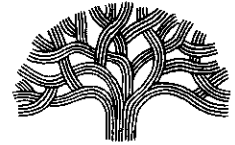


CITY OF OAKLAND



ONE FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of The City Auditor  
Courtney A. Ruby, CPA  
City Auditor

(510) 238-3378  
FAX (510) 238-7640  
TDD (510) 839-6451  
www.oaklandauditor.com

March 27, 2007

HONORABLE CITY COUNCIL  
CITY OF OAKLAND

**RE: RESULTS OF PEER REVIEW OF THE OFFICE OF THE CITY AUDITOR,  
CONDUCTED BY THE ASSOCIATION OF LOCAL GOVERNMENT  
AUDITORS FOR THE PERIOD JANUARY 1, 2004 – DECEMBER 31, 2006**

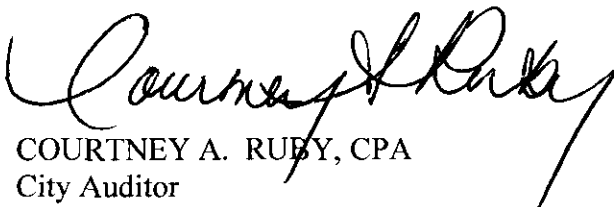
Dear President De La Fuente and Members of the Council:

Attached is the Association of Local Government Auditors' report on the external peer review (peer review) of the Office of the City Auditor's Office (Office). The purpose of the review was to assess whether the Office's internal quality control system was suitably designed to ensure compliance with Government Auditing Standards for audits conducted between January 1, 2004-December 31, 2006. The auditors' report includes an opinion letter which states that the Office's internal quality system was not suitably designed to ensure compliance with Generally Accepted Government Auditing Standards. The report also includes a management letter recommending a number of improvements for the Office of the City Auditor to adopt to ensure compliance with Government Auditing Standards. Finally, the report includes my response which details the actions I will take to address the recommendations in the peer review.

In addition to presenting this report to the Finance and Management Committee, I am requesting that the report be forwarded to full Council on Tuesday, April 3<sup>rd</sup>. I have requested the team leader of the peer review, Drummond Kahn, Director of Audit Services for the City of Portland, Oregon, be available to present the report to both Committee and Council.

Should you have any questions, please contact me at (510) 238-3379.

Respectfully submitted,

  
COURTNEY A. RUBY, CPA  
City Auditor



# External Quality Control Review

---

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

Conducted in accordance with guidelines of the  
**National Association of Local  
Government Auditors**  
for the period January 1, 2004 –  
December 31, 2006

---



# Association of Local Government Auditors

## OFFICERS

### *President*

**Jim Williamson**  
Assistant City Auditor  
Oklahoma City, OK

### *President Elect*

**George McGowan**  
Manager, Audit Services  
and Management Support  
Orlando, FL

### *Secretary*

**Lou Lassiter**  
Internal Audit Director  
Chesterfield, VA

### *Treasurer*

**Jerry Shaubel**  
Director  
Toronto, ON

### *Past President*

**Harriet Richardson**  
Performance Audits Director  
San Francisco, CA

## BOARD MEMBERS AT LARGE

**Ann-Marie Hogan**  
City Auditor  
Berkeley, CA

**Amanda Noble**  
Deputy City Auditor  
Atlanta, GA

**Ross Tate**  
Maricopa County Auditor  
Phoenix, AZ

**Mike Edmonds**  
Supervising Auditor  
San Jose, CA

## MEMBER SERVICES

449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503  
Phone: (859) 276-0686  
Fax: (859) 278-0507

memberservices@governmentauditors.org  
www.governmentauditors.org

March 1, 2007

Courtney A. Ruby  
City Auditor  
Office of the City Auditor, City of Oakland, California  
1 Frank H. Ogawa Plaza  
Oakland, California 94612

Dear Ms. Ruby:

We have completed a peer review of the Office of the City Auditor of Oakland, California for the period January 1, 2004 through December 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 the audit organization and conducted tests in order to determine if the 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 not suitably designed and was not operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements during the review period.

