



External Quality Control Review

of the

City of Houston
Office of the City Controller's
Audit Division

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

for the period July 1, 2010 through June 30, 2013



Association of Local Government Auditors

November 1, 2013

David Schroeder, CPA, CISA
City Auditor
Office of the City Controller
901 Bagby, 9th Floor
Houston, Texas 77251

Dear Mr. Schroeder,

We have completed a peer review of the Office of the City Controller's Audit Division for the period of July 1, 2010 through June 30, 2013. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing the City Controller, management, and auditing staff to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the internal quality control system of the Office of the City Controller's Audit Division within the City of Houston was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period of July 1, 2010 through June 30, 2013.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Kathy Knox
CIA, CRMA, CFE, CGFM
Los Angeles Metropolitan
Transportation Authority

Dr. Jeffrey Phillips
CFE
Los Angeles
Police Department

Richard Howard
CPA, Southern
California Association
of Governments

Charles Mansen
CIA, CFE, CIGA
Palm Beach Florida
Clerk & Comptroller



Association of Local Government Auditors

November 1, 2013

Mr. David A. Schroeder
City Auditor
City of Houston
Office of the City Controller
Audit Division
901 Bagby, 9th Floor
Houston, Texas 77251

Dear Mr. Schroeder,

We have completed a peer review of the Office of the City Controller's Audit Division for the City of Houston Texas for the period July 1, 2010 through July 31, 2013, and issued our report dated November 1, 2013. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels. We were impressed with:

- Staff certifications and wealth of professional audit experience.
- A comprehensive annual enterprise risk assessment process and annual audit plan.
- The detailed policies and procedures manual.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

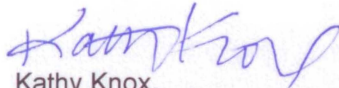
Standard 6.69 require "auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions within the context of the audit objectives ...". It further states "Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions ...".

We observed the policies and procedures do not instruct auditors to include an overall assessment of the collective evidence used to support findings and conclusions in the workpapers as stated in Standard 6.69.

We suggest the policies and procedures be updated to reflect the requirement that auditors perform and document an overall assessment of the collective evidence pursuant to Standard 6.69.

We extend our thanks to you, your staff and the City Controller for the hospitality and cooperation extended to us during our review.

Sincerely,



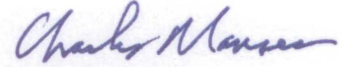
Kathy Knox,
CIA, CRMA, CFE, CGFM
Los Angeles Metropolitan
Transportation Authority



Dr. Jeffry Phillips
CFE
Los Angeles
Police Department



Richard Howard,
CPA, Southern
California Association
of
Governments



Charles Mansen,
CIA, CFE, CIGA
Palm Beach Florida
Clerk & Comptroller



November 1, 2013

Kathy Knox, CIA, CRMA, CFE, CGFM
Deputy Executive Officer, Audit
Los Angeles Metropolitan Transportation Authority
Los Angeles, CA 90014

Ms. Knox,

We have received the results from the Association of Local Government Auditors' (ALGA) peer review you performed of the Audit Division within the Office of the City Controller for the period of July 1, 2010 through June 30, 2013. We acknowledge your opinion that *our internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with:*

- Government Auditing Standards (*GAS/Yellowbook*) promulgated by the Government Accountability Office (GAO).

We recognize this as **full compliance** and also appreciate the recommendations that your review provided as an opportunity for us to improve. Please see our responses to your observations and recommendations for that on the following page.

We found the process beneficial to our function and the overall profession of internal auditing. You and your team performed the engagement in a manner that displayed a high level of professionalism, skill, integrity and service. The process you employed underscores the value of the peer review process.

We would like to express our appreciation to you and the rest of the ALGA peer review team:

Dr. Jeffrey Phillips, CFE
Los Angeles Police Department
Los Angeles California

Richard Howard, CPA
Internal Auditor
Southern California Association of Governments
Los Angeles, California

Charles Mansen, CIA, CFE, CIGA
Audit Projects Administrator
Palm Beach County Clerk and Controller
Division of Inspector General

Sincerely,

David A. Schroeder
City Auditor
Office of the City Controller
City of Houston

CITY AUDITOR'S ACKNOWLEDGEMENT

GAS/YELLOWBOOK –

- **Observation :** Standard 6.69 require that “Auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions within the context of the audit objectives...” It further states “Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions...” We observed policies and procedures do not instruct auditors to include an overall assessment of the collective evidence used to support findings and conclusions in the workpapers as stated in Standard 6.69.

Recommendation: We suggest the policies and procedures be updated to reflect the requirement that auditors perform and document an overall assessment of the collective evidence pursuant to Standard 6.69.

RESPONSE: *We Concur* that we have not documented an overall assessment of evidence as a whole, however we recognize that our practices are in place to render conclusions with sufficient and appropriate evidence related to the scope of work and audit objectives therein. We further note that our reports include a compliance statement to this regard. We will, however, add specific language to our Policies and Procedures that indicates *how* we evaluate and document evidence when taken as a whole, to be sufficient to support the overall conclusions of the scope of work performed.

I acknowledge the responses presented above as the commitments and representations of the City Auditor of Houston, TX relating to the observations and recommendations provided by the ALGA peer review team in assessing our compliance with generally accepted government auditing standards as promulgated by the Government Accountability Office for the period of July 1, 2010 through June 30, 2013.



David A. Schroeder
City Auditor
Office of the City Controller
City of Houston