NALGA

National Association of Local Government Auditors

NALGA Peer Review Committee
1220 SW Fifth Ave., Room 120
Portland, OR 97204
(503) 823-3542

November 20, 1997

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

Attached is the audit report of an external quality control review of the Office of the City Auditor for audits issued during the period May 1, 1995 through June 30, 1997. In conducting our review, we followed the standards and guidelines contained in the National Association of Local Government Auditors' Review Guide published in 1995.

The report includes the auditors' opinion stating that the Office of the City Auditor conducted audits in accordance with Government Auditing Standards the management letter, and the Office of the City Auditor's response to the Management letter.

The audit was performed by representatives of the National Association of Local Government Auditors. Mr. David Jones, Senior Auditor from Seattle, Washington, and a member of the quality control review team will present this report to the Finance Committee at its December 10, 1997 meeting.

Respectfully submitted,

Richard Wallace

Richard Wallace, CPA
Principal Auditor
City of Jacksonville, Florida

RW/ml

rw:sanjose

CITY OF SAN JOSE' CALIFORNIA
EXTERNAL QUALITY CONTROL REVIEW

For the Period May 1, 1995 through June 30, 1997

Issued
November 7, 1997

NALGA

National Association of Local Government Auditors

NALGA Peer Review Committee
1220 SW Fifth Ave., Room 120
Portland, OR 97204
(503) 823-3542

November 7, 1997

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

Dear Mr. Silva:

We have completed an external quality control review of the Office of the City Auditor for the City of San Jose for audits issued during the period May 1, 1995 through June 30, 1997. In conducting our review, we followed the standards and guidelines contained in the NALGA Quality Control Review Guide (NALGA Guide) published in May 1995, by the National Association of Local Government Auditors.

As prescribed by the NALGA Guide, we reviewed the internal quality control system of the Office of the City Auditor and tested a sample of audits conducted by that office for compliance with government auditing standards issued by the Comptroller General of the United States (Government Auditing Standards, 1994 Revision). Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review. This review will complete the achievement of all requirements for compliance with government auditing standards, consequently, all future audit reports may include a statement that the audit was performed in compliance with government auditing standards.

It is our opinion, therefore, that the Office of the City Auditor for the City of San Jose was in compliance with government auditing standards during the period May 1, 1995 through June 30, 1997. We have prepared and enclosed herewith a separate letter offering suggestions which, in our opinion, will further increase the value of the Office of the City Auditor to the City of San Jose.

Sincerely,

David Jones
Senior Auditor
City of Seattle, Washington

Margaret Nielson
Performance Auditor
City of Austin, Texas

Richard Wallace
Principal Auditor
City of Jacksonville, Florida

NALGA

National Association of Local Government Auditors

NALGA Peer Review Committee
1220 SW Fifth Ave., Room 120
Portland, OR 97204
(503) 823-3542

November 7, 1997

Gerald A. Silva, City Auditor
Office of the City Auditor
800 N. First Street
San Jose, California 95110

Dear Mr. Silva:

We have completed an external quality control review of the Office of the City Auditor for the City of San Jose for audits issued during the period May 1, 1995 through June 30, 1997. We have issued a report stating our opinion that the Office of the City Auditor was in compliance with Government Auditing Standards. We are presenting you with this companion letter offering additional observations and some suggestions which, in our opinion, will further increase the value of the City Auditor to the City of San Jose.

First, the following are some areas where, in our opinion, your office excelled:

- The Office has performed audits of challenging and complex topics using sophisticated analytical techniques. Furthermore, these audits have resulted in many recommendations which have been accepted by management.

- The Office's reports contain positive comments regarding auditees' noteworthy accomplishments.

- The Office appears to have a well-developed follow-up process to check implementation of recommendations and report on their status.

- The Office should be commended for its exhaustive efforts during the survey phase to identify potential program risks and management controls which could mitigate these risks.

- The Office has established an extensive quality assurance process which features a specific review of adherence to Government Auditing Standards and an independent report review.

As the above comments indicate, we observed that your office has many strengths. We would like to offer the following comments and suggestions which may improve your operations and better demonstrate your compliance with Government Auditing Standards.

Follow-up to the prior review

We followed up on previous management letter comments regarding timeliness as it relates to the estimated completion date of the audit and the actual audit release date. We found that although timeliness does not appear to have improved, this may be, in part, due to the measure used.

The Office should consider using different measures and providing explanations for changes in the estimated completion date of a report (e.g., scope expansion or reassignment of staff to urgent priorities). Because of the nature of performance audits, the Office may also decide not to release an estimated completion date until closer to the completion of the audit.

