

Port of Houston Authority



Annual Audit Plan Report

Fiscal Year 2015

December 16, 2014

Prepared By:

Maxine N Buckles
Managing Director Internal Audit

Approved By:

Port Commission, and
Audit Committee of the Port Commission



Port of Houston Authority
2015 Annual Audit Plan Report

To: Port Commission of the Port of Houston Authority, and
Audit Committee of the Port Commission

Date: December 16, 2014

Subject: Annual Audit Report – Fiscal Year 2015

Dear Commissioners:

I am pleased to submit to you the Fiscal Year 2015 Audit Plan. The basis of this year's Annual Audit Plan (Audit Plan) was an Enterprise Risk Assessment (ERA) performed by the Internal Audit Division as required by the applicable professional auditing standards (ERA report under separate cover). Additional consideration is given to input from the Audit Committee, Executive Director, Deputy Executive Directors and Department Directors. This document will serve as the primary work plan to carry out the audit responsibilities in an efficient and effective manner. To enhance our effectiveness, our approach is balanced by conducting the audits using in-house staff and where appropriate by outsourcing some projects requiring certain technical or specialized skills.

This Audit Plan includes performance, compliance/contract, policies and procedures compliance and unannounced audits. Additionally, the plan provides for follow-up procedures and special projects. As the department develops we anticipate adding monitoring and continuous auditing to the program.

Updates will be provided to the Audit Committee of the Port Commission at least twice a year to review the status and progress of executing the Audit Plan and to discuss other pertinent audit issues.

Respectfully submitted,

/s/ Maxine N Buckles
Managing Director of Internal Audit

Xc: R. Guenther, Executive Director
T. Heidt, Deputy Executive Director Finance and Administration



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BACKGROUND AND AUTHORITY

The Internal Audit Division (“IAD”) provides independent, objective assurance and consulting services designed to add value and improve the Port of Houston Authority’s operations. Attribute Standard 1000 of the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA) requires “... *be responsible and accountable for the Internal Audit function using a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and controls processes, and incorporate a Code of ethics of the IIA by adopting an Internal Audit Charter*”. Audit results are issued to the Port Commission, the Audit Committee of the Port Commission (“Audit Committee”) and Port Authority Management.

AUDIT DIVISION ORGANIZATION

During FY2014, the IAD had a total headcount of 4, consisting of one Managing Director, one Audit Manager, one Internal Auditor, and an administrative assistant. The IAD provides audit related services as its primary objective. However, the IAD will engage, as appropriate, certain third-party resources to conduct specialized auditing services such as Information Technology (“IT”) with a focus on Data Analysis as support for determining control risk around the key information systems, as well as the adherence to established procurement and other policies. As we receive additional training, certifications, and experience, we will continue to increase our ability to provide enhanced and value-added services.

The IAD utilizes internal and external audit resources to execute our mission and objectives and meet the needs and requests of our varied stakeholders

APPROACH AND METHODOLOGY

The IAD adheres to: 1) the Government Auditing Standards (“GAS” – commonly referred to as the “Yellow Book”) as promulgated by the Government Accountability Office (“GAO”) and 2) the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA – known as the “Red Book”). To assure compliance with these professional standards, the IAD will undergo a peer review every 3 years, with the initial review anticipated to occur during FY2017.

The Annual Audit Plan is a flexible commitment of the IAD within the Port of Houston Authority to perform engagement activity related to the responsibility and authority identified in the Port of Houston Authority Internal Audit Charter. The Audit Plan, which is approved by the Audit Committee, serves as a working document that considers items such as: the Enterprise Risk Assessment (“ERA”), input from the Audit Committee, Department Management, and results from previous audits, etc. Due to the continual requests for audit services, the increasing demand for non-audit services, and the required testing for planned activities, the Audit Plan will be monitored and revised as necessary throughout the year.

The professional standards noted previously require that the Audit Plan be rooted in risk-based methodology. In FY2013, the Port of Houston Authority IAD performed an entity-wide risk assessment to identify potential risks or exposures related to the Port of Houston Authority’s financial and business processes which considered internal control processes and incorporated management’s view of where the highest risks rest. In FY 2014, the IAD updated the ERA utilizing approximately three full-time equivalents (“FTEs”). Going forward, the ERA will be executed annually on selected departments on a rotational basis for efficiency and to ensure full coverage of all departments over a four to five year period.

Evaluating all of the various factors provides indicators on prioritizing the potential projects for the upcoming year. In other words, this points us in the direction of “what” to audit. We then identify the available resources to determine the volume of activity to include in our plan (see Audit Resource Allocation section below).



AUDIT RESOURCE ALLOCATION

Annually, the Audit Plan prioritizes the IAD's limited resources of budgeted staff and funds based on the previously referenced risk assessment. The Audit Plan, therefore, prioritizes time spent on either common Key Business Processes or departments having a perceived high or moderate risk profile rating. As such, the audit function serves as a risk management resource through the development of improved controls and the testing of existing controls.

