



OFFICE OF THE CITY AUDITOR
POLICIES AND PROCEDURES

As of July 1, 2010



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SECTION 1: THE OFFICE OF THE CITY AUDITOR

Introduction

The purpose of this manual is to provide a description of the duties and responsibilities of the Office of the City Auditor, and to establish internal policies and procedures for the Office. The manual is a reference and guide for audit staff, and helps ensure that the Office of the City Auditor (Auditor's Office) conducts its work in accordance with professional standards. This manual is applicable to projects on which work begins in July 2010 or later.

On an annual basis, the City Auditor and staff will review the contents of this manual to ensure that it is timely and complete. All staff will have on-line access to this manual and its accompanying forms.

This manual reflects the changes made to Generally Accepted Government Auditing Standards (GAGAS) that the Comptroller General of the United States published in 2007.

Mission and Objectives

Mission

To provide a catalyst for improvements of municipal operations, promote credible, efficient, effective, fair, focused, transparent, and a fully accountable City Government.

Independence

The Auditor's Office must be independent in fact and appearance and free from personal, external, and organizational impairments. Independence enhances the City Auditor's credibility with the general public and is critical to ensuring that audit findings, opinions, conclusions, judgments, and recommendations are impartial.

Objectivity

Objectivity means that the City Auditor conducts all audits objectively, factually, and without any preconceived ideas, notions, biases, or vested interests regarding the audit subject. It also means that the City Auditor bases any and all conclusions and recommendations on a full review of all relevant information and on open minded consideration of opposing points of view.

Technical Accuracy

The Auditor's Office has strict quality assurance programs to ensure that staff exercises due professional care, adequately plans audits, and



prepares work papers that contain sufficient and compelling evidence to support any statements of fact in its audit reports.

Authority and Responsibilities

City Code Section 2.18.010, Office of the city auditor created, states "...*The city auditor shall have such staff and budget as the city council may prescribe. The city auditor shall appoint all other members of the city auditor's office. (Ord. 2009-031 § 2)*"

City Code Section 2.18.030, Audit plan and standards, states "*By March 1st each year, the city auditor shall submit an annual audit plan to the city council for approval. The annual audit plan may be amended during the year with the approval of the city council. The council may, by resolution, authorize a committee, charter officer, or an individual councilmember with respect to the councilmember's own office, to request additional audits. Audits shall be conducted in accordance with standards as prescribed by council resolution. (Ord. 2009-031 § 2)*"

City Code Section 2.18.050, Access to information, states "*City departments, offices and employees shall provide the city auditor access to all sources of information, property, personnel relevant to the performance of an audit, unless restricted or prohibited by law. This section shall not apply to the office of any elected official, unless that elected official requested the audit, of that official's own office. (Ord. 2009-031 § 2)*"

City Code Section 2.18.060, Non interference with city auditor, states "*No person shall directly or indirectly coerce or attempt to coerce the city auditor relative to the city auditor's examinations, audits, or the appointment or removal of any employee which is made by the city auditor. (Ord. 2009-031 § 2)*"

Audit Services

Performance Audits

The Auditor's Office conducts "Performance Audits" in accordance with Generally Accepted Government Audit Standards (GAGAS). Performance Audits determine whether City departments and programs are operating economically, efficiently, effectively and in compliance with applicable laws, rules, regulations and policies and procedures. Auditors examine, review, or perform other procedures on a broad range of subjects such as internal controls, compliance with requirements of specified laws, regulations, rules, policies, procedures, contracts or grants, and the reliability of performance measures.

Performance audits include: (1) an Economy and Efficiency Review, and (2) a Program Review. An Economy and Efficiency Review determines if the audited entity has acquired its resources for the best possible price and used those



acquired resources efficiently. A Program Review, on the other hand, determines whether the audited entity has achieved its goals and objectives and provided services to its program recipients effectively.

