



External Quality Control Review

of the
Office of the City Auditor
City of Oakland, California

Conducted in accordance with guidelines of the
Association of Local Government Auditors
for the period January 1, 2007 through December 31, 2009



Association of Local Government Auditors

March 12, 2010

Ms. Courtney A. Ruby, CPA, CFE
City Auditor
Office of the City Auditor, City of Oakland
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

Dear Ms. Ruby,

We have completed a peer review of the Office of the City Auditor for the City of Oakland, California for the period January 1, 2007 through December 31, 2009. 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. 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 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 January 1, 2007 through December 31, 2009.

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

Kelly Hammond
Audit Manager
Frederick, MD

Beth Woodward
Senior Management Auditor
Portland, OR

Kyle Elser
Audit Manager
San Diego, CA



Association of Local Government Auditors

March 12, 2010

Ms. Courtney A. Ruby, CPA, CFE
City Auditor
Office of the City Auditor, City of Oakland
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

Dear Ms. Ruby:

We have completed a peer review of the Office of the City Auditor for the City of Oakland, California for the period January 1, 2007 through December 31, 2009 and issued our report thereon dated March 12, 2010. 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:

- We found that the policies and procedures manual, created since the last peer review, is very comprehensive and includes the quality control elements necessary to provide reasonable assurance that audit work will be conducted in accordance with applicable *Government Auditing Standards (GAS)*.
- The implementation of the improved performance evaluation process, including the end of project evaluations, has enhanced staff development and audit quality.
- The organization is dedicated to providing professional continuing education for staff to enhance their technical competence and has created a dedicated budget for individuals to meet GAS education requirements.

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

- GAS Section 7.52 states that "Audit supervisors or those designated to supervise auditors must properly supervise audit staff," and Section 7.80 (c) requires "evidence of supervisory review, before the report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report." In some engagements reviewed, we did not find adequate documented evidence of supervisory review and approval of audit work papers before the report was issued.

We recommend that supervisors document their review and approval of audit work performed prior to issuing audit reports.

- GAS Section 7.77 states that "Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed... Auditors should prepare audit documentation that contains support for findings, conclusions, and recommendations before they issue their report."

GAS Section 7.79 states that "Audit documentation is an essential element of audit quality. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality."

Although there was sufficient evidence to support the details in the reports, we found inconsistent adherence to your stated operational procedures for audit documentation, such as (1) referencing information in audit reports to supporting documentation in the work papers, (2) signing, dating and sourcing work papers to document who performed the work and where the information was obtained, and (3) cross-referencing audit program steps to the work papers where the related work was completed.

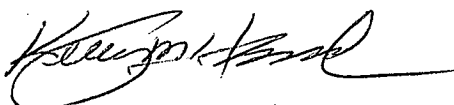
We recommend you focus future in-house training sessions on these documentation issues, and that supervisors ensure compliance with documentation policies, procedures and standards during review of the work papers.

- GAS Section 3.54 states that "The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action."

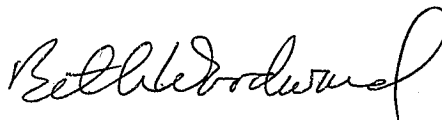
We found evidence that monitoring procedures are in place; however, these procedures are not formally documented. We recommend that you document the procedures you will follow in the future to continue to comply with this requirement.

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

Sincerely,



Kelly Hammond
Audit Manager
Frederick, MD



Beth Woodward
Senior Management Auditor
Portland, OR



Kyle Elser
Audit Manager
San Diego, CA

CITY OF OAKLAND



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March 23, 2010

Kelly Hammond, Audit Manager, Frederick, MD
Beth Woodward, Senior Management Auditor, Portland, OR
Kyle Elser, Audit Manager, San Diego, CA

Dear ALGA Peer Review Team:

I am pleased that the independent peer review team found Oakland's Office of the City Auditor (Office) had conducted work in full compliance with Government Auditing Standards (GAS) for the period January 1, 2007 through December 31, 2009. The Office's successful transformation from noncompliance with Government Auditing Standards to full compliance resulted from my staff's dedicated efforts in fully addressing all deficiencies identified in the previous peer review.

