

December 10, 2021

To Management of City of Houston, Texas:

In planning and performing our audit of the financial statements of the City of Houston, Texas (the City) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. Although, we did not identify any deficiencies in internal control that we consider to be material weaknesses, we identified certain significant deficiencies regarding the City's internal controls over compliance for major federal programs that were previously communicated to you in our single audit report dated December 10, 2021. Additionally, we have also identified certain matters involving the internal control and other operational matters which were summarized in a memorandum that accompanies this letter. Such memorandum also provides our comments and suggestions regarding those matters. This letter does not affect our independent auditor's report, or our report issued under Government Auditing Standards, dated December 10, 2021, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed previously with appropriate City personnel, are intended to improve the internal control, or result in other operating efficiencies, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We believe that the implementation of these recommendations will provide the City with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you at your convenience.

This communication is intended solely for the information and use of the City's elected officials, management, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,





**MEMORANDUM
SUMMARY OF COMMENTS AND SUGGESTIONS**

In connection with the audit and our review of internal control related to financial reporting, we noted the following items that we wish to report to management:

A. STRENGTHEN AND STREAMLINE FINANCIAL STATEMENT PREPARATION PROCESS

The Financial Reporting Division of the Controller's Office is ultimately responsible for the preparation of the Annual Comprehensive Financial Report (ACFR), although every division of the City Controller's Office contributes to the ACFR effort.

Consequently, although much time and effort in preparation of ACFR lies in the Financial Reporting Division, there was support from the other divisions of the Office: Administration, Executive, Operations and Technical Services, and Treasury. Additionally, the City Controller's Office, is assisted by the staffs of the Finance, Aviation, Houston First (formerly, Convention and Entertainment Facilities), and Houston Public Works departments who contribute to its preparation.

The governmental financial accounting and reporting processes are continually changing, with the advent of new and additional accounting and financial pronouncements issued annually by the Government Accounting Standards Board (GASB). The pronouncements normally affect the accounting and reporting process and expand the disclosure requirements within the ACFR.

Due to the size and complexity of the City's financial accounting and reporting system, the ACFR process becomes a time intensive and highly technical process. The current ownership over the preparation of the ACFR is primarily assigned to one individual within the Financial Reporting Division. Consequently, this puts the City at risk of not having the appropriate succession plans, creates risks that occur when the preparer is also the reviewer, and may prevent the detection of certain reporting issues in a timely manner. These risks cause significant stress in the preparation process and impact the ability to get the ACFR issued timely and within the established deadline.

With the continual changes in financial reporting requirements, and the need to involve numerous City departmental personnel and other stakeholders, the ACFR process has become more difficult to manage and coordinate the execution and completion of responsibilities and efforts. A lack of formal policies and procedures documenting the roles and responsibilities for those involved in the ACFR preparation process, exacerbates the issue, which results in:

- An inability to meet the target deadline of mid-November for the issuance of the ACFR
- The production of numerous pre-issuance (draft) versions of the ACFR before that final ACFR is ready for distribution
- Financial accounting and reporting issues addressed late in the fiscal year and near the end of the reporting period



Cause: Appropriate resources within the Financial Reporting Division, should be provided to ensure a smooth and consistent preparation process.

Recommendation: We recommend that the City consider reviewing its internal processes for preparing its annual comprehensive financial report, streamline its financial preparation process by clearly defining in writing, roles and responsibilities of process owners and provide dedicated resources to appropriately maintain a group of qualified individuals, with requisite skill sets, to prepare the City's annual financial statements. The controller's office should ensure that the appropriate technical resources are assigned to the ACFR preparation process that allows time for self-review and reduces the succession risks when the preparation and review process is primarily assigned to one individual.

Management response:

The City agrees that its internal processes for preparing the annual comprehensive financial report is necessary. As a result, the city is looking into implementing Wdesk, which is expected to reduce the process by 50% while also reducing the need for draft reports.

The Controller's office is in the process of hiring a Deputy Director to assist the Deputy City Controller with the City's annual financial statements.

The Financial Reporting Division of the Controller's Office has procedures in place for its fundholders and will encourage Departments to produce procedures for its staff.

B. APPLICATION OF ACCOUNTING POLICIES

During the conduct of the audit, we noted inconsistencies with application of the City's process for tracking grant receivables and related unearned revenue for individual cost reimbursement grants across the relevant City departments, and the appropriate understanding of debt transactions as it relates to grant related debt.

Cause: With the recent turnover within the City staff, policies and procedures as it relates to cost reimbursement transactions, should be formalized as well as made consistent by all departments. Also, communication between the departments and finance relating to non-standard transaction involving debt, is limited and needs to be improved to ensure the appropriate reflection in the accounting records.

Recommendation:

We recommend that the City take measures to streamline its reconciliation process of revenue and receivables related to cost reimbursement grants and improve dissemination of such processes within the City departments to ensure its consistent application. The accounting department should also be tasked to review the results of such reconciliations and ensure that grant receivables, related revenue and unearned revenue amounts are properly reflected in the accounting records.



Additionally, we recommend that the City provide additional training to its grant personnel related to debt transactions to insure there is an understanding on grant related debt should be reflected in the accounting records.

Management response:

The Financial Reporting Division of the Controller's office meets with the Departments yearly to give instructions on updating the grant reconciliation report and requests monthly reconciliations of grant revenues and receivables. Financial Reporting reviews the report against SAP for discrepancies. For each month that the expenditures do not agree to revenues, receivables, or deferred revenues, the Depts. provide an explanation to that effect. Our team will expand the instructions this year. In addition, instructions are provided in the year-end booklet.

Financial Reporting will provide a training session each fiscal year of areas that we have determined to be lacking within the Departments, i.e., due to/due from, transfers, interfund accounts, etc.

C. IMPROVE PROCUREMENT PROCESSES AND CONTROLS

During the course of our audit, we experienced difficulties in obtaining a complete list of procurements processed during the fiscal year due to software limitations and had to compile such a listing in an alternative manner that was overly complicated and created inefficiencies.

Cause: The reporting function within the eBid system has not been fully reviewed to determine if the appropriate reports can be produced at the correct level of detail.

Recommendation: We recommend that the City thoroughly explore and review the current reporting capabilities of their eBid System to produce a bid listing that tracks all City procurements by fiscal year, and evaluate expansion of such capabilities when an opportunity exists so as to facilitate a comprehensive audit and review of procurement activities that occurred during the fiscal year, enable evaluation and accuracy of year-over-year procurement activities and improve monitoring of the City's implementation of its procurement policies.

Management response:

The City is very much aware of the shortfalls with the current eBid platform and was in the process of replacing it with an upgraded, fully integrated purchasing, contract and vendor management system which included document control and contract management. This project was put on hold in late October 2021 but is anticipated to be re-initiated in early 2022.

In the interim, SPD, the central procurement group for the City of Houston, will immediately begin meeting with the City departments that do not use the central eBid system (HPW, GSD and HAS) and set up a schedule to review/monitor the individual bids for process compliance as well as review internal controls.