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# External Quality Control Review

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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, 2013 through June 30, 2016

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## Association of Local Government Auditors

November 18, 2016

Ms. Courtney E. 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 Office of the City Controller's Audit Division for the City of Houston, Texas for the period July 1, 2013 through June 30, 2016. 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 auditing staff, management, and members of the Audit Committee 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 Office of the City Controller's Audit Division within the City of Houston reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the July 1, 2013 through June 30, 2016.

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

D. Lamar Norwood  
CIA, CGA, CRMA  
City of Raleigh

Patrick Cowen  
CPA, CISA, CIA  
City of Tallahassee

Brad Garvey  
CGAP, CFE, CCA  
City of Atlanta

Jennifer An  
CPA, CFE  
City of Los Angeles



## Association of Local Government Auditors

November 18, 2016

Ms. Courtney E. 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 Office of the City Controller's Audit Division for the City of Houston, Texas for the period July 1, 2013 through June 30, 2016 and issued our report thereon dated November 3, 2016. 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:

- Well-documented policies and procedures serve to ensure compliance with Government Auditing Standards.
- The Division's Quality Assurance Officer Position provides a value-added review to each engagement to help maintain standards.
- Division staff is well trained, experienced, and competent.

We offer the following observations and suggestions to help your organization achieve full compliance with *Government Auditing Standards*:

- Standard 3.76 requires auditors to complete at least 24 hours of continuing professional education (CPE) every 2 years that directly relate to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. The GAO publication, *Guidance on GAGAS Requirements for Continuing Professional Education*, provides additional guidance on the types of training that generally count as government CPE and nongovernment CPE.
- Standard 3.78 requires procedures to help ensure auditors meet CPE requirements.

In reviewing the Office's CPE records, we were unable to confirm that all employees met the 24-hour CPE requirement, based partly on the interpretation of what can be recorded as government-related CPE.

We recommend that the division establish procedures that document and ensure all auditors complete the required 24 hours of governmental CPE every two years.

- Standard 6.66 states "Auditors should assess the sufficiency and appropriateness of computer processed information ..."

During our review of audit working papers, we noted some instances of computer processed information being utilized. However, there was not always documentation in the working papers demonstrating an assessment of reliability.

We recommend that management update the policies and procedures to require documentation of an assessment regarding the reliability of any computer processed information that will be relied on during an audit.

- Standard 7.13 requires that when sampling significantly supports the auditors' findings, conclusions, or recommendations, auditors should describe in the methodology section of audit reports the sample design, why the design was chosen, and whether the results can be projected to the intended population.

We observed that four out of the nine audit workpapers lacked sampling methodology.

We recommend that management ensures that appropriate documentation of sample methodology be included with all future audits.

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,



**D. Lamar Norwood**  
CIA, CGA, CRMA  
City of Raleigh

**Patrick Cowen**  
CPA, CISA, CIA  
City of Tallahassee



**Brad Garvey**  
CGAP, CFE, CCA  
City of Atlanta



**Jennifer An**  
CPA, CFE  
City of Los Angeles



December 8, 2016

Lamar Norwood,  
Senior Internal Auditor  
City of Raleigh  
Raleigh, NC 27601

Mr. Norwood,

I have reviewed the report dated November 18, 2016 containing the results from the Association of Local Government Auditors' (ALGA) peer review of the Audit Division within the Office of the City Controller for the period of July 1, 2013 through June 30, 2016. I am pleased that the team found that our office continues to conduct our work in compliance with government auditing standards and 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 appreciate the recommendations that your review provided and view them as an opportunity for us to enhance our operations. Please see our responses to your observations and recommendations on the following pages.

We found the process beneficial to our function and the overall professional of internal auditing. You and your team performed the engagement in a manner that displayed a high level of professionalism, skill, integrity and service.

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

Patrick Cowen  
Senior IT Auditor  
City of Tallahassee  
Tallahassee, FL

Brad Garvey  
Performance Audit Manager  
City of Atlanta City Auditor's  
Office  
Atlanta, Georgia

Jennifer An  
Police Performance  
Auditor III  
City of Los Angeles  
Los Angeles, CA

Sincerely,

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

## CITY AUDITOR'S ACKNOWLEDGEMENT

### Observation 1:

Standard 3.76 requires auditors to complete at least 24 hours of continuing professional education (CPE) every 2 years that directly relate to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. The GAO publication, *Guidance on GAGAS Requirements for Continuing Professional Education*, provides additional guidance on the types of training that generally count as government CPE and nongovernment CPE.

Standard 3.78 requires procedures to help ensure auditors meet CPE requirements.

In reviewing the division's CPE records, we were unable to confirm that all employees met the 24-hour CPE requirement, based partly on the interpretation of what can be recorded as government-related CPE.

**Recommendation:** We recommend that the division establish procedures that document and ensure all auditors complete the required 24 hours of governmental CPE every two years.

**RESPONSE: *We concur.*** While we have consistently documented total CPE hours we have not kept detailed documentation to distinguish sessions within conferences that would qualify as government related CPE. We will be updating our Quality Control System procedures to enhance documentation of government related CPE to ensure all auditors complete requirements for total CPE hours and governmental CPE hours every two years.

### Observation 2:

Standard 6.66 states "Auditors should assess the "sufficiency and appropriateness of computer processed information... ."

During our review of audit work papers, we noted some instances of computer processed information being utilized. However, there was not always documentation in the working papers demonstrating an assessment of reliability.

**Recommendation:** We recommend that management update the policies and procedures to require documentation of an assessment regarding the reliability of any computer processed information that will be relied on during an audit.

**RESPONSE: *We concur.*** We recently updated our audit templates and documentation procedures to include steps to assess and document the validity/reliability of data being used in our audit procedures. We will leverage that information to update our Policies and Procedures and include specific language requiring the assessment of data reliability in our workpapers.

### Observation 3:

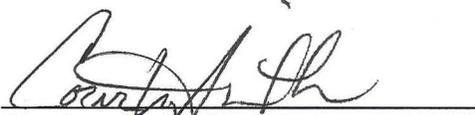
Standard 7.13 requires that when sampling significantly supports the auditors' findings, conclusions, or recommendation, auditors should describe in the methodology section of audit reports the sample design, why the design was chosen, and whether the results can be projected to the intended population.

We observed that four out of the nine audit work papers reviewed lacked sampling methodology.

CITY AUDITOR'S ACKNOWLEDGEMENT

**Recommendation:** We recommend that management ensures that appropriate documentation of sample methodology be included with all future audits.

**RESPONSE:** *We concur.* Language in our Policies and Procedures will be updated to include a requirement to document the sampling methodology for all audits.



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