



# External Quality Control Review

of the  
City of Houston  
Office of the City Controller  
Audit Division

Conducted in accordance with guidelines of the  
**Association of Local Government  
Auditors**  
for the period July 1, 2009, through June 30, 2010.



## Association of Local Government Auditors

July 30, 2010

Mr. David A. Schroeder  
City Auditor  
Office of the City Controller  
Audit Division  
City of Houston  
901 Bagby, 9<sup>th</sup> Floor  
Houston, TX 77251

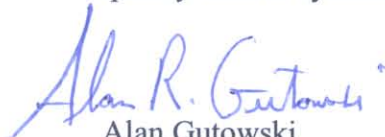
Dear Mr. Schroeder,


We have completed a peer review of the City of Houston Office of the City Controller Audit Division for the period July 1, 2009 through June 30, 2010. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* 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 if 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. 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 City of Houston Office of the City Controller Audit Division internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period July 1, 2009 through June 30, 2010.

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

  
Alan Gutowski  
Office of Internal Audit  
& Investigations  
City of Albuquerque, NM

  
Craig Hametner  
Internal Audit Department  
City of Garland, TX

  
Edmundo Calderon  
Internal Audit Office  
City of El Paso, TX



## Association of Local Government Auditors

July 30, 2010

Mr. David A. Schroeder  
City Auditor  
Office of the City Controller  
Audit Division  
City of Houston  
901 Bagby, 9<sup>th</sup> Floor  
Houston, TX 77251

Dear Mr. Schroeder,

We have completed a peer review of the City of Houston Office of the Controller Audit Division for the period July 1, 2009 through June 30, 2010. 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 City Auditor and his staff have demonstrated a strong commitment to following Government Auditing Standards by:
  - Implementing an automated work paper system to improve documentation of audit evidence;
  - Developing policies and procedures that address standards; and
  - Obtaining an external peer review.
- The staff is very qualified to perform their duties.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*.

- **Observation #1:** No procedures were found for resolving and reporting external impairments. *Section 3.11 of Generally Accepted Government Auditing Standards (GAGAS) requires that audit organizations should include policies and procedures for identifying and resolving external impairments as part of their quality control system for compliance with GAGAS independence requirements.*

- **Recommendation #1:** We suggest that your office implement procedures for resolving and reporting external impairments.
- **Observation #2:** No procedures were found for evaluating nonaudit services on independence. No evidence was found indicating that Audit Management evaluates whether nonaudit services create an impairment to independence of the audit organization. *Section 1.34 of GAGAS requires audit organizations that provide nonaudit services must evaluate whether providing nonaudit services creates an independence impairment either in fact or appearance with respect to the entities they audit.* No evidence was found indicating that overarching principles were evaluated in regards to the nonaudit services. *Government Audit Standards: Answers to Independence Standard Questions, GAO-02-870G, page 9 #7 – However, as audit organizations enter into new contracts, or accept requests for additional nonaudit services, they should consider the overarching principles and the safeguards.*
- **Recommendation #2:** We suggest that your office develops procedures for evaluating nonaudit services on independence. We suggest that your office evaluates whether nonaudit services create an impairment to independence of the audit organization, and consider the overarching principles and safeguards as discussed in GAGAS 3.22.

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,



Alan Gutowski  
Office of Internal Audit  
& Investigations  
City of Albuquerque, NM



Craig Hametner  
Internal Audit Department  
City of Garland, TX



Edmundo Calderon  
Internal Audit Office  
City of El Paso, TX



July 30, 2010

Alan Gutowski  
Office of Internal Audit and Investigations  
City of Albuquerque  
1 Civic Plaza Northwest  
Albuquerque, NM 87102

Mr. Gutowski,

We have received the results from the Association of Local Government Auditors' (ALGA) peer review you performed of the Audit Division within the Office of the City Controller for the period of July 1, 2009 through June 30, 2010. We acknowledge your opinion that *our internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance/adherence* to the Government Auditing Standards (GAS/Yellowbook) promulgated by the Government Accountability Office (GAO).

We recognize this as **full compliance/adherence** and also appreciate the recommendations that your review provided as an opportunity for us to improve. Please see our responses to your observations and recommendations on the following page.

We found the overall process valuable to our function. You performed the engagement in a professional manner and displayed an increasing development of the necessary foundation to understand the environment that we operate and how the auditing standards can be applied in meeting our mission and objectives.

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

Edmundo Calderon  
Chief Internal Auditor  
El Paso, Texas

Craig Hametner  
City Auditor  
Garland, Texas

Sincerely,

A handwritten signature in blue ink that reads "David A. Schroeder".

David A. Schroeder  
City Auditor  
City of Houston

## CITY AUDITOR'S RESPONSES

### GAS/YELLOWBOOK –

- **“Observation #1:** No procedures were found for resolving and reporting external impairments. *Section 3.11 of Generally Accepted Government Auditing Standards (GAGAS) requires that audit organizations should include policies and procedures for identifying and resolving external impairments as part of their quality control system for compliance with GAGAS independence requirements.”*

**RESPONSE: *We Concur.*** We have addressed this by modifying and reissuing our Audit Division Charter to specify outlets to express and resolve external impairments. We have also updated our Independence Policy and Statements for both Organizational and Individual Auditor independence. Additionally, we have implemented a procedural step in our checklist process (which is also part of our quality review) that considers possible external impairments, and identifies the course of action taken along with the required documentation to resolve.

- **“Observation #2:** No procedures were found for evaluating nonaudit services on independence. No evidence was found indicating that Audit Management evaluates whether nonaudit services create an impairment to independence of the audit organization. *Section 1.34 of GAGAS requires audit organizations that provide nonaudit services must evaluate whether providing nonaudit services creates an independence impairment either in fact of appearance with respect to the entities they audit.* No evidence was found indicating that overarching principles were evaluated in regards to the nonaudit services. *Government Audit Standards: Answers to Independence Standard Questions, GAO-02-870G, page 9, #7 – However, as audit organizations enter into new contracts, or accept requests for additional nonaudit services, they should consider the overarching principles and safeguards.”*

**RESPONSE: *We concur.*** While we had adequate measures to consider independence both organizationally and individually on an aggregate level, we lacked specific documentation that supported separate consideration of the independence attribute when it pertained to non-audit services. We have added specific language to our Independence Policy and Statements that also reflect non-audit services. We have also added procedural steps to our checklist, which includes an evaluation form that considers independence, the overarching principles, and safeguards related to non-audit services.

## CITY AUDITOR'S ACKNOWLEDGEMENT

I acknowledge the responses presented above as the commitments and representations of the City Auditor of Houston, TX relating to the observations and recommendations provided by the ALGA peer review team in assessing our compliance with generally accepted GAS for the period of July 1, 2009 through June 30, 2010.



David A. Schroeder  
City Auditor  
City of Houston