The number of projects that are planned is based on consideration and an evaluation of:

- Current headcount within the IAD
- The existence or absence of established procedures (written and/or informal)
- Average number of hours used on a typical audit engagement
- Other types of ongoing services that the Port of Houston Authority provides
- Unplanned requests from the Audit Committee, Executive Director, or other Department Management

USE OF EXTERNAL CONSULTANTS

For projects that involve circumstances where: 1) The use of experts/specialists is required; 2) The independence of the Internal Audit Division as an organization is impaired; or 3) There is the potential for significant political sensitivity, the Managing Director of Internal Audit may elect to use external consultants. NOTE: A budgeted dollar amount is approved annually for the use of these resources.

AUDIT PROGRAMS

Upon the Audit Committee's approval of the Audit Plan, specific audit programs will be developed for each activity to be audited within the fiscal year ending 2015. The audit programs will be designed with regard to business services, compliance and other requirements, performance considerations, management input, and specialized skills in order to meet the specific audit objectives of each project. All audit programs, workpapers and reports will be prepared in accordance with:

- Relevant standards issued by the American Institute of Certified Public Accountants
- Government Auditing Standards ("Yellow Book")
- The Institute of Internal Auditor's International Standards for the Practice of Internal Auditing ("Red Book")

STATUS AND UPDATES TO THE ANNUAL AUDIT PLAN

The specific projects conducted throughout the year may be a sub-set of the list provided in the Audit Plan. The nature, extent and timing of audit activities will vary as a result of the differences in the nature of operations, organizational structure, competing resource priorities and management style as well as by the competence, employee capabilities, and concepts of operational control.

The IAD will also provide any assistance to the Audit Committee and Executive Director when they request special projects (assuming the available resources exist, and depending on the context and priority of the assignment as it relates to risk, exposure, fraud, waste and/or abuse). These special projects will normally be performed in addition to planned audit work. If the assistance requires the use of external consultants, additional funds may need to be provided by the appropriate departments and/or the Audit Committee. Executing the Audit Plan involves an update and status process that is performed regularly between the IAD and the Audit Committee. Additionally, the IAD will provide periodic status reports to the Port of Houston Authority's management, as necessary.



ANTICIPATED BENEFITS OF AUDIT ACTIVITIES

- Compliance
- Improved Accountability
- Cost Savings
- Improved Risk Management and Internal Controls
- Improved Financial Reporting
- Improved Efficiency

FISCAL YEAR 2015 PLANNED ACTIVITY (PROJECTS)

The following is a probable list of projects for the FY 2015 Annual Audit Plan. The Audit Process, while often tracked in a linear fashion, is truly dynamic and reacts to evidence, impact, and magnitude of discovery occurring during the entire engagement process. As such, the following planned projects are considered a starting point from which to execute. This will also provide a level of transparency and accountability for meeting our goals and objectives as set herein.

COMPLIANCE AND/OR CONTRACT AUDITS

A compliance audit is a comprehensive review of an organization's adherence to regulatory guidelines. Independent accounting, security or IT consultants evaluate the strength and thoroughness of compliance preparations. Auditors review security polices, user access controls and risk management procedures over the course of a compliance audit.

PLANNED AUDIT PROJECTS

CONTRACT COMPLIANCE– CONSTRUCTION PROJECTS

DESCRIPTION: Port of Houston Authority engages in contracts for construction activity for projects and maintenance of Port of Houston Authority assets. During FY2012, the Port of Houston Authority expended approximately \$65 million in capital projects. Prospectively, construction activity is anticipated to increase significantly. Because the Port Authority engages in a large number of construction contracts, the IAD will review, document and walkthrough several projects to identify key business processes, project set-up, tracking, procurement, inspections, approvals, billing, payment and final acceptance of work by major vendor. The audit will focus on compliance with contract billing terms and change order processes. This is an area where utilization of external expertise is anticipated.

PERFORMANCE AUDIT/CONTRACT COMPLIANCE – TENANT LEASES

As of October 31 2014, the Port of Houston Authority had approximately 150 active leases and recognized approximately \$37 million in lease revenue on a year-to-date basis. Lease revenue accounts for approximately 17% of total operating revenue. As this area has not received a detailed financial review in recent years, the IAD will review a selective number of leases for compliance with agreement terms and implementation of recommendations identified in prior external audit reviews.

PERFORMANCE/FINANCIAL AUDITS AND PROCESS REVIEWS

PROCESS REVIEW – WHARFAGE REVENUES

DESCRIPTION: During FY2013, the Port of Houston Authority wharfage revenues from the Turning Basin Terminals were approximately \$23 million, or 12% of total operating revenues. A significant number of these transactions rely on the self-reporting by the customer of throughput and tonnage. As this area has not received a review in recent years, the IAD will review, document and walkthrough several months billings to major wharfage customers to identify key business processes, confirm/verify reported volumes, test for approvals, billing, payment and contract compliance (focus on "major customers").