We found serious deficiencies in the internal quality control system relating to the lack of:

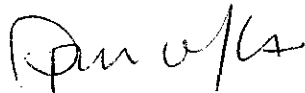
- An appropriate internal quality control system
- Proper documentation of supervision
- Documentation of sufficient, competent, and relevant evidence for findings and conclusions
- Adequate communication with management;
  - Failure to communicate planned testing and reporting
  - Failure to report the views and plans of responsible officials.

These control deficiencies resulted in recurring nonconformance with Government Auditing Standards as follows:

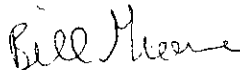
- An internal quality control system is required by standards (GAS 3.50-3.51), and was recommended by a 2003 peer review team. The office continues to lack a policy and procedure manual and a system for internal quality control.
- Proper supervision is required by standards (GAS 7.45-7.47), and documentation of supervision is important to demonstrate that audit work was properly supervised.
- Documentation of sufficient, competent, and relevant evidence (GAS 7.48-7.61) is required to support audit findings and conclusions.
- Communication with management;
  - On planned testing and reporting (GAS 7.39 – 7.40) is required, as is
  - Reporting the views and plans of responsible officials (GAS 8.07, 8.31 – 8.34).

We have prepared a separate letter providing details of our findings and recommendations for strengthening your internal quality control system.

Sincerely,



Drummond Kahn  
Director of Audit Services  
City of Portland, OR



Bill Greene  
Deputy City Auditor  
City of Phoenix, AZ



Susan Powers  
Assistant County Auditor  
Anne Arundel County, MD



# Association of Local Government Auditors

## OFFICERS

### *President*

**Jim Williamson**  
Assistant City Auditor  
Oklahoma City, OK

### *President Elect*

**George McGowan**  
Manager, Audit Services  
and Management Support  
Orlando, FL

### *Secretary*

**Lou Lassiter**  
Internal Audit Director  
Chesterfield, VA

### *Treasurer*

**Jerry Shaubel**  
Director  
Toronto, ON

### *Past President*

**Harriet Richardson**  
Performance Audits Director  
San Francisco, CA

## BOARD MEMBERS AT LARGE

**Ann-Marie Hogan**  
City Auditor  
Berkeley, CA

**Amanda Noble**  
Deputy City Auditor  
Atlanta, GA

**Ross Tate**  
Maricopa County Auditor  
Phoenix, AZ

**Mike Edmonds**  
Supervising Auditor  
San Jose, CA

## MEMBER SERVICES

449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503  
Phone: (859) 276-0686  
Fax: (859) 278-0507

[memberservices@governmentauditors.org](mailto:memberservices@governmentauditors.org)  
[www.governmentauditors.org](http://www.governmentauditors.org)

March 1, 2007

Courtney A. Ruby  
City Auditor  
Office of the City Auditor, City of Oakland, California  
1 Frank H. Ogawa Plaza  
Oakland, California 94612

Dear Ms. Ruby:

We have completed a peer review of the Office of the City Auditor, City of Oakland for the period January 1, 2004 through December 31, 2006 and issued our report thereon dated March 1, 2007. 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. Your staff is:

- Motivated and interested in auditing,
- Interested in learning about best practices in auditing, and
- Eager to adopt strategies and techniques to best use its limited resources.

We offer the following observations and suggestions to help your organization achieve full compliance with Government Auditing Standards:

- General standards require that your office have an appropriate internal quality control system in place. Such a system encompasses the audit organization's *structure, policies adopted, and procedures established* to provide the organization with reasonable assurance that it complies with applicable standards. One method to document and describe these processes is through an office policy and procedure manual. The office now lacks such a guiding document, although it was recommended in the prior peer review. We suggest that your office develop and adopt a policy and procedure manual to describe your processes and to provide assurance that your work consistently meets Government Auditing Standards.

