External Quality Control Review

of the

Office of the City Auditor
San Jose, CA

Conducted in accordance with guidelines of the

National Association of Local Government Auditors

for the period July 2003 through June 2005

National Association of Local Government Auditors

October 20, 2005

Gerald Silva, CPA, CGFM
City Auditor
City of San Jose
800 South First Street
San Jose, California 95113

Dear Mr.Silva,

We have completed a peer review of the City Auditor's Office, City of San Jose, for the period July 1, 2003 through June 30, 2005. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May, 2004, by the National Association of Local Government Auditors (N.A.L.G.A.).

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 your 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 July 1, 2003 through June 30, 2005.

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

Alan D. Ash
Director
CIA, CFE, CGFM, CGAP
Toronto, Ontario

LaVonne Griffin-Valade
Deputy Auditor
CIA, CGAP
Multnomah County, Oregon

National Association of Local Government Auditors

October 20, 2005

Gerald Silva, CPA, CGFM
City Auditor
City of San Jose
200 East Santa Clara Street
San Jose, California 95113

Dear Mr. Silva,

We have completed a peer review of the San Jose City Auditor's Office for the period July 1, 2003 through June 30, 2005 and issued our report thereon dated October 20, 2005. We are issuing this companion letter to offer observations and suggestions stemming from our peer review.

First, we would like to mention some of the areas in which we believe your office excels:

- The City Auditor's Office has attracted highly qualified staff with expertise and credentials in a variety of areas;
- The City Auditor's Office has developed and implemented an effective and efficient system for following up on the status of outstanding audit recommendations;
- The Risk Assessment Model is useful in identifying risks and providing direction related to efficient and effective use of audit resources;
- The training request form is a useful tool for coding training hours as student, instructor, self paced individual instruction, presenter or author;
- Finding Development Sheets used in audit working papers are comprehensive and contain a concise summary of significant, relevant and useful information. Finding Development Sheets also provide a useful trail for how issues and recommendations are identified.
- Training and Professional Development opportunities are strongly encouraged to promote the expertise, dedication and enthusiasm of professional staff.

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

Application of Government Auditing Standards

The City Auditor's Office issues periodic reports on their audit of sales tax allocation. These projects are referred to as audits, but do not cite compliance with *Government Auditing Standards*. Reporting Standards for Performance Audits state that the audit report should include a reference to compliance with Standards.

The City Auditor also issues a Semi-Annual Recommendation Follow-up Report on All Outstanding Audit Recommendations for which the office performs testing and verification.

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While we did not review these reports as part of the peer review, we recommend that the City Auditor evaluate whether these reports should be conducted following and citing *Government Auditing Standards.*

Procedures Manual could be Streamlined and Enhanced

We noted that the current version of the City Auditor's Procedure Manual could be streamlined. The Manual has been updated over an extended period of time and the various layers added over time makes the document difficult to navigate.

Additionally, in some instances, policies are included which are not reflective of current practice and wording is not consistent with that provided in the current version of *Government Auditing Standards.*

Timeliness of Audit Reports

Government Auditing Standards require that audit reports be issued timely to facilitate resolution of issues identified in audit reports. Local government auditing organizations face a number of challenges regarding the timeliness of audit reports. These challenges include audit scope changes, staff reassignments, staff turnover, changes to the audit work plan and problems obtaining information from or scheduling meetings with local government officials. Documentation was not always included in the audit working papers explaining the reasons for audit reports being issued significantly beyond projected timelines. We recommend that when unexpected delays occur during the audit, documentation be provided in the working papers explaining the reason for the delay.

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,

Alan D. Ash
Director
CIA, CFE, CGFM, CGAP
Toronto, Ontario

LaVonne Griffin-Valade
Deputy Auditor
CIA, CGAP
Multnomah County, Oregon

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Gerald A. Silva, City Auditor

October 20, 2005

Mr. Alan Ash, Director
Auditor General's Office
Toronto, Ontario

Dear Mr. Ash:

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 Government Auditing Standards (GAS) 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 in which the Office excels:

- The City Auditor's Office has attracted highly qualified staff with expertise and credentials in a variety of areas;

- The City Auditor's Office has developed and implemented an effective and efficient system for following up on the status of outstanding audit recommendations;

- The Risk Assessment Model is useful in identifying risks and providing direction related to efficient and effective use of audit resources;

- The training request form is a useful tool for coding training hours as student, instructor, self paced individual instruction, presenter or author;

- Finding Development Sheets used in audit working papers are comprehensive and contain a concise summary of significant, relevant and useful information. Finding Development Sheets also provide a useful trail for how issues and recommendations are identified.

- Training and Professional Development opportunities are strongly encouraged to promote the expertise, dedication and enthusiasm of professional staff.

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The management letter also included three suggestions to improve the Office's operations and better demonstrate compliance with GAS. We concur with these suggestions and will take appropriate steps to implement them.

The Office is committed to continuously improving and refining its audit processes. As such, we welcome the auditors' review and suggestions. We believe their insights and perspectives will be helpful in improving the Office's work. We also thank you and LaVonne Griffin-Valade for your professionalism, openness, cooperation, and courtesy during the audit.

Sincerely,

Gerald A. Silva
City Auditor

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