and address specific concerns of BF&A

## Agenda

### Audit Division Update

- **What and Why** (Purpose, Structure, Responsibility, and Authority)
- **How** (Alignment of Mission/Strategy, Framework, Risk-Based Auditing)
- **How well** (Performance Metrics)



# WHAT AND WHY

(Purpose, Structure,  
Responsibility, and Authority)



# City of Houston Form of Government

- **Strong Mayoral Form**

- ✓ Mayor (CEO) of City Departments – Sets Agenda for City Council Sessions, votes on items, Chief Executive Officer of municipal government
- ✓ City Controller (CFO) – Independently elected official that provides objective reports of the City's financial and operational activities, and does not have a vote on City Council Agenda Items
- ✓ City Council (Legislative) – Proposes agenda items and votes on behalf of constituency.

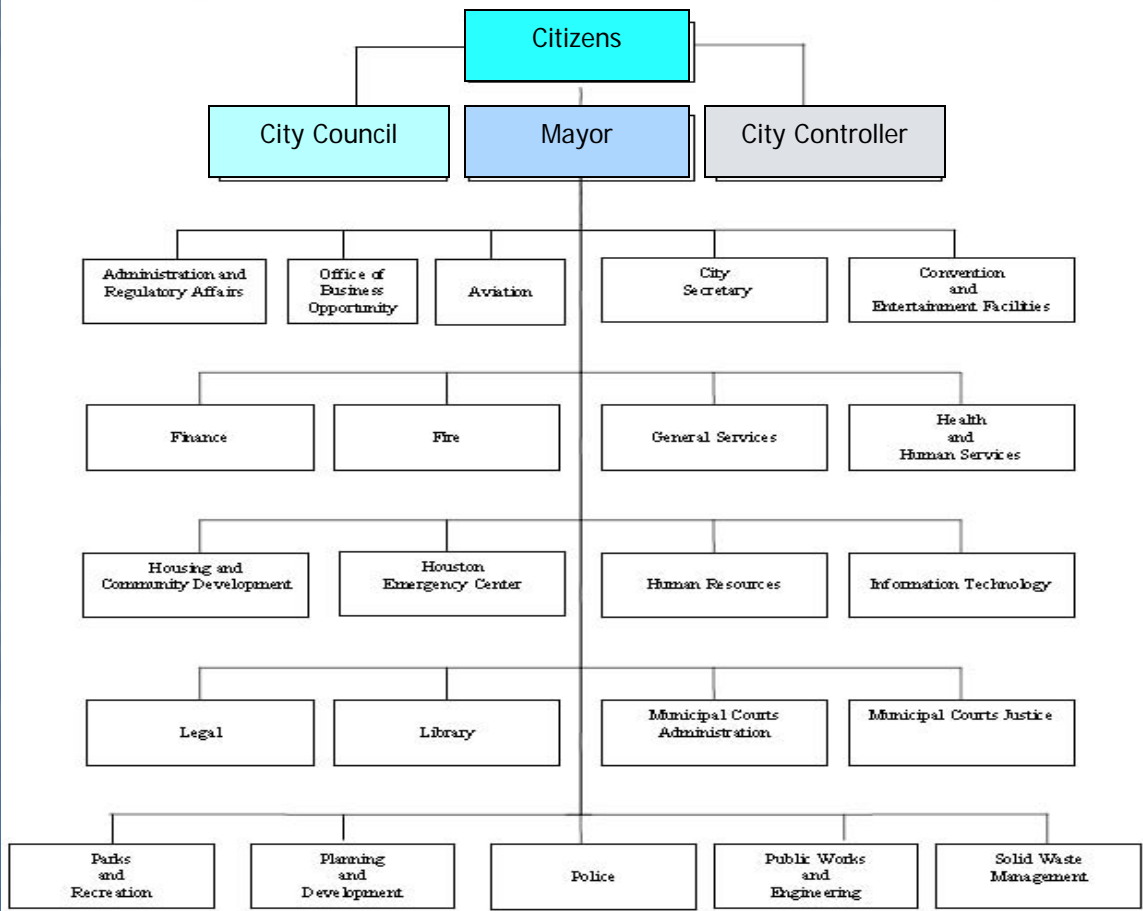


# Organizational Structure of the City of Houston



2011 CITY OF HOUSTON  
Comprehensive Annual Financial Report

## Organization Chart City Government

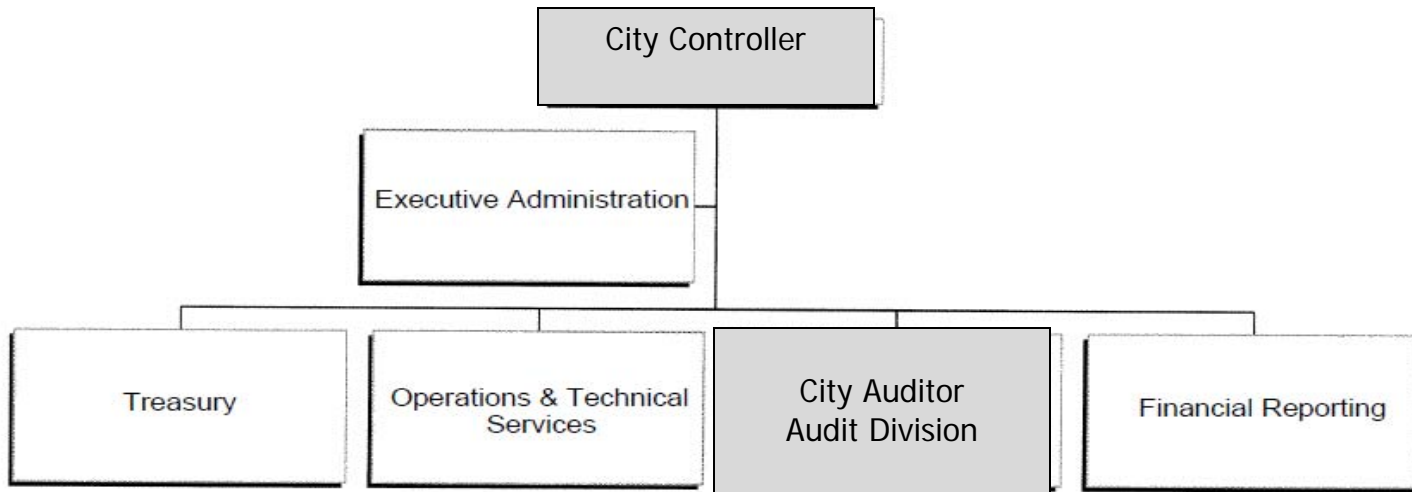




# Organizational Structure of the Office of the City Controller

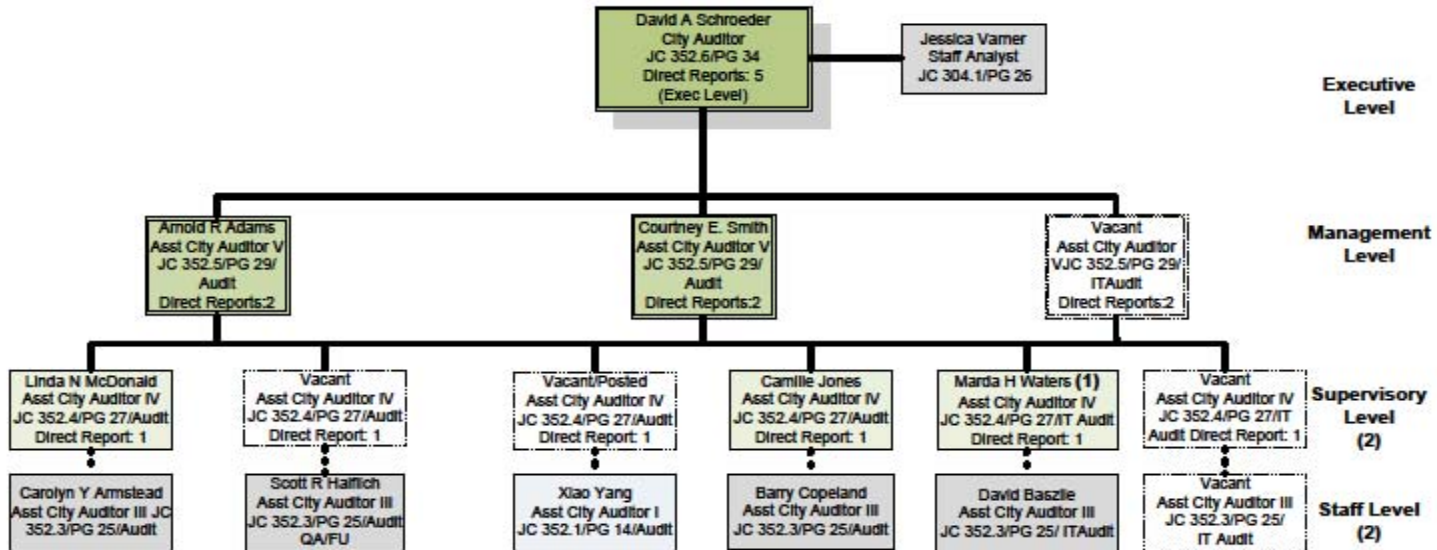
 **2009 CITY OF HOUSTON**  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