- Performance audit standards require proper supervision of staff. One of the elements of supervision is a review of the work performed. In five of the seven assignments we reviewed, there was little or no evidence of supervisory review. We suggest that your office develop and implement a policy establishing the nature and extent of supervisory review, and how best to document that review.
- Performance audit standards require the communication of planned testing and results to management and others to help them understand audit objectives, time frames, and data needs. In addition, written reports are to include the views of responsible officials concerning findings, conclusions, and recommendations, as well as planned corrective action. In six of the seven assignments we reviewed, there was no evidence that the auditor communicated planned testing or results, and in all seven, the written reports did not include the views of responsible officials. We suggest that your office develop and implement a policy establishing guidelines to both communicate necessary information to management, and to incorporate management's views into the reports.
- Performance audit standards require sufficient, competent, and relevant evidence to provide a reasonable basis for the auditor's findings and conclusions. Five of the seven assignments we reviewed had serious problems with evidence. Three of the audits we selected for review had workpapers so disorganized that we could not determine if the evidence met standards. For two other audits, the evidence did not meet standards. We suggest that your office develop and implement a policy establishing guidelines for workpaper documentation and retention.
- The general standard for independence contains the requirement that audit organizations providing other professional services (nonaudit services) should consider whether providing these services impair independence. Over half of the audit organization's projects were considered "special projects" and were conducted as non-audit services. However, no one documented the rationale for conducting the work as a non-audit, or how the work might affect independence. Planning for the performance of non-audit services should include application of the two overarching principles and the application of required safeguards, if appropriate. We suggest that your office establish a process to properly classify, conduct, and document any non-audit services.
- Standards for continuing professional education (CPE) require each staff member to complete an appropriate amount of CPE, and require the audit organization to ensure that auditors meet this standard. We found records of specific seminars and training sessions attended by one or more of your staff, but no records for each individual since 2004. Also, we learned that no CPE

was provided to staff members in 2006, and perhaps in 2005 (we found no records dated after 2004). We suggest that your office plan for its CPE needs, provide training to staff members in 2007 and 2008, and maintain office-wide records of training for each individual.

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

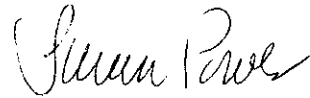
Sincerely,



Drummond Kahn  
Director of Audit Services  
City of Portland, OR

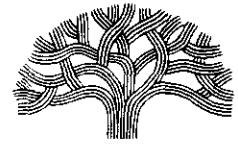


Bill Greene  
Deputy City Auditor  
City of Phoenix, AZ



Susan Powers  
Assistant County Auditor  
Anne Arundel County, MD

# CITY OF OAKLAND



ONE FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of The City Auditor  
Courtney A. Ruby, CPA  
City Auditor

(510) 238-3378  
FAX (510) 238-7640  
TDD (510) 839-6451  
[www.oaklandauditor.com](http://www.oaklandauditor.com)

March 5, 2007

Drummond Kahn, Team Leader, Director of Audit Services, Portland, OR  
Bill Greene, Deputy City Auditor, City of Phoenix, AZ  
Susan Powers, Assistant County Auditor, Anne Arundel County, MD

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, 2004 through December 31, 2006. I have reviewed your peer review report and I agree with its conclusions and recommendations. Moreover, the peer review team's assessment is consistent with my assessment since I assumed office in January 2007. Accordingly, I have already taken a number of significant actions to achieve my goal to make the Office a model organization. In this response, I will elaborate further on the actions I have already taken and I will elaborate on additional actions I will take to ensure that the team's recommendations are implemented immediately.

The peer review team found that Oakland's Office of the City Auditor's quality control system was not suitably designed and was not operating effectively to provide reasonable assurance of compliance with Government Auditing Standards. The team's assessment, although accurate, is unacceptable for my Office. I concur with the team's recommendations to improve the Office's internal quality control system. Specifically, the team recommends the following:

- Develop a policies and procedures manual;
- Improve communication with the City's management and provide their views in audit reports;
- Develop guidelines regarding workpaper documentation and retention;
- Establish a process to classify, conduct and document any non-audit work to ensure that the Office's independence is not impaired; and
- Provide training to develop audit staff.