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Process Review- HARBOR FEE REVENUES

DESCRIPTION: As of October 31, 2014, the Port of Houston Authority harbor fee revenues were approximately \$5.3 million, or 2.4% of total operating revenues. A significant number of these transactions rely on the self-reporting by the customers for barge movements within our jurisdiction. As this area has not received a review in recent years, the IAD will walk through the self-reporting process and review and document towing companies' barge movements for a given period of time to ensure self-reporting is accurate and appropriately billed to our customers.

PROCESS REVIEW – FLEET MANAGEMENT

DESCRIPTION: As of September 30, 2014, the Port of Houston Authority incurred approximately \$8 million in vehicle asset purchases, with an estimated net book value of \$2 million. Annually, approximately 20 vehicles are replaced. As this is a significant expenditure area, there are numerous consumable and portable items, management of fleet activities cross several functional areas, and this area has not received an audit in recent years, the IAD will review, document and walkthrough key business processes to assist with the monitoring of the fleet management project status.

PROCESS REVIEW – OPERATIONS EQUIPMENT, FUEL AND SUPPLIES INVENTORIES

DESCRIPTION: During FY2013, the Port of Houston Authority incurred approximately \$85 million in operating expenses, excluding labor, employee benefits and depreciation categories. As this is such a significant expenditure area, there are numerous consumable and portable items, and this area has not received an audit in recent years, the IAD will review, document and walkthrough several key business processes to evaluate compliance with procurement and other policies and assess tracking and control of high value items.

PROCESS REVIEW – IT EQUIPMENT AND SUPPLIES INVENTORIES

DESCRIPTION: During FY2013, the Port of Houston Authority expended approximately \$5 million in purchases associated with the acquisition of IT-related equipment, supplies and services. As this is such a significant expenditure area, there are numerous consumable and portable items, and this area has recently experienced incidences of fraud, the IAD will review, document and walkthrough several key business processes to evaluate compliance with procurement and other policies and assess tracking and control of high value items.

SPECIAL PROJECTS & ON-GOING MONITORING PROCEDURES

ENTERPRISE RISK ASSESSMENT (ERA)

DESCRIPTION: Each year the IAD develops the Audit Plan based upon risks (primarily business, financial, operational, etc.). Key benefits are gains in significant knowledge, and having a diverse team exposed to all the major operations of the Port of Houston Authority. Professional auditing standards (both GAO and IIA) require audit resources to be allocated to projects based on continued risk assessment methodology. Going forward, annual risk assessments will be performed on approximately 8 to 10 departments per year, allowing full coverage of the Port of Houston Authority on a recurring four to five year rotation.

FOLLOW-UP PROCEDURES

DESCRIPTION: As issues are identified during the course of conducting audits/engagements, they are documented and reported accordingly. In order to help initiate change and continued improvement, our follow-up procedures will effectively monitor progress on implementation of management responses to our recommendations. IAD will communicate with responsible management at regular intervals, inquiring as to the progress on implementation of corrective actions. These communications will be formally documented and published accordingly. Additionally, a sample of items will be tested on a periodic basis, depending on the magnitude, impact, and estimated cost-savings.



QUALITY ASSURANCE PROCEDURES

DESCRIPTION: Professional standards require that the audit function have a system of quality control/assurance in place to ensure all necessary elements are in place and operating effectively. Each audit/project is reviewed by a professional staff member not directly assigned to the audit. The goal is to verify that sufficient, 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).

FRAUD HOTLINE/REPORTING

DESCRIPTION: The IAD provides two primary vehicles for reporting fraud, waste and/or abuse: (1) A Fraud Hotline answered by TheNetwork, a third-party hired by the Authority to independently gather and report fraud and/or misconduct to the IAD and (2) a link to report fraud available from both the Port Authority SharePoint Homepage and TheNetwork's website. Additionally, the IAD provides auditing support based on requests from the Port Security and/or other authorities. Each reported concern has to be addressed. This may result in performing substantive procedures, such as an audit, or may be referred to an outside agency or department for follow-up. The initial contact, work performed, conclusions and/or referral are documented to support their disposition. In some instances, this may also require subsequent follow-up or monitoring to adequately resolve.

DATA ANALYTICS AND CONTINUOUS AUDITING

PROCESS REVIEW – Promotion & Development (“P&D”) Fund

DESCRIPTION: During FY2013, the Port of Houston Authority spent approximately \$3.6 million, or 2% of gross operating revenues, in P&D activities. As of October 31, 2014, the Port of Houston Authority spent approximately \$5.2 million, or 3% of gross operating revenues, in P&D activities. The IAD shall monitor the authority's compliance with statutory requirements governing use of the P&D fund, as defined by HB No. 1642 Section 5007.219(a).

UNANNOUNCED AUDITS

DESCRIPTION: The IAD may perform audits on an unannounced basis during the year. These may include:

- Cruise Parking Receipts
- Payroll
- Petty Cash