

KARL W. DOLK
Certified Public Accountant

2012 H Street, Suite 200
Sacramento, California 95814

April 30, 1991

Honorable Mayor
and Members of the City Council
801 North First Street, Room 600
San Jose, California 95110

Dear Mayor and Council Members:

I have reviewed the system of quality control to obtain a reasonable assurance of compliance with generally accepted government auditing standards in effect for the Office of the City Auditor of the City of San Jose for audits issued during the period July 1, 1989 through March 31, 1991 and have issued a separate letter of comments thereon to the City Auditor dated April 30, 1991. I have conducted my review in conformity with the policies and procedures for quality control peer reviews established by both the National State Auditors Association (NSAA) and the National Association of Local Government Auditors (NALGA). I tested the Office's compliance with the system of quality control policies and procedures to the extent I considered necessary in the circumstances. These tests included the application of the Office's policies and procedures to selected audit engagements.

In performing my review, I have given consideration to the general characteristics of a system of quality control as described in the quality control peer review guidelines issued separately by the NSAA and by the NALGA. Such a system should be appropriately comprehensive and suitably designed in relation to the Office of the City Auditor organizational structure, its policies, and the nature of its functions. Because variance in individual performance can affect the degree of compliance with the Office's prescribed quality control policies and procedures, adherence to all policies and procedures in every case may not be possible. Nevertheless, compliance does require the Office to adhere to prescribed policies and procedures in most situations.

In my opinion, the system of quality control provided reasonable assurance of compliance with generally accepted government auditing standards for the Office of the City Auditor of the City of San Jose in effect for audits issued during the period July 1, 1989 through March 31, 1991, met the objectives of the quality control peer review guidelines established by the NSAA and the NALGA, and was being complied with during the 21 months under review.

Sincerely,



KARL W. DOLK

APPENDIX C
OFFICE OF THE CITY AUDITOR
CITY OF SAN JOSE
QUALITY CONTROL REVIEW
FOR THE 21 MONTHS ENDED MARCH 31, 1991

LETTER OF COMMENTS

KARL W. DOLK
Certified Public Accountant

2012 H Street, Suite 200
Sacramento, California 95814

April 30, 1991

Mr. Gerald A. Silva
City Auditor
151 W. Mission Street, Room 109
San Jose, California 95110

Dear Mr. Silva:

I have reviewed the system of quality control for the audits issued by the Office of the City Auditor of the City of San Jose during the period July 1, 1989 through March 31, 1991. I have issued a separate report, dated April 30, 1991, to the Mayor and Members of the City Council on my review of that system. This letter should be read in conjunction with that report.

The Office of the City Auditor has designed and implemented a comprehensive system of quality control policies and procedures. During my review, I did not find any significant weaknesses in the internal quality control system. However, there are a few opportunities to enhance and strengthen the existing system to provide a more efficient implementation of the audit process.

Background

The office conducts performance audits of City departments, offices, or agencies to determine whether resources are managed and utilized in an economical and efficient manner, the causes of inefficiencies or uneconomical practices, whether desired results are being achieved, and whether City Council objectives are being met. In addition, the office conducts special audits and investigations as assigned by the City Council. I reviewed these functions of the Office for conformance with the Government Auditing Standards issued by the Comptroller General of the United States. I also assessed the Office's quality controls and procedures for audits issued.

I performed this review using the guidelines separately prepared by the National State Auditors Association (NSAA) and the National Association of Local Government Auditors (NALGA). In selecting audit engagements for review, I was guided by the policies and procedures for performing quality control reviews approved by NSAA. I selected engagements for review from a list of reports provided by the Office. This listing contained 18 reports issued during the period under review including 14 performance reports prepared by office staff, one performance report prepared by an outside contractor, one informational study, one early release of preliminary survey results, and one review of financial statements.

I selected a representative sample of three audits for review in a manner that allowed me to examine the work of most of the auditors employed during the period under review.

My review was intended to be a constructive one, and my purpose was to point out areas for improvement. In that spirit, I make the following comments and recommendations. The absence of extensive comments of a complimentary nature does not, therefore, imply that the quality control system of the Office is deficient or unsound.

Recommendations

I recommend the following actions to improve the efficiency and effectiveness of the Office's quality control system.