## City of Houston The Office of the City Controller



# Audit Division Org Chart

Office of the City Controller  
 Audit Division  
 Effective September 30, 2012



**Notes:**

1. Acts as a supervisor for IT Function.
2. Reporting Structure for Time, Attendance and Annual Employee Performance Evaluations (EPE) are designated, while functional accountability is between levels as defined by Job Grade

----- Functional Reporting line

\*\*\* Currently, the Controller's Office Audit Division is utilizing the assistance of 1 Audit Intern through our Internship program with local universities.

# City Charter

## ARTICLE VIII. - CITY CONTROLLER

### Section 7. - Audits.

The City Controller shall 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. Nothing in this section shall extend the authority of the City Controller to initiate or implement policy beyond the financial oversight already granted by the Charter. (Added by amendment November 2, 2004)



# HOW

(Alignment of Mission/Strategy,  
Framework, Risk-Based  
Auditing)



# Audit Division Mission and Objectives

1. Fulfill responsibility of the City Charter, Article VIII, Section 7., by Compliance with Professional Standards
2. Model of Maturity and “Self-Actualization”

[Controller's Office Audit Division Website](#)

# Professional Standards

**Generally Accepted Government Auditing Standards (GAGAS)** issued by the Government Accountability Office (GAO) – also referred to as “the Yellowbook”

**International Professional Practices Framework** issued by the Institute of Internal Auditors (IIA) – also referred to as “the Redbook”

**Controller’s Office Audit Division’s Compliance with professional standards is assured through a Peer Review Audit performed by an External Agency (non-City) – the Report is posted publicly.**

**[2010 Peer Review Results](#)**

# Audit Division Mission and Objectives (1)

The *Mission Statement* of the Audit Division (AD) is to perform the Internal Audit (IA) function for the Office of the City Controller (CC) of the City of Houston, Texas. This includes provision of independent, objective assurance, attestation, and consulting services designed to add value and improve *the City's* operations. In doing so, we comply with Generally Accepted Governmental Auditing Standards (GAGAS) promulgated by the Government Accountability Office (GAO) and the International Standards for the Professional Practice of Internal Auditing (The Standards) as issued by the Institute of Internal Auditors (IIA). The AD helps Department Management of *the City* accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of various processes (i.e. risk management, control, and governance).

# Audit Division Strategic Vision (2)

As the fourth largest municipality in the United States, we seek to become an example of a standard of excellence for other *IA* functions to benchmark. We accomplish this, in part, by adopting and adhering to our Policies and Procedures, which are rooted in professional requirements, continuing improvements and other guidance as presented on our website. We couple this by leveraging knowledge, experience, and applying best practices within the scope of our work and profession.



# Developing Risk-Based Annual Audit Plan

1. Updates to Department Risk Profiles
2. Trends and patterns of issues, and root causes as identified in previous audits
3. Notable/Significant Changes within the Organization
4. Considerations of Significant Information Systems
5. Changes to Risk Universe – Component Units
6. Requests/Feedback from Mayor, City Council, Department Directors



# Risk Assessment

## 1. Updates to Department Risk Profiles

- Selected Departments are reviewed and updated based on previously identified risk profile

[Audit Reports - ERA](#)

- Full coverage every 5 years

## 2. Trends and patterns of findings/issues, impact/magnitude, root causes as identified in previous audits

- Communication to the Mayor of systemic, recurring, and/or pervasive issues/risks



