



External Quality Control Review

of the

City of Houston Controller's Office Audit Division

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period
January 1, 2018 through December 31, 2020



Association of Local Government Auditors

November 18, 2021

Ms. Courtney Smith, City Auditor
City of Houston Controller's Office
Audit Division
901 Bagby, 9th Floor
Houston, TX 77002

Dear Ms. Smith,

We have completed a peer review of the City of Houston Controller's Office, Audit Division for the period January 1, 2018 through December 31, 2020. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guides* published by the Association of Local Government Auditors.

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* and reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States, as well as applicable legal and regulatory requirements. 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 during the period January 1, 2018 through December 31, 2020 the City of Houston Controller's Office, Audit Division's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance engagements and compliance with *Government Auditing Standards*, resulting in a rating of pass.

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

Denny L. Nester, CPA, CIA, CFE
City Auditor Retired
Colorado Springs, CO

Paula Ward, CPA
Chief Auditor Retired
Washoe County School District, NV

Corrie Stokes, CIA, CFE
City Auditor
Austin, TX



Association of Local Government Auditors

November 18, 2021

Ms. Courtney Smith, City Auditor
City of Houston Controller's Office
Audit Division
901 Bagby, 9th Floor
Houston, TX 77002

Dear Ms. Smith,

We have completed a peer review of the City of Houston Controller's Office, Audit Division (Audit Division) for the period January 1, 2018 through December 31, 2020 and issued our report dated November 18, 2021. 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:

- The Audit Division conducts quality work in spite of limited staffing. During our review, the Audit Division only had seven auditors to audit the fourth largest city in the United States, with almost 22,000 employees and a budget of \$5 billion. Many cities have more resources dedicated to address a smaller audit universe.
- The Audit Division has well-organized workpapers and templates to ensure compliance with standards.
- The Audit Division performs a comprehensive Enterprise Risk Assessment and uses it to develop the Annual Audit Plan.

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

- Observation:

Standard 2110.A1 states, "The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities."

We noted that many aspects of the City's governance related to ethics was considered when the City Auditor prepared the Annual Risk Assessment. However, the standards require the auditor to evaluate the design, implementation, and effectiveness of ethics. A strong ethical climate and an organization's ability to maintain an ethical culture is the foundation for good governance. It sets expectations for acceptable behaviors in conducting business within the organization and with external parties. A robust ethics program includes effective board oversight, strong tone at the top, senior management involvement, organization-wide commitment, a customized code of conduct, consistent disciplinary action for offenders, effective ethics training, communications, and ongoing monitoring systems.

Suggestion:

We suggest that the Audit Division periodically evaluate the design, implementation, and effectiveness of Houston's ethics-related objectives, programs, and activities. The Institute of Internal Auditors has a practice guide entitled, "Evaluating Ethics-related Programs and Activities" that may benefit the City Auditor in her consideration of ways to evaluate this area.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Denny L. Nester, CPA, CIA, CFE
City Auditor Retired
Colorado Springs, CO



Paula Ward, CPA
Chief Auditor Retired
Washoe County Schools, NV



Corrie Stokes, CIA, CFE
City Auditor
Austin, TX



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

November 18, 2021

To the ALGA Peer Review Team,

Denny L. Nester, CPA, CIA, CFE
Paula Ward, CPA
Corrie Stokes, CIA, CFE

The Audit Division within the Office of the City Controller has received the results from the Association of Local Government Auditors' (ALGA) peer review performed of our office for the period of January 1, 2018 through December 31, 2020. We are pleased that you found that our system of internal controls provided reasonable assurance of conformance with the *International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors, and reasonable assurance of compliance with Government Auditing Standards issued by the Comptroller General of the United States.

We appreciate that the review resulted in a rating of pass for the period under review.

The Audit Division is committed to providing high quality audit services and continuously looks for ways to improve our audit processes. Thank you for the observations made regarding some of the ways in which we excel. We concur with your recommendation to perform a periodic evaluation of the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

We would like to express our gratitude to each member of the peer review team for sharing their insight and perspectives, and for taking the time from your other responsibilities to evaluate our operation. We thank you for performing the review in a manner that displayed a high level of professionalism, skill, integrity and service.

Sincerely,

Courtney Smith
City Auditor
Office of the City Controller
City of Houston



The Association of Local Government Auditors
Awards this

Certificate of Compliance

to

City of Houston Controller's Office Audit Division

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audit and attestation engagements during the period January 1, 2018 through December 31, 2020.

Stan Sewell

Stan Sewell
ALGA Peer Review Committee Chair