1. Government Auditing Standards require that the auditors need to satisfy themselves that computer-processed data are relevant and reliable when the data is "an important or integral part of the audit and the data's reliability is crucial to accomplishing the audit objectives". The Office's written policy requires adherence to this standard. However, two of the three audits I reviewed did not include evidence in the working papers that audit staff considered or implemented the policy. Audit staff were generally unsure when to assess the relevance and reliability of computer-processed data. In addition, audit staff were unsure of the extent of testing required by the Office. I recommend the Office develop guidelines for determining when computer-processed data are to be tested and advise the audit staff regarding appropriate testing procedures.
2. Government Auditing Standards require audit reports to be issued promptly to make information available for timely use by management and elected officials. The Office is not required by charter or by the City Council to meet specific reporting deadlines. For reports issued during the period I reviewed, the City Auditor provided the City Council with estimated release dates as part of the Monthly Activity Report. Based on the dates originally provided to the City Council for each of the 15 performance audits and one informational study issued during the period reviewed, I determined that five of the reports were issued within 39 calendar days of the estimated date. Eight of the remaining twelve reports were issued from 57 to 169 days late, and the other three reports were issued from 218 to 295 days late.

While the Office did not meet the City Auditor's projected issue dates during the period under review, during the past two years the Office has decreased its average days late.

7/01/87 to 6/30/89	17 reports	181 days late
7/01/89 to 3/31/91	16 reports	125 days late
3/18/91 to 3/31/91	3 reports	32 days late

The City Auditor's estimated report issue dates may be altered for various reasons including expansion of audit scope, unavailability of timely data, slow responses from the audited entities, and changing audit priorities. To better control the audit's progress, the Office has implemented a sophisticated time reporting system that identifies audit hours by audit objective, requires staff to inform the City Auditor of timing variations, and assists management in predicting audit completion dates.

Predicting the completion date of an audit is an uncertain process. City management and the City Council rely on the City Auditor's predicted date in order to use the report. As a further step to assist city management and the City Council use of the audit reports, I recommend that the City Auditor discuss with the Finance Committee of the City Council the feasibility of providing due dates for audit completion when such date can be ascertained with some certainty. This would not provide a date as early in the audit, but may allow the appropriate committees and department staff to more effectively schedule based on a known date when the report will be available for their use.

As part of my review of the Office's quality control policies and procedures, I reviewed the recommendations from the management letter accompanying the July 21, 1989, quality review report. All five of the recommendations were implemented. Policies to implement four of recommendations were included in the Office's Operations Manual. In addition, my review of audits and Monthly Activity Reports disclosed that the policies had been implemented.

This letter of comments is intended solely for the City Auditor of the City of San Jose and should not be used for any other purpose, except at the discretion of the City Auditor. I appreciate the cooperation and assistance extended by the management and staff of the Office of the City Auditor. Their assistance was invaluable in the timely completion of this project.

Sincerely,



KARL W. DOLK



GERALD A. SILVA
City Auditor

CITY OF SAN JOSÉ, CALIFORNIA

151 W. MISSION STREET, ROOM 109
SAN JOSE, CALIFORNIA 95110
(408) 277-4601

April 30, 1991

Mr. Karl W. Dolk, C.P.A.
2012 H Street, Suite 200
Sacramento, CA 95814

Dear Mr. Dolk:

The Office of the City Auditor submits the following comments in response to the performance audit of its operations.

The Office is pleased that the auditor did not note any material issues that should be addressed to either strengthen the Office's existing quality control measures or to provide a more effective and efficient method of implementing the audit process. The Office appreciates the auditor's recommended improvements and offers the following comments for each recommendation.

— Recommendation #1. Concur

Our written policies require that the auditors satisfy themselves that computer-processed data are relevant and reliable when the data under review are an important or integral part of the audit and the data's reliability is crucial to accomplishing our audit objectives. In most of our audits, audit staff performed the required assessments of computer-processed data. However, the lack of an EDP audit specialist has hampered our reviews in this area. Incidentally, the Senior EDP Auditor position in our office has been vacant since September 1990 and the Administration has defunded the position for 1991-92. We understand that assessing the relevance and reliability of computer-processed data is an essential part of our audit process. Accordingly, we have included specific audit steps to perform such reviews in our standard risk assessment procedures. Finally, we will provide additional training to our audit staff to ensure that they know their responsibilities in this area.

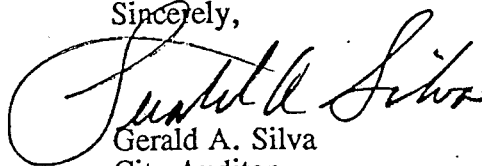
— Recommendation #2. Concur.

As the auditor noted, we have made significant improvements in our ability to project when we will issue audit reports. This is gratifying because we have worked very hard to make our projections more reliable. In addition, we have implemented a rigorous audit planning, monitoring, and time reporting system with obvious positive results. As I said two years ago, predicting audit completion dates is more art

Mr. Karl W. Dolk, C.P.A.
April 30, 1991
Page 2

than science. However, I believe we have come a long way toward making our projected audit issuance dates less art and more science. I agree that providing projected audit issuance dates later in the process would, by definition, further improve our timeliness record. In accordance with the auditor's recommendation, I will discuss this matter with the Finance Committee.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gerald A. Silva".

Gerald A. Silva
City Auditor

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GS:mtn