I concur with all of your recommendations and will act to ensure that they are implemented as soon as possible. I am fully committed to developing a strong performance auditing program that will be the centerpiece of the Office's audit activities and will enhance accountability to the public. Such a program will ensure that City resources are used effectively, efficiently, and economically. In my first two months as City Auditor I have worked to strengthen the Office as described below:

1. I have contracted with Sjoberg Evashenk Consulting to implement essential organizational controls. The firm's partners Kurt Sjoberg and Marianne Evashenk, are the former California State Auditor and Chief Deputy State Auditor. The Bureau of State Audits is considered one of the premier performance auditing organizations in the United States. Sjoberg Evashenk Consulting will assist the Office in developing a policies and procedures manual. As the peer review noted, the Office is in dire need of policies and procedures. Contracting out a manual will ensure that essential policies and procedures are developed and communicated to audit staff in a timely manner. In addition, Sjoberg Evashenk Consulting will assist the Office in developing a strategic plan and a risk-based workplan. These two documents will be two important components in helping me achieve my vision for the Office.
2. I recruited Mike Edmonds, Deputy City Auditor with the Office of the City Auditor in San Jose, to be my Assistant City Auditor. The Office of the City Auditor in San Jose is a nationally-recognized performance audit organization. Mike has 28 years of performance audit experience and nearly 17 years with San Jose. I believe that he will be instrumental in helping me to achieve my vision that the Office become a top performance auditing organization. Mike will join the Office on April 9, 2007.
3. I have revised the Office's job descriptions to reflect the qualifications and skills needed for performance auditing. These changes will allow the Office to hire people we need to implement a performance audit function.

In addition, I will work to address the other recommendations in the peer review report. The report noted that communication with management needs to be improved. Aside from not complying with standards, I believe that the Office's past practice in this area is unacceptable for an organization in a public setting. I will change this practice immediately and I will ensure that the Office fully communicates with the City of Oakland's management and staff throughout the audit process. Furthermore, I will provide management with an opportunity to review and comment on all reports issued.

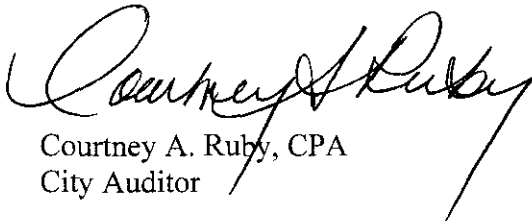
The peer review report also notes significant problems with evidence used to support audit report findings and conclusions. Again, I find the Office's current practices unacceptable. In accordance with the report's recommendation, the Office will establish standards for workpaper preparation. However, I believe that the Office also needs to obtain and implement an electronic workpaper system. These systems are now affordable and have improved the efficiency and effectiveness of audit organizations. Accordingly, during the upcoming budget cycle I will request that the City Council consider funding an electronic workpaper system for the Office.

The report further recommends that the Office develop a process for properly classifying, conducting, and documenting any non-audit work to ensure that the Office's independence is not impaired. In my opinion, the success of this Office hinges on whether it is independent and objective. Thus, I will look closely at our past and future work and develop appropriate policies and procedures to ensure the Office's independence and objectivity is not impaired.

Finally, the report notes that staff needs training to ensure they have the level of competence needed to carry out their duties. I will establish a formal training program to ensure that staff are developed to their full potential.

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 rest of the Office. I truly appreciate your insight that will assist me in achieving my vision for the Office.

Sincerely,

A handwritten signature in black ink, appearing to read 'Courtney A. Ruby', written in a cursive style. The signature is positioned above the typed name and title.

Courtney A. Ruby, CPA  
City Auditor