# Risk Assessment

## •3. Notable/Significant Events within the Organization

- Creation of related legal entities performing services on behalf of the City (Also impacts Risk Universe)
  - Crime Lab (LGC)
  - Sobering Center (Partnership) and 501(c)3 foundation
- COH MOA with SWA for \$100 million Hobby Expansion
- Contract for procurement of Electricity for \$500 Million over 3-5 years from Reliant Energy
- \$400 Million Bond Proposal
- First full year of Self-Insured Health Benefits



# Risk Assessment

- 4. Considerations of Significant Information Systems
  - City-Wide Implementation of Kronos; (Part of Centralizing Payroll)
  - C-Smart – budget increases, timeline, etc;
  - HAS Project Management Systems; (Non-Integrated)
  - P-Card transaction mapping
  - Choice Online integration with SAP → Administrator
  - 700MHz Radio Sys; ERP Phase III; GIS; Lib Radio Freq ID





# Risk Assessment

- 5. Changes to Risk Universe –Types of Service, Service Delivery, Resource Utilization
  - Consolidation of Fleet Activities to FMD
  - Consolidation of HR functions
  - Creation of DON, OBO (formerly AACC)
  - Component Units/Legal Entity Relationships
    - TIRZ
    - Foundations/Fund-Raising
    - Controlling Interest
  - Key Leadership Changes and/or Attrition



# Risk Assessment

- 6. Requests/Feedback from Mayor, City Council, Department and Fraud Reporting
  - CUS – Meter accuracy, billing and review process/service
  - Special Revenue Funds – Directly traceable costs/Labor/ABC/allocations
  - MWBE compliance and effectiveness
  - Vendor Contract Concerns
  - Airport Parking Vendor



# HOW WELL

## Performance Metrics Aligned with Stakeholders

See Additional Handout



# Review of 2012

## Audit Division Projects/Status

FY2012	
Description	Quantity
Number of Reports	12
Number of Audit Reports (Non-Recurring)	6
Number of Projects (Includes A-133 Programs tested individually)	38

FY2012	
Number of Audits/Projects on Plan	31
Number of Audits/Projects Begun or Completed	38
Percentage	>100%
Audits Carried over to FY2013	3
Number of Planned Projects Completed	27
<b>Percentage of Completed Audits/Projects</b>	<b>87%</b>
Unscheduled Projects Performed	7



# Review of 2012

FY2012					
Description	Quantity	Hours Paid	Hours Per Audit	Chargeable Time	Chargeable Hours per Audit
Number of Reports	12	22,300	1,858	17,408	1,451
Number of Audit Reports (Non-Recurring)	6	9,556	1,592		1,250
Number of Projects (Including A-133 Grant Programs tested)	38	22,300	587	17,408	459



# Review of 2012

Report Number	Project/Audit	Cost Savings/Refunds/Overcharges
12-01	HAS Concession Audit	\$532,659
		\$1,716,584
12-03	PARD Golf-Course - Refinance	\$108,000
N/A	A-133	\$255,000
	Telecom (partially complete)	\$200,000
	Total	\$2,812,243
12-04	PARD - Golf Course	\$60,000
	Telecom Refunds	\$3,145,000
	Total Identified	\$6,017,243



# Review of 2012

## Efficiency and Cost-Savings

Efficiency and Cost-Savings												
Description		Hourly Rates		Cost of Audits			Cost Savings per Audit as Realized or Invoiced			Net Cost/(Return)		
		Per Chargeable Hour	Per Paid Hour	Per Audit Report	Per Audit (non-recurring)	Per Project	Per Audit Report	Per Audit (Non-recurring)	Per Project	Per Audit Report	Per Audit (non-recurring)	Per Project
<b>FY2012</b>												
Total Payroll	\$1,200,451	<b>\$69</b>	\$54	<b>\$100,038</b>	<b>\$171,493</b>	<b>\$31,578</b>	\$234,437	\$401,749	\$74,032	\$134,399	\$230,256	\$ 42,454
Total Budget	\$1,578,030	<b>\$91</b>	\$71	<b>\$131,503</b>	<b>\$225,433</b>	<b>\$38,815</b>				\$102,934	\$176,316	\$ 35,217
<b>FY2013</b>												
Total Payroll	\$1,252,055	<b>\$72</b>	\$56									
Total Budget	\$1,568,550	<b>\$90</b>	\$70									






