



Association of Local Government Auditors

October 27, 2016

Ms. Brenda Roberts, Oakland City Auditor
One Frank H. Ogawa Plaza, 4th Floor
Oakland, California 94612

Dear Ms. Roberts:

We have completed a peer review of the Oakland City Auditor's Office for the period January 1, 2013 through December 31, 2015. 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 internal monitoring procedures.
- Reviewing a sample of audit and non-audit services 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.

Based on the results of our review, it is our opinion that the Oakland 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 January 1, 2013 through December 31, 2015.

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

James M. Yerich, CPA
Fulton County (GA) Schools

Eduardo Luna, CIA
San Diego City Auditor

Minh Dan Vuong,
City of Portland, Oregon



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Ms. Brenda Roberts, Oakland City Auditor
One Frank H. Ogawa Plaza, 4th Floor
Oakland, California 94612

Dear Ms. Roberts:

We have completed a peer review of the Oakland City Auditor's Office for the period January 1, 2013 through December 31, 2015 and issued our report thereon dated October 27, 2016. 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:

- You have built positive working relationships with other City officials, which improved the communication of your audit results.
- You are committed to training your staff and have made a variety of internal and external trainings available to your staff.

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

Independence: Hiring of Staff

One of the central tenets of *Government Auditing Standards* is auditor independence which is set forth in Standard 3.02. The fact that the Oakland City Auditor is directly elected by voters strengthens the Office's independence. In certain situations, an organization's rules, regulations, and processes can unknowingly threaten an Auditor's independence. Standard 3.13 states while threats to independence are circumstances that could impair independence, threats do not necessarily impair independence. However, auditors should evaluate threats to independence when they are identified. In Oakland, we found that the City Auditor's reliance on the City's hiring process could potentially create an undue influence threat. Standard 3.14(e) describes this threat as "external influences or pressures will impact an auditor's ability to make independent and objective judgements." Supplemental Guidance A3.07(d) of *Government Auditing Standards* lists examples of circumstances that create undue influence threats and includes the external interference over the assignment, appointment, compensation, and promotion of audit personnel. In the City of Oakland, the Human Resources Department posts job announcements for the City Auditor's Office, screens job applicants, establishes independent panels to interview and rank auditor candidates, and forwards two applicants at a time to the City Auditor for consideration. As a result of this process, the City Auditor makes a hiring decision from a limited and

narrowed pool of candidates. We recommend the Oakland City Auditor's Office evaluate this potential threat and, if needed, identify safeguards to eliminate or reduce the threat to an acceptable level.

Termination of Audits

Standard 6.50 states that when an audit is terminated before completion and no audit report is issued that auditors must document the results of the work to the date of termination and why the audit was terminated. We found that in 2014, the Oakland City Auditor's Office stopped work on an audit, but we did not find documentation of the results of the work-to-date nor the reason for termination. We recommend the Oakland City Auditor's Office document the results of work-to-date and the reason for termination whenever audit work is terminated.

Planning: Ongoing Investigations or Legal Proceedings

Standard 6.11(e) requires auditors to gain an understanding of ongoing investigations or legal proceedings within the context of the audit objectives when they are planning an audit. We found that the Oakland City Auditor's Office did not document its understanding of ongoing investigations or legal proceedings that potentially exist within the context of audit objectives. We recommend the Oakland City Auditor's Office add this step to its standard workpaper templates to document this understanding on every audit.

Evidence: Overall Assessment

Standard 6.69 requires that auditors determine the overall sufficiency and appropriateness of evidence and document their overall assessment of the collective evidence used to support findings and conclusions. While we found that the Oakland City Auditor's Office considered the overall assessment, they did not document this assessment on all audit projects. We recommend the Oakland City Auditor's Office add this overall assessment of evidence to its standard workpaper templates to ensure it is documented on every audit.

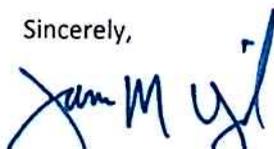
Reporting: Scope on Internal Controls

Standard 7.19 requires auditors to include in the audit report their scope of work on internal control. We found that the Oakland City Auditor's Office did not report these items on some of their performance audits. We recommend the Oakland City Auditor's Office consistently report its scope of work on internal control by adding this to its standard workpaper templates.

