



# CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

**December 6, 2011**

**The Honorable City Council  
Attention: Finance Committee  
Palo Alto, California**

## **External Quality Control Review of the Office of the City Auditor**

This is an informational report and no action is required.

### **BACKGROUND**

The Auditor's Office follows Government Auditing Standards. These standards provide assurance to the public that the office conducts its work professionally. Government audit offices nationwide at the federal, state, and local level are required by Government Auditing Standards to maintain systems of internal quality control to ensure compliance with these standards and to have an external quality review once every three years to assess the organization's compliance. The attached letter and report contain the results of our most recent external quality control review, also known as a "peer review."

Last month, a team of government auditors from two other jurisdictions came to our office for one week, reviewed our reports and working papers and interviewed our staff. This peer review was coordinated through the Association of Local Government Auditors, which assigned government audit professionals from the governments of Milwaukee County, WI and Frederick County, MD. The peer review team found that our office fully complies with Government Auditing Standards. Their review period was from July 1, 2008 through June 30, 2011.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ian Hagerman", is written over a horizontal line.

**Ian Hagerman**  
Senior Performance Auditor

### **ATTACHMENTS:**

- Attachment A - External Quality Control Review (PDF)

Department Head: Ian Hagerman, Sr. Performance Auditor





# External Quality Control Review

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of the  
Office of the City Auditor  
Palo Alto, California

Conducted in accordance with guidelines of the  
**Association of Local Government  
Auditors**

for the period July 2008 through June 2011

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## Association of Local Government Auditors

November 3, 2011

Ian Hagerman  
Senior Performance Auditor  
City of Palo Alto  
Office of the City Auditor

Dear Mr. Hagerman,

We have completed a peer review of the City of Palo Alto Office of the City Auditor for the period July 2008 through June 2011. 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 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. Our procedures included:

- Reviewing the audit organization's written policies and procedures
- Reviewing internal monitoring procedures
- Reviewing a sample of audit engagements and working papers
- Reviewing documents related to independence, training, and development of auditing staff
- Interviewing auditing staff 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 Palo Alto Office of the City Auditor'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 July 2008 through June 2011.

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

  
Jere A. Trudeau  
Milwaukee County, WI

  
Kelly M. Hammond  
Frederick County, MD



## Association of Local Government Auditors

November 3, 2011

Ian Hagerman  
Senior Performance Auditor  
City of Palo Alto  
Office of the City Auditor

Dear Mr. Hagerman,

We have completed a peer review of the City of Palo Alto Office of the City Auditor for the period July 2008 through June 2011, and issued our report thereon dated November 3, 2011. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

First, we want to commend you and your staff for sustaining a high level of quality work, as evidenced by national recognition by the Association of Local Government Auditors for reports issued in 2008, 2009 and 2010, during a period of high turnover of both management and staff. We recognize the difficulties that such periods can have on a department's ability to perform core functions and achieve departmental goals. We would also like to mention a couple of additional areas in which we believe your office excels:

- The current audit staff has a good understanding of *Government Auditing Standards* and related policies and procedures designed to ensure compliance with those standards (GAS 3.43 ). Further, their individual backgrounds provide a broad variety of perspectives for reviewing operations and providing meaningful recommendations for improvement.
- The movement toward the use of electronic work papers, with its improved indexing and cross-referencing features, helps streamline the supervisory and quality review processes (GAS 7.52; 7.53; 7.55).

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

- When performing professional services other than audits or attestation engagements (nonaudit services), GAS 1.33 states that "... audit organizations should communicate, as appropriate, with requestors and those charged with governance to clarify that the scope of work performed does not constitute an audit under GAGAS." Therefore, we recommend that you document in your files that

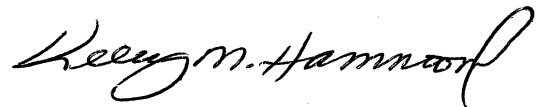
management was appropriately informed that such work will not be performed in compliance with government auditing standards.

- While your overall risk assessments as they relate to the scope and objectives of the audit are detailed and comprehensive, they need to formally document specific assessments of fraud risk. GAS 7.30 states, in part, that "Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions." While such discussions may be occurring during your assessment of overall audit risk, we recommend that the identification of fraud risks, along with discussions of how the associated work will address them, should be documented in work papers.

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,

  
Jere A. Trudeau  
Milwaukee County, WI

  
Kelly M. Hammond  
Frederick County, MD

# CITY *of* PALO ALTO

Office of the City Auditor

November 3, 2011

Mr. Jere Trudeau  
Peer Review Team Leader  
Association of Local Government Auditors  
449 Lewis Hargett Circle, Suite 290  
Lexington, KY 40503

Dear Mr. Trudeau:

We have reviewed your report of November 3, 2011 containing the results of your external quality control review of the City of Palo Alto's Office of the City Auditor. We are pleased the independent peer review team found that our office conducts our work in full compliance with Government Auditing Standards.

We appreciate your thoughtful comments about the areas where you found our office to excel, including our high quality audit work, our diverse staff backgrounds, and our efforts to improve and streamline supervisory and quality control processes. We also appreciate your additional observations and suggestions to further enhance our operations, including documenting our communication with management that nonaudit services are not performed in compliance with Government Auditing Standards and documenting our consideration of fraud risk. We concur with these suggestions and will take the appropriate steps to implement them. We have already instituted audit steps specifically related to assessing fraud risks in several audits issued after the peer review period, and we will update our procedures accordingly to reflect current practices.

We would also like to extend our personal thanks to you and Kelly Hammond. We appreciate your participation in the peer review process and taking the time to visit our office and reviewing our operations. We will share your report with our Mayor and City Council, and make it available to the media and the public.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ian Hagerman', with a long horizontal flourish extending to the right.

Ian Hagerman  
Senior Performance Auditor