



THE CITY OF SAN DIEGO

DATE: November 1, 2010
TO: Honorable Members of the Audit Committee
FROM: Eduardo Luna, City Auditor
SUBJECT: **City Auditor's Peer Review Results**

Enclosed is the Association of Local Government Auditors' peer review report and management letter. I am very pleased that the independent peer review team found the City of San Diego Office of the City Auditor has conducted work in full compliance with Government Auditing Standards for the period July 1, 2008 through June 30, 2010. To reach full compliance for our first review as a new audit organization reflects my staff's dedication to audit excellence and my own desire to be the best audit organization possible. I have reviewed the management letter provided by the peer review team, and also attached is my response to the comments they made regarding the areas the Office excels in and their recommendations to even further demonstrate our adherence to Government Auditing Standards.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst





External Quality Control Review

of the
Office of the City Auditor
City of San Diego

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

for the period July 1, 2008 through June 30, 2010



Association of Local Government Auditors

October 29, 2010

Eduardo Luna, City Auditor
Office of the City Auditor
City of San Diego
1010 Second Ave, Suite 1400
San Diego, CA

Dear Mr. Luna,

We have completed a peer review of the Office of the City Auditor, City of San Diego for the period July 1, 2008, through June 30, 2010. 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 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 Office of the City Auditor, City of San Diego 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 of July 1, 2008, through June 30, 2010.

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

Bill Greene
Assistant City Auditor
Phoenix, AZ

Joanne Griggs
City Auditor, Retired
Virginia Beach, VA

Amanda Noble
Deputy City Auditor
Atlanta, GA



Association of Local Government Auditors

October 29, 2010

Eduardo Luna, City Auditor
Office of the City Auditor
City of San Diego
1010 Second Ave, Suite 1400
San Diego, CA

Dear Mr. Luna,

We have completed a peer review of the Office of the City Auditor, City of San Diego for the period July 1, 2008, through June 30, 2010, and issued our report thereon dated October 28, 2010. We are issuing this companion letter to offer observations and suggestions stemming from our review.

We would like to highlight some of the areas in which we believe your office excels:

- **Independence:** *Government Auditing Standards* require that the audit organization be free from external and organizational impairments to independence. San Diego City Charter Sections 39.1 and 39.2 provide strong protections for the independence of the City Auditor by creating an audit function, establishing a reporting relationship to the Audit Committee, providing a process for removal from office, and granting access to all records and information.
- **Use of Audit Resources:** The Annual Citywide Risk Assessment used as a basis for developing the annual audit plan helps ensure that audit resources are used effectively. Additionally, we believe that involving City management through self-assessment and feedback is a good method to make certain results are valid.
- **Risk Assessment Tools:** The Office of the City Auditor *Audit Handbook* contains excellent direction on audit risk assessment. *Government Auditing Standards* require that auditors assess risk within the context of the audit objectives. Written directions and assessment tools detailed in the handbook provide thorough guidance for auditors in the conduct of their work.
- **Staff Qualifications:** Audit staff is well-qualified and has diverse educational and work experience backgrounds. Interviews of staff showed enthusiasm for the work and mission of the office.

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

Staff Evaluation

Government Auditing Standards require an audit organization to have a process for recruiting, hiring, developing, assigning and evaluating staff (GAS 3.41). Although the City Auditor's Office is currently developing an evaluation process and had ongoing discussions with staff, it did not conduct formal evaluations over the review period. We recommend the City Auditor finalize and document the department's process for conducting staff evaluations.

Annual Monitoring of Quality

Government Auditing Standards require the audit organization to have an on-going monitoring process to assess work of completed audits and attestation engagements. The process should be designed to provide management with reasonable assurance that the policies and procedures related to the system of quality control are operating effectively in practice. Also, management of the audit organization is required to analyze and summarize the results of their monitoring procedures at least annually, to identify any systemic issues needing improvement and to make recommendations for corrective action (GAS 3.54).

While the Office of the City Auditor periodically reviewed the Audit Handbook and surveyed staff to identify a few areas in need of improvement, the Office has yet to summarize the results of its monitoring procedures. Some of the improvements made to strengthen their quality control system were to add a standards checklist and a supplemental checklist for attestation engagements. To further strengthen the annual monitoring process, we recommend that the Office of the City Auditor perform a more comprehensive review that focuses on the effectiveness of the procedures.

Fraud Risk

In planning the audit, auditors are required to assess risks of fraud occurring that is significant within the scope of the audit objectives or that could affect the findings and conclusions. In addition to identifying fraud risks, auditors are required to design procedures to provide reasonable assurance of detecting such fraud (GAS 7.11d, 7.30 – 7.32).

The Office of the City Auditor has developed a risk assessment tool to identify threats for major audit objectives and, as indicated in their Audit Handbook, auditors should consider whether the auditee has controls that are effective in preventing or detecting illegal acts. In reviewing a sample of audit engagements conducted during the peer review period, we found only one audit that included a documented assessment of fraud risk. We recommend that the Office of the City Auditor give more direction to staff to include specific steps in the audit process to identify and document fraud risk.

