



Office of the City Auditor

INFORMATION CALENDAR

February 19, 2013

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Auditor  
Subject: 2012 Peer Review: Audit of the City of Berkeley Auditor's Office

INTRODUCTION

The 2012 peer review of the City of Berkeley Auditor's Office found our office to be in full compliance with [Government Auditing Standards](#)<sup>1</sup> issued by the Comptroller General of the United States. The City of Berkeley Auditor's Office was awarded the highest rating possible for quality and professionalism.

CURRENT SITUATION AND ITS EFFECTS

Auditors from Long Beach, California, and Denver, Colorado, performed a peer review of the City of Berkeley Auditor's Office. The [Association of Local Government Auditors](#)<sup>2</sup> coordinated the audit and selected the independent peer review team. The auditors reviewed our internal quality control system and performed procedures to determine whether our quality control system provided reasonable assurance of compliance with Government Auditing Standards for the period November 1, 2009, through October 31, 2012. The City Charter requires that our audits be conducted in accordance with Government Auditing Standards.

The peer reviewers identified the following areas in which our office excels:

- Dedication to improvements, achieving efficiencies, and meeting standards
- Enhancing quality control and efficiencies by moving to electronic work papers
- Earning a high level of trust and operating professionally and collaboratively

The management letter from the peer reviewers (attached) suggested that the office improve our documentation of challenges to independence, and improve documentation of planning and evidence for revenue audits. The reviewers also commented verbally on our office's "very limited training budget". They suggested that adequate training funding should be made available to ensure the auditors obtain training that maintains or enhances their professional proficiency, as required by Government Auditing Standards. The City Charter requires our office to follow those standards.

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<sup>1</sup> <http://www.gao.gov/yellowbook>

<sup>2</sup> <http://algaonline.org/>

Peer review recommendations from previous years have significantly helped our office increase our efficiency and effectiveness. These recommendations ranged from changes to the City Charter to require funding and authorization of the audit function and adherence to Government Auditing Standards, to augmenting our budget to purchase specialized audit software (ACL), used most recently in performing the audit [Business License Taxes: Providing Better Guidance and Customer Service Will Increase Revenues](#).<sup>3</sup>

The City Auditor's Office has consistently passed our peer reviews (received an unqualified opinion) since our first peer review in 1997.

### BACKGROUND

To enhance the City of Berkeley Auditor's Office's accountability and effectiveness, the City Auditor proposed, and the City Council and Berkeley voters approved, an amendment to the City Charter that requires our audits to be performed in accordance with Government Auditing Standards. These standards require us to receive a peer review once every three years.

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 can lead to improved government management, decision making, and oversight.

The mission of the City Auditor's Office is to provide independent oversight of City operations and to be a catalyst for improving City government. Our audits provide the City Manager, City Council, and the public with objective, timely, and accurate information about City program performance. Our audits help make government more accountable.

### POSSIBLE FUTURE ACTION

The City Auditor might request additional funding for training for auditors in the future.

### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Less than \$10,000.

### CONTACT PERSON

Ann-Marie Hogan, City Auditor  
Office of the City Auditor (510) 981-6750

- 1: External Quality Control Review Opinion Letter
- 2: External Quality Control Review Management Letter
- 3: City Auditor response to Management Letter

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<sup>3</sup> [http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level\\_3\\_-\\_General/BLT%20Revenue%20Collection%20Audit\\_Final\(1\).pdf](http://www.ci.berkeley.ca.us/uploadedFiles/Auditor/Level_3_-_General/BLT%20Revenue%20Collection%20Audit_Final(1).pdf)



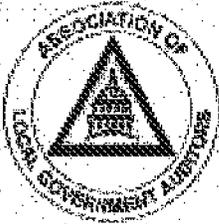
**External  
Quality  
Control Review**

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of the  
**City of Berkeley  
City Auditor's Office**

Conducted in accordance with guidelines of the  
**Association of Local Government  
Auditors**  
for the period November 1, 2009 – October 31, 2012

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## Association of Local Government Auditors

November 9, 2012

Ann-Marie Hogan, City Auditor  
City of Berkeley City Auditor's Office  
2180 Milvia Street  
Berkeley, CA 94704

Dear Ms. Hogan:

We have completed a peer review of the City of Berkeley City Auditor's Office for the period November 1, 2009 through October 31, 2012. In conducting our review, 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 operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

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

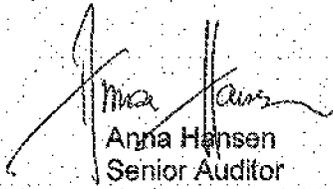
Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the City of Berkeley 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 audits and attestation engagements during the period November 1, 2009 through October 31, 2012.

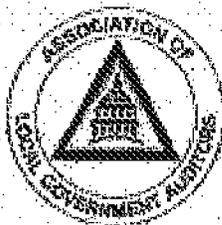
We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.



