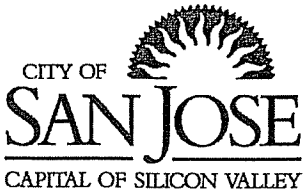
PSFSS Committee: 01/17/08
Item: #10



Office of the City Auditor
Steven Hendrickson, Interim City Auditor

November 13, 2007

Honorable Mayor and Members of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Attached is the independent auditor's report, *External Quality Control Review of the Office of the City Auditor, San Jose, CA*, which representatives of the Association of Local Government Auditors (ALGA) prepared on November 8, 2007. Our comments in response to the audit report are also included.

An ALGA representative will present this report to the Public Safety, Finance and Strategic Support Committee at its January 17, 2008 meeting.

If you have any questions, please contact me at extension 51240.

Respectfully submitted,

Steven M Hendrickson

Steven Hendrickson
Interim City Auditor

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SH:bh

Attachments

200 E. Santa Clara Street, San José, CA 95113
Telephone: (408) 535-1250 ***Fax:*** (408) 292-6072 ***Website:*** www.sanjoseca.gov/auditor/

External Quality Control Review

of the

Office of the City Auditor
San Jose, CA

Conducted in accordance with guidelines of the

Association of Local Government Auditors

for the period July 2005 through June 2007

Association of Local Government Auditors

November 8, 2007

Steven Hendrickson
Interim City Auditor
City of San Jose
200 East Santa Clara Street
San Jose, California 95113

Dear Mr. Hendrickson,

We have completed a peer review of the City Auditor's Office, City of San Jose, for the period July 1, 2005 through June 30, 2007. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May 2004, by the Association of Local Government Auditors (ALGA).

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, 2005 through June 30, 2007.

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

Mike Widner, CICA
City and County of Denver, CO

George McGowan, CPA
City of Orlando, FL

Mary Jo Emanuele, CIA, CGFM
City of Kansas City, MO

Association of Local Government Auditors

November 8, 2007

Steven Hendrickson
Interim City Auditor
City of San Jose
200 East Santa Clara Street
San Jose, California 95113

Dear Mr. Hendrickson,

We have completed a peer review of the San Jose City Auditor's Office (Office) for the period July 1, 2005 through June 30, 2007 and issued our report thereon dated November 8, 2007. We are issuing this companion letter to offer certain 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 staff is exceptionally well-qualified and credentialed, and exhibit a remarkable dedication to the residents and taxpayers of San Jose.
- The Preliminary Survey APR and the Risk Assessment APR illustrate a comprehensive methodology as it relates to the audit planning process.
- The "Bi-weekly Work Summary" form provides a great tool to management for periodically assessing individual audit progress.

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

Enhanced Quality Control System

The City Auditor's Office will occasionally issue continuation memoranda of previous audits. In the original engagements, Government Auditing Standards are cited and fully documented; however, in the subsequent memos, the standards are not cited as the office relies on the original audit to document compliance. The Office should devise a method and process for documenting adherence to the standards for projects that have a limited scope or are essentially continuations of previous engagements in which the Yellow Book requirements were fully documented.

Furthermore, the Office should consider whether all of the memoranda it issues should be considered audits. If so, the Office should state in the memo that they followed Government Auditing Standards and, in those cases where it could not, state which particular standards were not followed.

Audit Supervision

Some of the individual audits we reviewed did not appear to be adequately supervised. While all the audits contained some evidence of supervisory review, not all Office procedures were followed in every case as they relate to staff and audit supervision.

Consideration of Interim Reporting

We noted that a couple audits during our review period were not issued in a timely manner. While the audit working papers contained information and documentation explaining the various reasons for the delays, the audits still took several years and thousands of hours before the final report was issued. We recommend that when significant delays occur during the audit, the Office consider interim reporting as allowed by the Government Auditing Standards.

We extend our thanks to you and each of your staff members for the hospitality and cooperation extended to us during our review.

Sincerely,

Mike Widner, CICA
City and County of Denver, CO

George McGowan, CPA
City of Orlando, FL

Mary Jo Emanuele, CIA, CGFM
City of Kansas City, MO

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Steven Hendrickson, Interim City Auditor

November 8, 2007

Mr. Mike Widner, Lead Auditor
Office of the Auditor
City and County of Denver
201 West Colfax Ave., Dept. 705
Denver, CO 80202

Dear Mr. Widner:

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 and met the objectives of the 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 staff is exceptionally well-qualified and credentialed, and exhibit a remarkable dedication to the residents and taxpayers of San Jose.

- The Preliminary Survey Audit Program and Results (APR) and the Risk Assessment APR illustrate a comprehensive methodology as it relates to the audit planning process.

- The "Bi-weekly Work Summary" form provides a great tool to management for periodically assessing individual audit progress.

The management letter also included three suggestions to enhance the Office's demonstrated commitment and adherence to Government Auditing Standards. We concur with these suggestions and will take the appropriate steps to implement them.

200 East Santa Clara Street, San José, CA 95113 *tel* (408) 535-1250 *fax* (408) 292-6072 www.sanjoseca.gov

The Office is committed to continuously improving and refining its audit processes. As such, we welcome the auditors' review and suggestions. We believe that their insights and perspectives will be helpful in improving the Office's work. We also wish to thank the auditors, George McGowan, Mary Jo Emanuele and yourself for your professionalism, openness, cooperation, and courtesy during the audit.

Sincerely,

Steven M Hendrickson

Steven Hendrickson
Interim City Auditor

SH:bh
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