



Memorandum

TO: Rules & Open Government Committee

FROM: Joe Rois
City Auditor

SUBJECT: *External Quality Control Review of the Office of the City Auditor for the Period July 1, 2019 to June 30, 2021*

DATE: November 19, 2021

RECOMMENDATION

We recommend that the Rules and Open Government Committee accept the independent auditor's report, *External Quality Control Review of the Office of the City Auditor, San Jose, CA for the Period July 1, 2019 to June 30, 2021*, which representatives of the Association of Local Government Auditors (ALGA) prepared on November 4, 2021.

Joe Rois
City Auditor

JR:lg
0781M



External Quality Control Review

of the
City of San José, California
Office of the City Auditor

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

for the period July 1, 2019 through June 30, 2021



Association of Local Government Auditors

November 4, 2021

Joe Rois, City Auditor
City of San José
Office of the City Auditor
200 East Santa Clara Street
San José, California 95113

Dear Mr. Rois,

We have completed a peer review of the City of San José, Office of the City Auditor for the period July 1, 2019 to June 30, 2021. In accordance with generally accepted government auditing standards peer review requirements, 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 was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. 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 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. Organizations can receive a rating of pass, pass with deficiencies, or fail. The City of San José, Office of the City Auditor has received a rating of pass.

Further, based on the results of our review, it is our opinion that the City of San José, Office of the City Auditor's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for audits during the review period of July 1, 2019 to June 30, 2021.

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

Courtney Smith

Courtney Smith, CPA, CIA, CFE
City of Houston

Maria Stroth

Maria Stroth, CIA, CGAP
City of Austin



Association of Local Government Auditors

November 4, 2021

Joe Rois, City Auditor
City of San José
Office of the City Auditor
200 East Santa Clara Street
San José, California 95113

Dear Mr. Rois,

We have completed a peer review of the City of San José, Office of the City Auditor for the period July 1, 2019 to June 30, 2021 and issued our report thereon dated November 4, 2021. 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:

- The use of the audit template produces organized, easy to follow, and well documented audit workpapers.
- The office's approach to training, including new hire orientation, establishment of individual Professional Development Plans, and budget allocation promotes the development of a knowledgeable and skilled audit staff.
- The internal Policies and Procedures document is clear, concise and easy to understand.

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

When providing a nonaudit service that could create a threat to independence:

- Standard 3.76 (Independence) requires that auditors should obtain an agreement from the audited entity management that management assumes all management responsibilities, oversees the services, evaluates the adequacy and result of the services provided, and accepts responsibility for the results.
- Standard 3.77 (Independence) requires that the auditor document with management or those charged with governance the objectives, services to be provided, management's acceptance of its responsibilities, the auditors' responsibilities, and any limitations.

The City Auditor's Office is assigned a support role for the Budget Office, Office of Emergency Management, and Finance Department in the City of San José's Emergency Operations Plan. In addition, per California Government Code Title I, Division 4, Chapter 8, Sections 3100 et seq. and the San José Municipal Code, Chapter 8.08 all public employees are obligated to serve as Disaster Service Workers (DSW) and may be reassigned to tasks separate from their normal duties. These are considered non-audit services.

In reviewing the office's workpapers, we noted that the audit team documented the non-audit tasks they performed in evaluating independence prior to beginning an audit related to those services. While documentation for the audit team's responsibilities was clear and well thought

out, there was no statement from management to acknowledge their responsibility for oversight, acceptance of responsibility for the results or documentation of the specific objectives or services to be provided.

We understand the changing dynamics and fluidity of circumstances that can occur as an office assumes nonaudit roles as a result of a disaster. We applaud your efforts to document the roles you assumed and put safeguards in place to ensure the independence of the office, however, we recommend you consider putting a memorandum of understanding (MOU) in place with the departments to document their acknowledgment and acceptance of management responsibility and oversight. We also recommend obtaining documentation from management regarding the specific services to be provided.

We extend our thanks to you, your staff, and the other officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,

Courtney Smith

Courtney Smith, CPA, CIA, CFE
City of Houston

Maria Stroth

Maria Stroth, CIA, CGAP
City of Austin



Office of the City Auditor
Joe Rois, City Auditor

November 4, 2021

Courtney Smith, City Auditor
City of Houston Controller's Office
P.O. Box 1562
Houston, TX 77251-1562

Maria Stroth, Senior Auditor
City of Austin, Office of the City Auditor
3800 Bristol Motor Pass
Austin, TX 78728

Dear Ms. Smith and Ms. Stroth:

The San Jose City Charter requires a biennial audit of the Office of the City Auditor to ensure compliance with *Government Auditing Standards*. We are very pleased that you found that our system of internal controls provided reasonable assurance of compliance with *Government Auditing Standards* during the period audited.

Our office is committed to continuously improving and refining our audit processes. Thank you for your observations about our office – the ways in which we excel, as well as ways that we can improve. We concur with your recommendation to better document nonaudit services, such as the Disaster Service Worker responsibilities undertaken by audit staff during the peer review period. This includes the City Administration's acknowledgement and acceptance of management responsibility and oversight, and documentation of the specific services to be provided.

We would like to thank you, the Association of Local Government Auditors, and the engagement coordinator, Lori Brooks of the City of Arlington, Texas. We appreciate that you have taken time from your own work to evaluate our operation, and thank you for sharing your insights and perspectives.

Sincerely,

/s/ Joe Rois

Joe Rois
City Auditor