

Council Agenda: 6/27/95

Item:

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OFFICE OF THE CITY AUDITOR  
CITY OF SAN JOSE  
QUALITY CONTROL REVIEW  
FOR THE 24 MONTHS ENDED APRIL 30, 1995

REPORT

KARL W. DOLK  
Certified Public Accountant  
5508 State Avenue  
Sacramento, California 95819  
(916) 452-4406

June 14, 1995

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

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 City of San Jose for audits issued during the period May 1, 1993 through April 30, 1995 and have issued a separate letter of comments thereon dated June 14, 1995. 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 Auditors organizational structure, its policies, and the nature of its functions. Because variance in individual performance can effect the degree of compliance with the Office of the City Auditor'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 May 1, 1993 through April 30, 1995, met the objectives of the quality control peer review guidelines separately established by the NSAA and the NALGA, and was being complied with during the 2 years under review.

Sincerely,



OFFICE OF THE CITY AUDITOR  
CITY OF SAN JOSE  
QUALITY CONTROL REVIEW  
FOR THE 24 MONTHS ENDED APRIL 30, 1995

LETTER OF COMMENTS

KARL W. DOLK  
*Certified Public Accountant*  
5508 State Avenue  
Sacramento, California 95819  
(916) 452-4406

June 14, 1995

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 May 1, 1993 through April 30, 1995. I have issued a separate report, dated June 14, 1995, 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 that are very effective. During my review, I did not find any significant weaknesses in the internal quality control system.

Background

The office performs 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. Also, during the period of this review, the Office conducted one financial audit. I reviewed these functions of the Office for conformance with the Government Auditing Standards issued by the Comptroller General of the United States. In addition, I 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 12 reports issued during the period under review including 11 performance reports prepared by office staff and one audit 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.

Gerald A. Silva  
June 14, 1995  
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My review was intended to be constructive, and my purpose was to point out areas for improvement. In that spirit, I made 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.

#### Timeliness of Reports

As part of my review of the Office, I was required to analyze the timeliness of reports. 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 11 performance audits and one financial audit issued during the period reviewed, I determined that five of the reports were issued early or within 33 calendar days of the estimated date. Three of the remaining seven reports were issued from 80 to 102 days late, and the other four reports were issued from 215 to 258 days late. The average days late for the twelve audits was 100 days.

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. 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, changing audit priorities, and staff turnover. In order control the audit's progress, the Office has 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.

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

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

June 19, 1995

Mr. Karl Dolk, CPA  
5508 State Avenue  
Sacramento, CA 95819

Dear Mr. Dolk:

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

I am pleased that the independent auditor did not find any significant weaknesses in the Office's internal quality control system. The auditor stated that our system of quality control provided reasonable assurance of compliance with generally accepted government auditing standards and that we met the objectives of the NSAA and NALGA quality control peer review guidelines during the period audited.

As the auditor noted, the Office was late in issuing several reports, based on the estimated release dates stated in the Monthly Activity Report. The following were the major reasons for the report issuance delays:

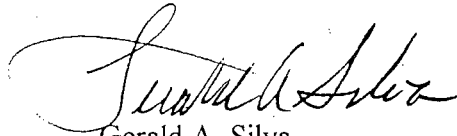
- **Staff turnover and position vacancy.** During the period audited, the Office lost one Senior Program Performance Auditor and one Program Performance Auditor II. Both auditors left before completing their assignments and other auditors had to be assigned to take over the work. Furthermore, due to budget constraints, one audit staff position remained vacant during the entire period audited.
- **Slow responses from the auditees or unavailability of timely data.** During various audits, auditee staff were sometimes unavailable because of absences or other assignments, resulting in slow auditee response or untimely data. In other audits, we consumed many months attempting to resolve the audited department's or the City administration's objections to our audit findings. While time consuming, this was necessary to ensure audit report accuracy and fairness.
- **Expansion of audit scope or changing audit priorities.** At the start of an audit, the auditor is confronted by complex issues which we attempt to prioritize through our preliminary survey and risk assessment. However, during the course of the audit, new information may surface that would necessitate an expansion of audit scope or a change in audit priorities. These changes may result in the delays in the completion of the assignment.

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- **New On-going audit assignment.** In July 1994, we started our Audit of Sales and Business License Taxes. This new on-going assignment took audit resources that were previously devoted to the performance audits. The preparations for this audit occupied the full time of one senior auditor and much of the time of the supervising auditor. In addition, the student interns who used to help with the other audits were assigned full-time to this audit.

Predicting audit completion dates is more art than science. However, we have added more science to our estimates by implementing a rigorous audit planning, monitoring, and time-reporting system and continually refining this system. We constantly strive to improve our timeliness record and hope our efforts will be reflected in our next biennial audit.

Sincerely,



Gerald A. Silva  
City Auditor

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