

December 19, 2022

To Management of the 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, 2022, 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain matters involving the internal control and other operational matters for your consideration 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 19, 2022, 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. IMPROVE PROCUREMENT PROCESS 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 in the process of replacing the eBid system with a new procurement sourcing system with robust reporting capabilities to be in use by the end of 2023. Additionally, an internal controls group within SPD is being created to audit and review procurement activities across all departments with delegated procurement authority, to be operational by mid-2023.

B. IMPROVE PREPARATION OF SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

During the course of our audit, we noted inconsistencies in determining applicability of continuance compliance for federal loans which were still outstanding for repayment but were received in previous years and reported as expenditures on the schedule of expenditure of federal awards (the schedule).

Cause: The City has not developed a formal, written guideline for determining how personnel should assess and document applicability of continuing compliance for federal loans.

Recommendation: We recommend that the City establish formal guidelines to determine continuing compliance for federal loans that are still outstanding but the initial proceeds of which were received and expended in prior years. Such continuing compliance must be based on the terms and conditions for which such loans were given. The written guidelines will help

clarify personnel involved in preparing the schedule to assess and clearly document reporting of such loans in the schedule in compliance with the Uniform Guidance.

Management Response: The City agrees that formal guidelines to determine continuing compliance for federal loans that are still outstanding but the initial proceeds of which were received and expended in prior years is necessary. As part of the development of new guidelines, a tracking mechanism will be developed to easily identify loans that have continuing compliance requirements.

Finance will work with City departments and the Controller's Office to ensure loan roll forward schedules are reconciled to the centralized financial records. In addition to providing technical assistance, Finance will make additional training available to assist with departmental staffing challenges.