I have also reviewed your separate letter offering the Office suggestions to further strengthen our internal quality control system, and I agree with its conclusions and recommendations. I appreciate the ALGA peer review team's thoughtful comments on areas where they found the Office to excel, including our comprehensive policies and procedures manual, the implementation of an improved performance evaluation process, and the commitment to provide professional continuing education by creating a dedicated budget for staff members to meet industry requirements.

Additionally, I appreciate the team's observations and suggestions to further enhance the Office's demonstrated adherence to Government Auditing Standards. Specifically, the peer review team recommends the following:

- Supervisors should better document their review and approval of audit work performed prior to issuing audit reports.
- Our future in-house training sessions should focus on ensuring consistent adherence to our operational procedures, specifically:
 1. Referencing audit reports to supporting documentation in the work papers;
 2. Signing, dating, and sourcing work papers; and
 3. Cross-referencing audit program steps to the work papers.

- Management should formally document annual monitoring procedures to ensure continued compliance with GAS Section 3.54 requirements to identify systemic issues needing improvement, along with recommendations for corrective action.

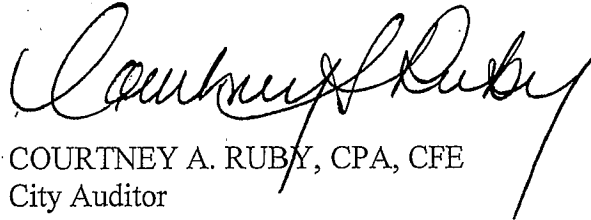
The Office is wholly committed to continuous improvement at all levels – from individual staff members to office-wide systems. We consider implementation of the peer review team’s suggestions an integral part to achieving our shared vision of becoming a model performance audit organization. I would like to highlight several processes and systems we have begun that complement your suggestions for the Office.

1. In the last half of 2009, three office-wide trainings were conducted on the development of work papers in the Office’s audit management software, TeamMate. The software automatically tracks supervisory review notes and provides a date/time stamp for each item. Once an auditor responds to the review notes, the supervisor provides final signoff on work papers. We are in the process of updating the Office’s policies and procedures manual to include a provision stating that no report will be issued prior to complete signoffs of supervisory review on all work papers within TeamMate software.
2. TeamMate software automatically identifies the auditor who prepares a work paper. In addition, TeamMate software has a feature to hyperlink work papers, demonstrating support for each statement and all figures in an audit report.
3. Following the three office-wide trainings in 2009, we have fully transitioned from a manual work paper system to an electronic work paper system. We are in the process of updating the Office’s policies and procedures to accurately reflect the full transition from hard copy work paper documentation of audit steps to electronic tracking of audit steps. As with all new software, immersion is essential to developing proficiency. We will continue to complement in-house trainings with on-the-job-training for all auditors.
4. At the end of 2009, the entire audit team participated in an internal, top-to-bottom review of the Office’s policies and procedures, especially our quality control system. Following this review, we convened meetings to discuss the results, including where improvements needed to be made and how we could better streamline our processes while maintaining a strong quality control system that is GAS compliant.

I want to sincerely thank the ALGA peer review team for their work. The peer review process has been invaluable to my Office. At two very different points in my administration, ALGA peer review has provided essential independent analysis and guidance to my Office’s commitment to not only meet GAS, but also to model those standards for other audit organizations.

Finally, I want to thank each peer review team member individually for his or her time and commitment to ensuring government auditors adhere to government auditing standards, ultimately providing the public with credible and reliable audit reports.

Sincerely,

A handwritten signature in black ink, appearing to read "Courtney A. Ruby". The signature is written in a cursive, flowing style with a long, sweeping tail that extends downwards and to the right.

COURTNEY A. RUBY, CPA, CFE
City Auditor