

OFFICE OF THE CITY CONTROLLER



Review of Assets and Liabilities Assigned
to the Office of the City Controller

Report# 2024-011

OFFICE OF THE HOUSTON CITY CONTROLLER

CHRIS HOLLINS
CITY CONTROLLER

COURTNEY SMITH
CITY AUDITOR



OFFICE OF THE CITY CONTROLLER
CHRIS HOLLINS, CITY CONTROLLER

May 23, 2024

The Honorable John Whitmire, Mayor

SUBJECT: Report #2024-11
OFFICE OF THE CITY CONTROLLER
REVIEW OF ASSETS AND LIABILITIES ASSIGNED TO THE OFFICE OF THE CITY CONTROLLER

Mayor Whitmire:

In accordance with the City's contract with Postlethwaite & Netterville, APAC (P&N), P&N has completed an agreed-upon procedures engagement for a review of assets and liabilities assigned to the Office of the City Controller as of December 31, 2023. The auditors stated that the work was conducted in accordance with standards established by the American Institute of Certified Public Accountants. No significant findings or issues were noted in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "C. Hollins".

Christopher G. Hollins
City Controller

xc: City Council Members
Chris Newport, Chief of Staff, Mayor's Office
Melissa Dubowski, Director, Finance Department
Vernon Lewis, Deputy City Controller, Office of the City Controller
Will Jones, Deputy City Controller, Office of the City Controller
Lenard Polk, Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

**Review of Assets and Liabilities Assigned to the City Controller
March 2024**



Ms. Courtney Smith
City Auditor
Office of the City Controller

RE: Review of Assets and Liabilities Assigned to the City Controller

Dear Ms. Smith:

Postlethwaite & Netterville, APAC (P&N) has completed our review of assets and liabilities assigned to the City Controller. The following report provides a summary of our procedures and observations.

The information presented within this report is based on the information provided to us by the Office of the City Controller. Our procedures were not designed to detect fraud or to constitute an audit, review, or compilation of the information provided. Accordingly, we will not express an opinion or conclusion nor provide any other form of assurance on the completeness and accuracy of the information.

Additionally, the projection of any conclusions, based on our findings, to past or future periods is subject to the risk that changes may have occurred during the passage of time that may alter the validity of such conclusions. Furthermore, the projection of any conclusions, based on our findings, to the whole population is subject to the risk that the sample selected may not accurately reflect the population. This engagement was conducted in accordance with the *Statements on Standards for Consulting Services*, established by the American Institute of Certified Public Accountants. This report is intended solely for the use of the City of Houston and should not be used for any other purpose.

P&N appreciates the cooperation and assistance provided by the Office of the City Controller personnel during this engagement. We appreciate this opportunity to be of service to you. Please do not hesitate to contact us if you have any questions related to this report or any other matters.

Sincerely,

Postlethwaite & Netterville, APAC

POSTLETHWAITE & NETTERVILLE, APAC

City of Houston
Review of Assets and Liabilities Assigned to the City Controller
Conducted in December 2023 and January 2024

1. Count and review the adequacy of the reconciliation of the Controller's Office petty cash.

We interviewed the custodian of the Controller's Office petty cash to gain an understanding of the City's petty cash policy and procedures. We obtained and reviewed the two prior quarterly petty cash reconciliations conducted in August 2023 and November 2023. We observed the count and reconciliation of petty cash on December 19, 2023, evidencing a \$1 overage that was identified on the two prior petty cash reconciliations. The two prior petty cash reconciliations were each conducted at quarterly intervals, and each evidenced the preparer and reviewer of the reconciliation, per policy. No material issues were identified.

2. Review and verify the controls over check signing / facsimile signature plates and assess the Controller's Office procedures for a proper cut-off related to changes in authorized signers.

We met with the Chief Operating Officer / Deputy City Controller to gain an understanding of the controls over the check signing / facsimile signature plates process. We observed the recently returned signature stamps from the prior Controller and the soon to be issued signature stamps for the new Controller, along with the listing of newly approved signature stamp recipients. We obtained and reviewed internal communications supporting and approving the electronic updating of signature facsimiles for the new Controller, which effectively removed the prior Controller facsimile signatures. No issues were identified.

3. Verify the controls over the supply of blank checks and determine whether all checks are properly and timely recorded.

We met with the check stock custodian to gain an understanding of the process of securing and issuing check stock. We obtained copies of the check stock register used to track issued checks at both City Hall and the Houston Emergency Center (HEC). There were two sets of check stock, vendor stock and payroll stock, and each set was maintained on the same register to record and track issued checks at both City Hall and the HEC. The check stock log did not provide a complete inventory of check stock on hand, omitting received check stock and focusing solely on issued check stock; further, the reconciliation of check stock did not account for received and on-hand check stock, only considering issued check stock. We performed a physical count of vendor and payroll check stock at each location and agreed the physical count to the check stock register.

HEC check stock was not recorded in the check stock register by individual check stock number and instead by box number, each box packaged to contain 1,000 pieces of check stock. Five boxes of vendor and one box of payroll check stock were recorded in the check stock register as located at the HEC as individual boxes. All boxes were complete except for one box of vendor check stock which was missing ten pieces of check stock. The ten pieces of check stock initially

thought to be missing were researched and identified as having been issued three years prior to our physical count and a year and half prior to the assigning the complete box to the HEC.

We also reviewed the last five issuances of both vendor and payroll check stock having occurred prior to our physical count to agree the number of check stock issued to checks printed, voided, or overflowed (used in aligning the printer). We identified no issues reconciling City Hall issuance of check stock to the printing and recording of checks.