* * *

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,



James M. Yerich, CPA
Fulton County (GA) Schools



Eduardo Luna, CIA
San Diego City Auditor



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November 14, 2016

James Yerich, Team Leader Internal - Audit Director Fulton County Schools, Georgia
Eduardo Luna, City Auditor, City of San Diego, CA
Minh Dan Vuong, Office of the Portland City Auditor, Audit Services Division

cc: Tera VanAndel, ALGA Peer Review Coordinator

Dear ALGA Peer Review Team:

Thank you for the opportunity to respond to your report on the Office of the City Auditor's (Office) compliance with Government Auditing Standards for the period January 1, 2013 through December 31, 2015. I have reviewed your peer review report and I agree with its conclusions and recommendations.

The Peer Review Team found that Oakland's Office of the City Auditor's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards.

Although the Peer Review Team determined that improvements had been made in audit and work practices from prior years, they identified areas for further the strengthening of our internal quality control system. I appreciate feedback and suggestions to improve the effectiveness of this Office and I concur with your comments. The following represents the plan the Office's management team has developed to implement these recommendations.

1. Independence: Hiring of Staff

The Peer Review Team noted that the City Auditor's reliance on the City's hiring process could potentially create an undue influence threat¹. The City's hiring practices assigns the Human Resources Department (HR Department) to post the job announcements, to screen job applicants, to establish independent panels for interviews and to rank auditor candidates. Once completed, HR Department staff forwards two applicants at a time to the City Auditor's Office for hiring consideration.

City Auditor's Response: Concur. This hiring process is part of the Civil Service System, which is an integral part of the City's employment practices and has been in place for many years.

¹ Standard 3.14(e) describes this threat as 'external influences or pressures that will impact an auditor's ability to make independent and objective judgements.' Undue influence includes external interferences over the assignment, appointment, compensation and promotion of audit personnel.

**Oakland City Auditor's Office
Response to Peer Review Team Management Letter
November 14, 2016**

In order to circumvent the threat of external pressures that may impair the independence of this Office, as noted in Government Auditing Standard 3.13, most or all of the hiring processes, as described above must be brought under the control or oversight of the City Auditor. This represents an extraordinary change in the hiring and recruiting of our employees and will require the coordination of efforts among several departments in the City, including the HR Department, Employee Relations, local union leaders, the City Administrator and the Mayor's Office. But while I believe that this is a worthwhile effort, the Civil Service System is complex and fraught with political influences. I am not certain that a satisfactory resolution is attainable.

2. Termination of Audits

The Peer Review Team noted that Standard 5.0 requires documenting the reasons and providing an explanation for audits terminated prior to completion.

City Auditor's Response: Concur. My Office will review the status of the audits determined to be terminated and include documentation in the workpaper file that complies with the standards for terminated audits. Further, the Procedures Manual will be updated accordingly.

3. Planning: Ongoing Investigations or Legal Proceedings

The Peer Review Team determined that the auditors did not document their understanding of pending litigation, lawsuits or ongoing investigations during the planning phases of the audits reviewed.

City Auditor's Response: Concur. My Office will augment the Audit Procedures Manual to include a work step to the planning for all audits, so that inquiries are made to determine whether legal proceedings are ongoing and the impact of such events to the audit objectives and procedures.

4. Evidence: Overall Assessment

The Peer Review Team noted that although the City Auditor's staff considered the overall sufficiency and appropriateness of evidence, this was not documented on all audit projects.

City Auditor's Response: Concur. The Audit Procedures Manual will be updated to include a work step to document the assessment of evidence, per Standard 6.69. As appropriate, a template will be developed so that this process is uniform and applied to all audits.

5. Reporting: Internal Controls

The Peer Review Team determined that some of the performance audits they reviewed did not include a reporting on the scope of work on internal controls, as is required by Standard 7.19.

City Auditor's Response: Concur. The Audit Procedures Manual will be updated to include a work step to ensure that the audit report includes a reporting of the scope of work on internal controls. As necessary, a template will be developed to ensure that this standard is consistently complied with on all audit reports.

Oakland City Auditor's Office
Response to Peer Review Team Management Letter
November 14, 2016

Thank you again for conducting this review and for your professionalism throughout the entire review process. I believe that this has been a valuable experience for me and the staff in my Office. I truly appreciate your insight that will assist me in achieving my vision for the Office.

Sincerely,



Brenda D. Roberts, CPA, CIA, CFE
City Auditor, City of Oakland, CA