Reporting

Government Auditing Standards require auditors to present sufficient, appropriate evidence to support the findings and conclusions in the report (GAS 8.14). Auditors should place their findings in perspective by describing the nature and extent of work performed and by giving the reader a basis for judging the prevalence and consequences of findings (GAS 8.16). *Government Auditing Standards* further require auditors to report the scope of work on internal control relevant to the audit objectives and any significant deficiencies found (GAS 8.19).

We noted instances in three of the nine reports reviewed in which an overall conclusion was too broad given the evidence presented in the report. While we could generally identify sufficient supporting evidence in the audit documentation, the nature and extent of work performed to support the conclusion was not clearly presented in the report. Some findings lacked information that could provide perspective on the prevalence and consequences of the reported condition. The City Auditor's Office could strengthen its reporting by describing the nature and extent of work performed, including the scope of work on internal control.

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,



Bill Greene
Assistant City Auditor
Phoenix, AZ



Joanne Griggs
City Auditor, Retired
Virginia Beach, VA



Amanda Noble
Deputy City Auditor
Atlanta, GA



THE CITY OF SAN DIEGO

November 1, 2010

Bill Greene, Assistant City Auditor, Phoenix, AZ
Amanda Noble, Deputy City Auditor, Atlanta, GA
Joanne W. Griggs, Retired City Auditor, Virginia Beach, VA

Dear ALGA Peer Review Team:

I am very pleased that the independent peer review team found the City of San Diego Office of the City Auditor has conducted work in full compliance with Government Auditing Standards for the period July 1, 2008 through June 30, 2010. To reach full compliance for our first review as a new audit organization reflects my staff's dedication to audit excellence and my own desire to be the best audit organization possible.

I have reviewed the management letter you provided, and I agree with your assessment that my Office excels in the areas of independence, use of audit resources, risk assessment tools, and staff qualifications. The City's Audit Committee members have worked diligently with me to establish an independent audit reporting process. Also, utilizing the Annual Citywide Risk Assessment and other risk assessment tools that we have developed has helped to ensure audit resources are used effectively, and has led to valuable audit results. Additionally, I am fortunate to have recruited such talented, well educated, and credentialed audit staff members. It was through their efforts that we were able to reach full compliance with Standards.

My Office is fully committed to continuous improvement. I very much appreciate the observations and suggestions you have provided for my Office to further demonstrate our adherence to Standards. I agree with your recommended improvements regarding staff evaluations, annual monitoring of quality, fraud risk, and reporting.



Staff Evaluations

We agree to establish a formal, written process for annual evaluation. While we have been regularly providing staff with feedback, we believe documenting a more robust evaluation process in the Audit Handbook would provide added value. Currently, we meet with audit staff regularly and provide feedback specifically related to audit performance. Earlier this year, we asked audit staff to complete annual professional development plans and discussed future training needs in individual auditor meetings with audit management. In August 2010, audit management conducted performance assessments of each auditor as part of an office strategic planning session. The results of this evaluation would be discussed with auditors during individual evaluation meetings which occur after the completion of audit assignments.

Annual Monitoring of Quality

Audit management annually reviews internal processes and the Audit Handbook to identify opportunities to strengthen the audit process. While we provide documentation showing this annual review, we agree that our office can enhance the level of documentation showing the extent and results of this important process and how the review focused on improving the effectiveness of our procedures. We will add more detailed language to our Audit Handbook regarding the annual review process and documentation requirements.

Fraud Risk

We prepare a risk assessment during each audit to identify the organizational threats related to the audit objective, and plan audit testing to evaluate the controls in place that mitigate those threats. While many of the threats we identify during the planning of our audits are related to the risk of fraud, we agree that audit documentation does not specifically categorize risks of fraud and planned audit steps directly related to detecting fraud. Auditors currently assess the risk of fraud based on the audit objective and may consult the office's fraud investigator or one of several Certified Fraud Examiners to discuss risks of fraud and testing requirements. Documentation can be enhanced by clearly documenting which threats and planned audit steps are directly related to detecting fraud. We have already given direction to staff to better document the specific steps used to identify and document fraud risks in all future audits. We will update our Audit Handbook to include this written guidance.

Reporting

Our reports included a discussion of the scope and methodology used to perform the audit. While our audit workpapers included detailed information on audit testing, we provided only summary information in our published reports. In three reports, the summary may not have provided as much information to the reader to show the great extent of testing documented in our audit workpapers. We agree that we can improve our reporting by including more information regarding the extent and nature of the audit procedures performed in our published report.

ALGA Review Team

November 1, 2010

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I would like to sincerely thank the ALGA peer review team for their work. This peer review has provided important feedback to further enhance the quality of our audit process. I want to thank each peer review team member for his/her time and commitment to ensuring government auditors adhere to Government Auditing Standards, providing the public with high quality audit reports.

Respectfully submitted,

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in black ink on a light-colored background.

Eduardo Luna
City Auditor