4. Observe the physical existence of office and computer equipment controlled through the general fixed asset system and determine whether additions and retirements since July 1, 2023, have been accounted for in compliance with City policies.

We interviewed the Chief Operating Officer / Deputy City Controller to gain an understanding of the City's policies and procedures related to fixed assets. We obtained the office and equipment asset listing for City Controller assets at City Hall and the HEC Controller Office equipment storage area. For City Hall, we selected a sample of line items comprising 25% of the population of City Controller assets, and for the HEC we selected the entire population of five City Controller assets. For both locations, a physical count and verification to the asset listing item identification details was performed. Two listed assets were not located. The assigned owners for the two assets that could not be located had assets (computers) other than those assigned per the asset register. One HEC asset listing did not have an asset tag or a serial number listed; however, the asset was located and agreed to the asset register description provided. Another asset on the HEC Asset listing was not located, and management identified that the asset had been disposed of due to obsolescence. We reviewed the listing of additions and retirements since July 1, 2023 and verified that all had been recorded on the asset listing.

5. Obtain a report of the investment portfolio as of November 30, 2023, and agree its investment descriptions and valuations to investment account statements or other supporting documentation.

We interviewed the Director and Deputy Controller, Treasury Department to gain an understanding of the Investment Policies and Procedures. We obtained and reviewed the June 30, 2023 Investment Portfolio Report, instead of November 30, 2023, with prior approval from the City Auditor's Office, as management stated that June 2023 was the last period recorded on the Trial Balance as of November 2023. A haphazard sample of ten investments covering all three fund types was selected from the June 30, 2023 Investment Portfolio Report and their balances were agreed to their respective settlement statements. We traced the June 30, 2023, investment balances to the June 30, 2023, Trial Balance for each of the fund types, Main - #960, Tax Exempt - #971, and HUD Section 108 - #974 to agree descriptions and valuations.

Four of the ten investments sampled had small investment yield variances between their respective settlement statements and the data captured in the Investment Portfolio Report. Three investment yield variances were .0001% and the fourth had an investment yield variance of .00134%. No material issues were identified.

6. Review investment transactions during December 2023 to determine whether there have been any significant changes in investments.

We calculated the net change in book value for the investment portfolio from November 2023 to December 2023 and reviewed new investments obtained in December 2023 to identify any significant changes. Overall investment portfolio net change was a book value increase of 1.59% from November 2023 to December 2023. We identified one significant investment in December 2023 of \$39 million for an investment in a Mitsubishi UFJ Financial Group Bank instrument. This item was considered significant though not unusual as the average investment instrument in the December 2023 Investment Portfolio was approximately \$14 million. No issues were identified.

7. Review the accounting and cut-off procedures related to the Controller's Office accounts payable, contracts payable and accounts receivable to determine whether the November 30, 2023 budget status report accurately reflected payables and receivables.

We obtained the Finance Department year-end accounting guidelines to gain an understanding of the City's process for identifying and accruing qualifying transactions at fiscal year-end. We also obtained and reviewed fiscal 2023 subsequent disbursements and receivables provided by the City of Houston finance team along with their respective support to assess 1) whether the item should have been accrued based on date of underlying activity and 2) that the item was captured in the correct period and fiscal year. We judgmentally selected twelve invoice payments made after July 1, 2023, for transactions potentially delivered or provided in fiscal year 2023. No receivable transactions were identified. Selected transactions were assessed, along with their support, to determine if the item was properly recorded per the Finance Department instructions. Of the twelve selected transactions, seven were vendor invoices and five were unrepresented checks that were subsequently purged. No material issues were identified.

8. Review the Controller's Office current budget status as reported through the five months ended November 30, 2023.

We discussed the Budget Status review process with the Chief Operating Officer / Deputy City Controller and obtained the Controller Office Budget Status Reports from July 2023 through November 2023 comprising fiscal 2024 periods one through five. Budget line items having budget to actual variances greater than \$5,000 and 10% were selected for review and inquiry. For the selected line items, explanations were obtained. No issues were identified.

9. Review December transactions and open purchase orders, payables, and receivables through December 15, 2023, to determine whether there have been any significant changes in the budget status since the November 30, 2023 report.

We selected a sample of financial activity for the month of December 2023 including open purchase orders, and payables and reviewed each for significant activity. No receivable transactions were selected as no activity was identified. The Budget Status Report for December 2023 was also obtained and compared to the November 2023 Budget Status Report to identify any unusual or unexpected fluctuations for December 2023. No unusual or unexpected variances were identified between the November 2023 and December 2023 Budget Status Report reviews.

10. Perform inquiries and review transactions from December 15th through December 31st of 2023 to determine whether any significant or unusual Controller's Office transactions occurred during this period.

We selected a sample of financial activity for the month of December 2023 including open purchase orders, payables, and receivables and reviewed each for significant activity. As there were a limited number of transactions from December 15 through December 31, 2023, sample selection and testing considered all of December 2023. We obtained a listing of open purchase orders and reviewed them for reasonableness and expected occurrence through management inquiry. We selected a haphazard sample of ten transactions having debit or credit entries of \$5,000 or greater. No receivable transactions were selected as no activity was identified. All financial transactions and open purchase orders tested appeared to be reasonable amounts based on their nature and the explanations provided by management. No transactions were identified as unusual or extraordinary in either amount or nature. No issues were identified.



Audit reports are available at:

<http://www.houstontx.gov/controller/audit/auditreports.html>