



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: RICHARD DOYLE
City Attorney

GERALD SILVA
City Auditor

SUBJECT: Inquiry into Financial and
Performance Audits for the
County and Cities in the
County

DATE: October 20, 2004

RECOMMENDATION

Agree with the Findings and Recommendation of the Grand Jury Report.

BACKGROUND

The Grand Jury surveyed the fourteen municipalities regarding their past use of audits. It was found that over the last three years, seven cities regularly used external audits to assess government functions. Three had less extensive programs and four had no audits beyond the Consolidated Annual Financial Reports (CAFR).

The Grand Jury noted that "the City of San Jose has the most extensive internal auditing program in the County and provides an effective example to emulate. It is managed by the Office of the City Auditor (City Auditor), reporting to the City Council."

It concluded with the following findings:

Finding I

The City of San Jose and the County of Santa Clara make effective use of internal and external financial and performance audits to improve the functioning of their government operations. Both were found to be diligent in following up on the findings and recommendations of the audits.

Finding II

The Office of the City Auditor of San Jose makes effective use of a risk analysis to focus audits on the most vulnerable areas of government operations and those functions with the potential for greatest savings.

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Recommendation II-A

All municipalities in the County should consider performing and annually updating a formal risk analysis of their operations similar to that done by San Jose.

Recommendation II-B

Municipalities in the County should consider performing internal or external audits of the most vulnerable operation identified in a risk analysis.

Finding III

Several cities in the County do not have financial and performance management auditing programs.

Recommendation III

Municipalities in the County without auditing programs should consider using local external auditors such as the City Auditor, via a contract, or the County's external auditor to perform audits if an internal auditor is not cost-effective.

CONCLUSION

We agree with all of the findings and recommendations.

RICHARD DOYLE
City Attorney

GERALD SILVA
City Auditor

cc: Del Borgsdorf