# 2013 Controller's Audit Plan



Project	
<b>New</b>	
1	ARA/SPD – P Card
2	FMD- NAPA Contract
3	HDHHS- Inventory
4	HFD – Administration and HR utilization
5	MWBE/CBE
6	PWE- Customer Utility Service- Proposition 1/ Special Revenue Funds
<b>Carryover</b>	
7	HAS- OAPV
8	HR- Benefits/CIGNA
9	HFD- Process Review
10	ITD- Local Telecom – Landlines only
11	ARA/SPD – Office Supplies Contract
<b>Alternative Projects for FY2013</b>	
12	HAS –Airport Parking Vendor
13	GSD- Performance/ Building & Security Services
14	HPD- Support Op- Property Room
<b>Recurring</b>	
15	ERA
16	Follow-up Audits/Procedures
17	A-133
18	P&P
19	QA
20*	Data Analytics – Continuous Monitoring
21	Fraud, Waste and/or Abuse Monitoring and Reporting

# Current Status

  
 Office of the City Controller  
 Audit Division Status  
 September 30, 2012

Report/Project on FY2013 Audit Plan	Source of Proposed Engagement	FY2013 Actual	Report/Project	Type of Audit	Completion Status
1	FY2013 Audit Plan		ARA-SPD - P-Cards	Performance/Compliance	Open
2	FY2013 Audit Plan		FMD - Contract	Performance/Compliance	Open
3	FY2013 Audit Plan		HDHHS - Pharmacy Inventory	Performance/Compliance	Open
4	FY2013 Audit Plan		HFD - Admin/HR Utilization	Process Review	Open
5	FY2013 Audit Plan		MWBE	Performance/Compliance	Open
6a	FY2013 Audit Plan	▼	PWE - CUS/Billing	Performance/Compliance	Due Diligence
6b	FY2013 Audit Plan	▼	PWE-MCJ- Prop1/Special Revenue Funds	Performance/Compliance	Open
<b>Carryover from FY2012</b>					
7	FY 2012 Audit Plan	▼	HAS - OAPV - Parking	Contract Compliance/Performance	Fieldwork - 80% Complete
8	FY 2012 Audit Plan	▼	HR - Benefits/Cigna	Contract Compliance/Performance	Planning/Risk Assessment/Internal Controls
9	FY2011 Audit Plan	▼	HFD - EMS & Other Supplies	Process Review	Fieldwork- Testing Process documentation - Warehouse and Fire Stations
10	FY 2012 Audit Plan	▼	12-03 ARA - Office Depot	Contract Compliance/Performance	Reporting - Scheduled to be issued October, 2012
11	FY 2012 Audit Plan	▼	ITD - Telecom Audit	Contract Compliance/Performance	Fieldwork/Contract Amendment in process/ \$3Million in savings/refunds - formal complaint to PUC - Legal Dept. reviewing PUC filings and coordinating with HCA. Rd 1 Savings Realized \$201,000 Rd 3 Savings Realized \$386,000 (being verified) Draft Report completed - sent for management responses
Co-Source	FY 2012 Audit Plan	▼	HAS - Concession - Rental Cars	Contract Compliance/Performance	
<b>Alternative/Optional</b>					
12	Alternative/Optional		HAS- Terminal Parking	Contract Compliance/Performance	Open
13			GSD - Maintenance and Workorders	Contract Compliance/Performance	Open
14			HPD - Property/Evidence	Compliance/Performance	Open
<b>Recurring</b>					
15	Audit Plan	▼	12 A-133/CAFR Assistance	Compliance	Fieldwork
16	Audit Plan/Required		12-ERA	Performance	Reporting - Scheduled to be issued October, 2012
17	Audit Plan/Required	▼	12 Follow-up Procedures	Performance	Testing of Selected Departments:
18	Audit Plan/Required	▼	Quality Assurance	Required	FY 2011 QA memo - CA comments back to QA
19	Audit Plan/Required	▼	Fraud Considerations/Reporting/Hotline	Required	Quarterly Update in process
20	Audit Plan	▼	Continuous Auditing using Automated Tools -	Special Project	Fieldwork

# Questions/Discussion