



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
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 of July 1, 2010 through June 30, 2013. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing* 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 if your internal quality control system operated to provide reasonable assurance of conformance with *the International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors as part of their *Professional Practices Framework*. Due to variances in individual performance and judgment, conformance 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 conformance with *the Standards* for assurance and consulting 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:

- The professional certifications and extensive professional audit experience of your staff.
- Detailed and comprehensive policies and procedures manual.
- Risk based annual Audit -Follow Up process.
- Implementation of the annual enterprise risk assessment process to develop a comprehensive annual audit plan.

We offer the following observations and suggestions to enhance your organization's demonstrated conformance to *International Standards for the Professional Practice of Internal Auditing*:

Observation

Attribute Standard 1300 "Quality Assurance and Improvement Program" – One aspect of a Quality Assurance Improvement Program is policies and procedures. Standard 1300 requires that "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity." The policies and procedures related to consulting services can be improved by including more specific guidance in alignment with the performance standards.

Suggestion

Consider updating the Policies and Procedures to include specific standards and guidance in alignment with the *International Standards for Professional Practice of Internal Auditing*.

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

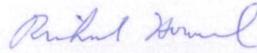
Sincerely,



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



Dr. 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



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 conformance* with:

- The International Standards for the Professional Practice of Internal Auditing (*The Standards/Redbook*) issued by the Institute of Internal Auditors (IIA).

We recognize this as **full conformance** 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 both reports on the following pages.

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,

A handwritten signature in blue ink, appearing to read "D. Schroeder", is written over a horizontal line.

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

CITY AUDITOR'S ACKNOWLEDGEMENT

IIA STANDARDS/REDBOOK

- **Observation :** Attribute Standard 1300 – “*Quality Assurance and Improvement Program*” – One aspect of a Quality Assurance and Improvement Program is policies and procedures. Standard 1300 requires that “*The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.*” The policies and procedures related to consulting services can be improved by including more specific guidance in alignment with the performance standards.

Recommendation: Consider updating the Policies and Procedures to include specific standards and guidance in alignment with the *International Standards for the Professional Practice of Internal Auditing*.

RESPONSE: *We Concur.* We will be updating our Quality Control System by adding language to our Policies and Procedures that draw specific terminology related to “Consulting Services” as referenced throughout the IIA Redbook. We have historically framed consulting type services as performance audits with the full complement of applicable standards for assurance. That being stated, we will leverage off of the emphasis that the GAO has placed on “Non-Audit Services” as the foundation for evaluation, communication, implementation, application and reference.

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 the International Standards for the Professional Practice of Internal auditing as issued by the Institute of Internal Auditors for the period of July 1, 2010 through June 30, 2013.



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