Compliance with internal procedures

- The Office's self-imposed Audit Standards Reviews were not consistently done at the intervals prescribed in office procedures. It was not clear if all the intended benefit was achieved when reviews were done at the completion of the audit, rather than at the earlier checkpoints prescribed by policy.

- The Office can improve its documentation of reasons for not performing all prescribed office procedures. Specifically, audit working papers should not only document the City Auditor's concurrence with not performing all prescribed audit procedures but the audit supervisor should also include written explanatory information as to why it was not necessary to perform all prescribed procedures.

- Some key documents, although generally produced upon request, were not present in the official working paper files. For example, some documents were reproduced from electronic files, others from office correspondence files or audit staff files. Examples included the original "Audit Program and Results" for the audit, and a key memorandum stating objectives of the audit.

- In one instance, key decisions made as a result of the preliminary survey work could have been more clearly documented in the official working paper files.

Evidence of compliance with standards and internal procedures

- Although adequacy of staff training was ultimately verified, documentation to support compliance with Continuing Professional Education requirements was not readily accessible.

- Office policies and procedures (e.g., the Audit Standards Plan) did not clearly incorporate the 1994 Government Auditing Standards revisions.

- While in general the office adequately documents adherence to standards, we did note instances where evidence supporting adherence to standards could be clearer. For example:

  * The manner in which previous audit work was considered could be better documented in the working papers,

  * consideration of illegal acts, abuse, and instances of non-compliance could be better explained in working papers,

  * disposition of issues for future audit or study could be better indicated in the working papers and/or report,

  * reporting on the scope of management controls audited could be more explicit.

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Report format

In one instance, the statements of scope could have been broadened to more clearly define any limitations related to the computer system tested. Specifically, the scope could include a description of what procedures the office followed to compensate for any computer systems testing limitations.

We hope that the above comments assist you in continuing the professional work we observed during the review. We appreciate the hospitality and cooperation extended by your staff during our stay in San Jose.

Sincerely,

David Jones
Senior Auditor
City of Seattle, Washington

Margaret Nielson
Audit Manager
City of Austin, Texas

Richard Wallace
Principal Auditor
City of Jacksonville, Florida

rw:silva2

CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

GERALD A. SILVA
City Auditor

November 20, 1997

Mr. Richard Wallace, Principal Auditor
220 East Bay Street, Room 1103
Jacksonville, Florida 32202

Dear Mr. Wallace:

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

I am pleased that the independent auditors did not find any significant weaknesses in the Office of the City Auditor's (Office) internal quality control system. The auditors stated that our system of internal control provided reasonable assurance of compliance with generally accepted government auditing standards and met the objectives of the National Association of Local Government Auditors quality control guidelines during the period audited.

I am also extremely gratified that in the management letter the auditors noted a number of areas that the Office excels. These areas include:

- The Office uses sophisticated auditing techniques to perform complex and challenging audits.
- Audit reports contain positive comments regarding the auditees' noteworthy accomplishments.
- The Office has a well-developed follow up process to ensure recommendations are implemented.
- The Office undergoes exhaustive efforts to identify potential program risks and management controls to mitigate these risks.
- The Office has an extensive quality assurance process.

The management letter also noted several comments and suggestions to improve the Office's operations and better demonstrate compliance with Government Auditing Standards. Overall, the Office concurs with all of these suggestions and will take appropriate steps to implement them. With regard to the issue of the timeliness of audit reports, the Office has the following comments.

Comments on the timeliness of audits

In the management letter, the auditors note that timeliness does not appear to have improved; however, this problem may be in part be due to the measure used. The auditors suggested that the Office should consider using different measures and providing explanations for changes in the estimated completion date of a report.

As the auditors observed, the Office has established a rigorous audit planning, monitoring, and time-reporting system to estimate the completion dates of audits. The Office uses this information to estimate the completion date as early as possible during the audit. Nevertheless, predicting audit completion dates is more art than science. As the auditors note, a number of factors can significantly affect the completion date. These factors include: scope changes, other audit priorities, slow responses from auditees, and staff turnover. Thus, the auditors' suggestion to consider using different methods to keep the City Council informed of the status of audits is very sensible. Accordingly, the Office will work with the Finance Committee to develop a new reporting format that keeps the City Council adequately informed on the status of audits and provides reasonable expectations on their completion dates.

The City Auditor's Office is committed to continuously improving and refining its audit processes. As such, we welcome the auditors' review and insights. We think that those insights and perspectives will be helpful in improving the Office's work. We also wish to thank the auditors, Richard Wallace, Margaret Nielson, and David Jones for the professionalism, openness, and courtesy they displayed during this audit.

Sincerely,

Gerald A. Silva
City Auditor

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GS:bh

cc: Margaret Nielson
David Jones