



Office of the City Auditor

INFORMATION CALENDAR

February 13, 2007

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

By: Ann-Marie Hogan, City Auditor

Subject: Peer Review of City of Berkeley Auditor's Office

INTRODUCTION

In a recent peer review, the Berkeley City Auditor's Office was found to be in full compliance with Government Audit Standards for Fiscal Years 2004 through 2006. Undergoing peer review is a requirement of Government Audit Standards. Conformance with the standards is required by City Charter Section 61 and Berkeley Municipal Code Chapter 2.24.

BACKGROUND

Improving accountability for public resources is the key mission of the City Auditor's office. In turn, the office's peer review is an important component of holding the City Auditor accountable for producing consistent and credible audit reports. Peer review helps maintain an office established on a firm foundation of professional competence.

To enhance the Audit Office's accountability and effectiveness, we asked the voters to amend the Charter in 1998, to require these peer reviews, by adopting comprehensive Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Comptroller General's Government Accountability Office (GAO). Then, in October 2006, Council adopted the Auditor's recommended changes to the Berkeley Municipal Code (BMC). These changes provided additional safeguards and transparency. First, they made explicit the duties of the office, and the expectations Council and the public should have for audit effectiveness, regardless of who is in office. Secondly, the BMC now includes a requirement that peer reviews be issued to Council.

CURRENT SITUATION AND ITS EFFECTS

The reports from the 2006 peer review are attached. The reviewers awarded our office the highest rating possible for quality and professionalism and praised the qualifications of our staff, cost-effective use of internal training for professional development, usefulness of our written policies and procedures, and our commitment to following Government Audit Standards.

The reviewers gave our office an unqualified opinion. The Opinion Letter states "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...it is our opinion that the City Auditor's Office's internal quality control system was suitably designed and operating effectively..."

Audits selected for review included the *Citywide Contract Compliance Audit, Seniors and Disabled Home Rehab Loan Program Audit, Parking Enforcement Audit, Business License Tax Review, and Impact of Medi-Cal Provider Rate Reduction.*

Each of our previous peer reviews resulted in a number of recommendations for improvement, all of which have been implemented. The auditors are pleased to report that, this year, only one recommendation was made. It has already been implemented.

Peer review recommendations from previous years have significantly helped our office to increase our effectiveness. Key recommendations previously implemented by our office, thanks to votes of the City Council to adopt modified budgets or to amend legislation included:

- Changes to the City Charter to require funding and authorization of the audit function as well as the requirement that the auditors adhere to Government Audit Standards
- Provision of funding for training for staff auditors
- Purchase of specialized audit software to increase efficiency and persuasiveness of audit work. The new audit software (ACL) is currently being used for revenue identification as well as for other performance audits and internal control (fraud prevention) activities.

No Council action is required in order for the City Auditor to complete implementation of the recommendation in the attached report, which has already been implemented.

CONTACT PERSON

Ann-Marie Hogan, City Auditor

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

Attachments:

- 1: Peer Review Opinion Letter
- 2: Peer Review Management Letter
- 3: Peer Review Response Letter

Association of Local Government Auditors



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November 2, 2006

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

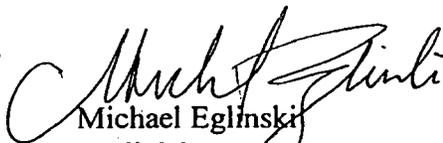
Dear Ms. Hogan

We have completed a peer review of the City Auditor's Office for the period of November 1, 2003, through October 31, 2006. 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 (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 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 audits and attestation engagements during the period of November 1, 2003, through October 31, 2006.

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


Michael Eglinski
Audit Manager
City Auditor's Office
City of Kansas City, MO


Gitanjali Mandrekar
Senior Program Performance Auditor
City Auditor's Office
City of San Jose, CA

Association of Local Government Auditors



November 2, 2006

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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 Berkeley City Auditor's Office for the period of November 1, 2003, through October 31, 2006, and issued our report thereon dated November 2, 2006. 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:

- Qualified staff with the knowledge, skills and experiences necessary for conducting work under the audit standards;
- Using internal training to provide cost-effective professional development and keep staff current on auditing practices and issues;
- Clearly written and detailed policies and procedures to provide a useful framework for planning and completing audits; and
- Commitment to following standards by consistently undergoing external quality control reviews and by implementing all of the recommendations from the previous review.

We offer the following observation and suggestion to enhance your Organization's demonstrated adherence to government auditing standards:

- The City is in the process of changing the Berkeley Municipal Code regarding the City Auditor's Duties and Authority. The change, if approved, will allow auditor job classifications to issue administrative citations. The intent of the change is to strengthen audit access to information and documents that are already required under City ordinances.

We recommend that if the change is approved, the City Auditor write policies and procedures to define how the organization will issue administrative citations.

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.

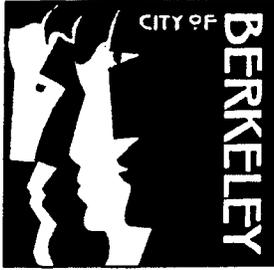
Sincerely,



Michael Eglinski
Audit Manager
City Auditor's Office
City of Kansas City, MO



Gitanjali Mandrekar
Senior Program Performance Auditor
City Auditor's Office
City of San Jose, CA



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

November 2, 2006

Michael Eglinski, Audit Manager, City of Kansas City, Missouri
Gitanjali Mandrekar, Senior Program Performance Auditor, City of San Jose, California
Mike Edmonds, ALGA Review Coordinator, City of San Jose, California
Association of Local Government Auditors
449 Lewis Hargett Circle, Suite 290
Lexington, KY 40503

Dear Mr. Eglinski and Ms. Mandrekar:

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 Audit Standards* issued by the Comptroller General of the United States, U.S. Government Accountability Office.

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

- The qualifications of our staff
- The effective use of internal training for professional development
- The usefulness of our written policies and procedures, and
- Our commitment to following *Government Audit Standards*.

We also plan to implement your recommendation that we write policies and procedures to define how we will issue administrative citations for business license audits once the amendment to the Berkeley Municipal Code is approved by Council. This recommendation will be implemented within 30 days of the second reading. The second reading is scheduled for November 14, 2006.

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