



BERKELEY CITY AUDITOR

INFORMATION CALENDAR

June 14, 2022

To: Honorable Mayor and Members of the City Council

From: Jenny Wong, City Auditor *zw*

Subject: City Auditor's Office 2021 Peer Review Results

INTRODUCTION

The Association of Local Government Auditors (ALGA) has again issued an opinion that the City Auditor's Office's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for the period of November 1, 2018 to October 31, 2021.

CURRENT SITUATION AND ITS EFFECTS

Auditors from Fairfax County, VA and the Transportation Authority in Orange County, CA completed an External Quality Control Review (peer review) of our internal quality control system. They followed the *ALGA Peer Review Guide* standards and guidelines in examining our system, including our efforts for ongoing monitoring and improvement.

The peer reviewers examined seven projects representing 100 percent of our audits and 80 percent of our auditing hours over the peer-review period. They also reviewed a selection of our non-audit service assessments in which we evaluated the impact of those services on our audits and identified safeguards for maintaining independence. It is in the opinion of the peer review team that our internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for the period of November 1, 2018 to October 31, 2021.

Strengthening Auditor Accountability and Oversight

The peer reviewers noted one area where our office can strengthen our internal control systems. The Payroll Audit Division is part of the City Auditor's office and performs important payroll functions. Audits require independence and the reviewers noted that due to independence issues, we are unable to conduct performance audits of payroll, which is an important city function. Our office will look for methods of strengthening independence to perform payroll-related audits in the future.

City Auditor's Office Areas of Excellence

The peer review team recognized our commitment to a high-standard of audit quality by identifying areas in which we excel:

- Employing highly-qualified audit staff.
- Ensuring staff skills are maintained through training. The peer review team noted that Berkeley's staff training far exceeds the minimum continuing professional education standards.
- Developing well-organized workpapers and procedures that demonstrate adherence to *Government Auditing Standards*.

The efforts of many led to the peer reviewer's positive opinion and our ability to demonstrate a commitment to audit excellence. I would like to thank the following for their current and past contributions:

- Ann-Marie Hogan, Former City Auditor whose unwavering belief in the value of *Government Auditing Standards* provided continuous support of a well-designed and effective internal quality control system.
- I would also like to thank current and former staff: Erin Mullin, Senior Auditor; Caitlin Palmer, Senior Auditor; Alejandra Barrio-Gorski, Auditor I; Pauline Miller, Auditor I; Kendle Kuechle, Auditor I; Claudette Biemeret, Former Audit Manager; Tracy Yarlott-Davis, Former Auditor II; Farkhad Askarov, Former Auditor II.

BACKGROUND

The Berkeley City Charter requires our audits to be performed in accordance with government auditing standards and those standards require that we undergo a peer review every three years. The City Auditor's Office has consistently passed peer reviews since its first review in 1997.

Government Auditing Standards help ensure that government auditors maintain competence, integrity, objectivity, and independence in planning, conducting, and reporting their work. Auditors enhance their credibility by following standards so their work leads to improved government management, decision making, and oversight.

ENVIRONMENTAL SUSTAINABILITY

The peer review team maintained workpapers in electronic format, which greatly reduced the use of paper and ink. There are no other identifiable environmental effects or opportunities associated with the subject of this report.

POSSIBLE FUTURE ACTION

We will explore ways to address the challenge raised by the peer reviewers to allow for future audits of payroll in compliance with the *Government Auditing Standards*.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

None known at this time.

CONTACT PERSON

Jenny Wong, City Auditor (510) 981-6750

Attachments:

1: 2021 External Quality Control Review of the Berkeley City Auditor's Office Final Report

COVER

**External
Quality
Control Review**



of the
Berkeley City Auditor's Office

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the November 1, 2018 to October 31, 2021



Association of Local Government Auditors

April 14, 2022

Ms. Jenny Wong
Berkeley City Auditor
2180 Milvia Street, 3rd Floor
Berkeley, CA 94704

Dear Ms. Wong,

We have completed a peer review of the Berkeley City Auditor's Office for the period of November 1, 2018 to October 31, 2021. In accordance with generally accepted government auditing standards peer review requirements, we followed the standards and guidelines contained in the *Peer Review Guide* published 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 whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff and management to assess their understanding of, and compliance with, relevant quality control policies and procedures.

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. Organizations can receive a rating of pass, pass with deficiencies, or fail. The Berkeley City Auditor's Office has received a rating of pass.

Further, based on the results of our review, it is our opinion that the Berkeley City Auditor's Office internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for audits and attestation engagements during the period from November 1, 2018 to October 31, 2021.

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

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Ricky L. Brown
IT Auditor
Fairfax County, VA

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Gabriel Tang
Principal Auditor
Transportation Authority
Orange County, CA

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Association of Local Government Auditors

April 14, 2022

Ms. Jenny Wong
Berkeley City Auditor
2180 Milvia Street, 3rd Floor
Berkeley, CA 94704

Dear Ms. Wong,

We have completed a peer review of the Berkeley City Auditor's Office (BCAO) for the period from November 1, 2018 to October 31, 2021, and issued our report thereon dated April 14, 2022. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

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

- BCAO has very qualified audit staff and has ensured their skills are maintained through training. The training far exceeds the minimum continuing professional education standards.
- BCAO's workpapers were very organized; audit procedures were well documented and effectively indexed.

We offer the following observation and suggestion to enhance your organization's demonstrated adherence to *Government Auditing Standards*(GAS):

GAS standard 3.97 states that auditors should conclude that providing or supervising ongoing monitoring procedures over an entity's system of internal controls impairs independence because the management participation is so significant that no safeguards can reduce the threat to an acceptable level.

In reviewing the payroll monitoring functions of BCAO's Payroll Audit Division, we observed that the Payroll Audit Division was performing a portion of the payroll monitoring. It is considered a nonaudit service that impairs the audit independence of BCAO. Because of the independence impairment, the *General Auditing Standards* prohibits BCAO from performing payroll audits.

Since payroll is a critical process to operations, we suggest the functions of the Payroll Audit Division be transferred to another City agency. This would allow the payroll monitoring process to continue and BCAO to perform future payroll and payroll related audits in accordance with GAS.

We extend our thanks to you, your staff, and the other officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,

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Ricky L. Brown
IT Auditor
Fairfax County, VA

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Gabriel Tang
Principal Auditor
Transportation Authority
Orange County, CA

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