Janet I. Day  
Deputy City Auditor, Retired  
Office of the City Auditor  
City of Long Beach



Anna Hansen  
Senior Auditor  
Office of the City Auditor  
City and County of Denver, Colorado



## Association of Local Government Auditors

November 9, 2012

Ann-Marie Hogan, City Auditor  
 City of Berkeley City Auditor's Office  
 2180 Milvia Street  
 Berkeley, CA 94704

Dear Ms. Hogan:

We have completed a peer review of the City of Berkeley City Auditor's Office (Office) for the period November 1, 2009 through October 31, 2012 and issued our report thereon dated November 9, 2012. 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:

- The Office is dedicated to improving processes to achieve efficiencies as well as ensuring that the organization complies with the recent changes in the revised 2011 Government Auditing Standards (GAS). Policies and Procedures have been revised to meet standards and are updated and refined as audit processes are enhanced. Policy and Procedures updates are communicated to the audit team members regularly to ensure consistency in practice.
- The Office's transition to electronic work papers for all new audits has enhanced the audit quality control system by facilitating supervisory review of audit work throughout the engagement. In conjunction with this transition, the Office has developed electronic forms that have improved the work flow and ensured consistency in work paper documentation while reducing the need for paper and storage costs for hard copy audit files.
- The Office operates in a very professional and collaborative manner. Management indicated that there is a high level of trust in the Office.

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

- Standard (GAS 3.59) requires the auditor to document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence as required by paragraph 3.24. Auditors should apply the conceptual framework at the audit organization, audit and individual auditor level to: a) identify threats to independence; b) evaluate the significance of the threats identified both individually and in the aggregate; and, c) apply safeguards necessary to eliminate threats or reduce them to an acceptable level (GAS 3.07-3.09).

The City Auditor is mandated by City Charter sections 61 and 65 to perform various non-audit services that include: reviewing, countersigning, numbering, and registering all city agreements (contracts) after the City Manager or designee has signed; examining all City payments and payrolls before issuance; and signing all City checks with the City Manager as co-signer. The Office directs the Payroll Audit division, and is responsible for certain centralized payroll functions of the City's decentralized payroll system.

These mandated nonaudit services may impair auditor independence in fact or in appearance. In order to mitigate those threats, the auditor must document independence considerations to provide evidence of the auditor's judgments in forming conclusions regarding independence requirements

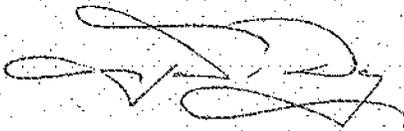
Suggestion: The Office has developed nonaudit service templates as part of their revised policies and procedures manual and should make it a priority to use the templates to document the Office's assessment of independence considerations in accordance with GAS for mandated nonaudit services.

- Standards 6.06-6.10 (GAS) require auditors to plan and document work necessary to define audit objectives, scope and methodology and provide reasonable assurance that sufficient and appropriate evidence supports conclusions. In addition, auditors should document their assessment that evidence taken as a whole is sufficient and appropriate for addressing audit objectives and supporting findings and conclusions (GAS 6.58). The Business License Tax (BLT) annual report for FY 2010 cited compliance with GAS. However, planning procedures and overall assessment of evidence were not adequately documented in these audits.

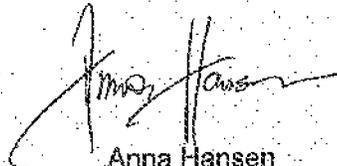
Suggestion: Ensure BLT audits are performed in compliance with GAS particularly in the areas of planning and overall assessment of evidence.

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,



Janet I. Day  
Deputy City Auditor, Retired  
Office of the City Auditor  
City of Long Beach



Anna Hansen  
Senior Auditor  
Office of the City Auditor  
City and County of Denver, Colorado



Office of the City Auditor  
Ann-Marie Hogan, City Auditor

November 19, 2012

Ms. Janet i. Day, Deputy City Auditor, Retired, City of Long Beach, California  
Ms. Anna Hansen, Senior Auditor, City and County of Denver, Colorado  
Ms. Wendy Simeon, Peer Review Coordinator, City of Phoenix, Arizona  
Association of Local Government Auditors

Dear ALGA Peer Review Team,

The City of Berkeley auditors are pleased that the Association of Local Government Auditors' quality control review of our office has once again resulted in an unqualified opinion regarding our system of internal quality control and our compliance with *Government Auditing Standards* issued by the Comptroller General of the United States, U.S. Government Accountability Office.

Your management letter indentified the following key areas in which you believe our office excels:

- Our dedication to increasing the efficiency of our work, as well as to ensuring that our work complies with the newly revised *Government Auditing Standards*
- Our transition to electronic work papers, reducing paper and storage costs as well as enhancing quality control
- Your observation that the Office operates in a very professional and collaborative manner, and testimony from Management as to the high level of trust in the Office.

We also plan to implement your suggestion that we use our new nonaudit services template to thoroughly document independence considerations, and to ensure that planning procedures and overall assessment of evidence are thoroughly documented in work papers for revenue audits.

We wish to extend our thanks to the Peer Review Team for your time and constructive comments.

Sincerely,

Ann-Marie Hogan, City Auditor  
City of Berkeley

