

To Management of the City of Houston, Texas:

In planning and conducting our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Houston, Texas (the "City") for the year ended June 30, 2017, (on which we have issued our report dated November 20, 2017, which contains a reference to other auditors) 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 our 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 opinions 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.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This communication does not affect our report dated November 20, 2017, on the financial statements of the City.

We will review the status of these comments during our next audit engagement and will be pleased to discuss these comments with you and, if desired, to assist you in implementing any of our suggestions.

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.

 

November 20, 2017

**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 CONTROL OVER CASH AND INVESTMENT POOLS

The City does not have a method within SAP to appropriately reconcile the investment and cash pool to the individual funds. Since the City’s accounting system does not track the activity by each fund alternative accounting procedures have to be employed to assess the proper cash and investment balance in each of the participating funds.

Recommendation: We recommend that the City complete and review the process that has been developed by HITS to appropriately create and maintain a system within SAP that balances the “investment” and corresponding “equity” accounts for each fund participating in the cash and investment pools. We also recommend that meetings are held with the participating funds stakeholders to ensure that each stakeholder is in agreement with their respective equity positions within the pools. This process of monitoring could be included as part of the quarterly investment reporting process that the City is required to comply with under the Public Funds Investment Act.

Management response: *Controller’s Office Financial Reporting, Treasury, and Operations Divisions will continue working with HITS/ERP to refine the new reports to calculate and monitor cash and investment equity in the pool funds. We will finalize procedures to monitor cash status by fund and inform fund holders when transfers are needed to assure positive cash balances in the funds.*

B. FORMALIZE POLICIES ON THE CONDUCT OF BACKUP TAPES AND PERFORM TEST OF BACK UP TAPES ON A REGULAR SCHEDULE

The City’s testing of application data and file server recovery procedures is deficient. No documentation or logs are maintained to indicate if backup tapes are tested. The City also does not have a formal policy that governs testing of such backup tapes. As such, data integrity and its recovery cannot be assured since backup tapes could be corrupt, incomplete or unusable.

Recommendation: We recommend that the City develop a formal policy that governs the testing of backup tapes and maintains proper documentation and logs to evidence that such backup tapes were tested. Additionally, testing of backup tapes should be based on a regular, pre-defined schedule, at least on a monthly basis.

Management response: *Backup tapes are tested two times in a year. The process is informal. Houston Information Technology Services (HITS) will formalize the process with documentation and logs. For Houston Airport System (HAS), the server team will test restore*

the Propworks servers and verify they boot and the services start from the disk backups on a quarterly basis. Tape backups are created monthly from the disk backups, the Server Team will perform quarterly test file restores from the Propworks tapes to ensure they are functioning.

C. IMPROVE INFORMATION SECURITY POLICY

The City does not have an Information Security Policy that defines information security objectives and which is supported by documents standards and procedures where necessary. IT policies are required to set procedures, practices, and controls of the IT environment in the form of policies and procedures.

Recommendation: We recommend that the City develop and adopt IT policies for the City and HITS.

Management response: *An Information Security Policy has been developed and documents, standards and procedures have been developed. The standards are not exhaustive and policy/standards will continue to be developed based on the need of the organization.*

D. FORMALIZE IT RISK ASSESSMENT PLAN

The City has not formalized a risk assessment plan to evaluate its information technology process on a regularly basis. Such risk assessment is also not formally documented in meeting minutes of CISO, the Steering Committee of HITS. Hence, the City is at risk of disruption in HITS ability to operate the SAP system with full functionality and services should an unplanned event occurs.

Recommendation: We recommend that the City develop a risk management plan identifying risks related to SAP and the associated mitigation strategies.

Management response: *SAP is evaluated regularly and findings are shared with the team for remedial actions. Teams then act to bring the identified actions to closure. HITS will formalize the risk remediation process with documentation.*

E. PROCUREMENTS

During our testing of controls over the procurement process we noted inadequate guidance on specialized procurements as well as experienced difficulties in obtaining a complete listing of all procurements processed during the fiscal year due to software limitations. On several of the bids selected they were entered into the Ebid process twice. There were also bids that were canceled but remained on the bid list as open bids.

Recommendation: We recommend that the City complete a review of their procurement process over specialized procurements to ensure that the City's policies are being consistently applied. We also recommend that the City improve its process of monitoring the bid listing to ensure that the data is accurate, cancelled bids are properly reflected and supported and bids that are stale are reviewed to substantiate the reason for the delay.

Management response: *Strategic Procurement Division (SPD) has initiated training for all procurement specialists and have included subject matter experts from each of the core disciplines (HITS, Houston Public Works (HPW), General Services Department (GSD) and HAS) in the development of and back end review of all new solicitations. Further, SPD is in the process of finalizing the new Procurement Process Manual to be rolled out with training in the first quarter of calendar 2018. A process is being put in place for staff in charge of the eBid system to schedule routine quarterly data cleansing and report findings to the Chief Procurement Officer for review and further evaluation of effectiveness. We have scheduled additional training for all personnel on the proper maintenance and operation of data in the eBid system*