Government services cover a broad and variable spectrum. Therefore, the audit objectives for a Performance Audit must be designed to address the unique services that are the subject of the audit. In its broadest context, audit objectives might involve assessments of: effectiveness, efficiency, economy, compliance, data reliability, policies, procedures, prospective evaluations, or risk assessment.

Non-Audit Services

The Auditor's Office may occasionally provide the following non-audit services provided they do not impair auditor's independence:

- Participating in committees, task forces, or focus groups as an expert in a purely advisory, non-voting capacity to advise management on issues based on the auditor's knowledge, or to address urgent problems;
- Providing tools or methodologies such as benchmarking studies and internal control assessment methodologies that can be used by management; and
- Providing targeted and limited technical advice to management to assist them in activities such as: answering technical questions or providing training, implementing audit recommendations, implementing internal controls, and providing information on good business practices.

The City Auditor must approve all requests for non-audit services. If the City Auditor concludes that performing the requested non-audit service would impair the Office's independence, he or she will so inform the requestor and decline to perform the work.

According to standards, when performing non-audit services for an entity for which the audit organization performs GAGAS audit or attestation engagement, 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.



SECTION 2: AUDIT PROCESS

Annual Audit Plan

The City Auditor prepares an **Annual Audit Plan** using a variety of techniques. Those techniques include conducting a Citywide Risk Assessment and soliciting input from Council Members, Charter Officers, Department Heads, Division Managers, and City Staff. The City Auditor submits the Audit Plan to the City Council Audit Committee for review and a subsequent submission to the City Council for approval. Once the City Council approves the City Auditor's Audit Plan, the City Auditor assigns staff to the approved audit assignments.

As audit work proceeds, the City Auditor provides the Audit Committee quarterly reports describing the status of audit assignments in the Annual Audit Work Plan and the progress the Office is making toward completing them. As part of the normal audit process, the City Auditor notifies the City Council when the Office starts each audit to determine if individual City Council Members have any areas of interest or concerns that audit staff can address during the audit. The City Auditor does this to ensure that audits are responsive to the City Council's informational needs. The City Auditor will also forward any subsequently proposed additions to the Annual Audit Plan to the Audit Committee for approval.

The City Auditor follows **Generally Accepted Government Audit Standards (GAGAS)** when conducting audits included in his or her Approved Audit Plan. The audit plan can be broken down into the following five audit phases: 1) Audit Initiation, 2) Preliminary Survey, 3) Risk Assessment, 4) Field Work, and 5) Audit Reporting.

Phase 1: Audit Initiation

1. Prepare a **Staff Assignment and Independence Sheet**. The Staff Assignment Sheet initiates the Audit Process. The Staff Assignment Sheet includes a statement regarding personal impairments¹, the audit period, the Audit Staff assigned, and an expected audit completion date.

2. **Meet with the City Auditor**. Assigned Audit Staff meets with the City Auditor to discuss 1) the general scope of work, 2) specific items or issues to be reviewed during the Preliminary Survey, 3) City Council Member, Administration and/or other stake holder concerns, 4) possible sources of information including persons to interview, 5) orientation type information audit staff should request in

¹ Audit Staff participating on an audit assignment must be free from any personal impairment to independence. Personal impairments result from relationships or beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way. Audit Staff **must** notify the City Auditor if they have any personal impairment to independence regarding the audit assignment.



order to gain an understanding of the audit assignment and 6) a general timeframe for completing the audit.

3. Send a **Job Start Letter**². The City Auditor notifies the City Manager and the department head(s) of the commencement of an audit with a Job Start Letter. The Job Start Letter should indicate: 1) the preliminary objective of the audit assignment, 2) Audit Staff assigned, 3) the date for an **Entrance Conference** with responsible auditee officials, and 4) the orientation type information Audit Staff would like to receive at the entrance conference such as:

- organization charts
- mission statements
- goals or objectives
- budgets
- management/performance measurement reports
- financial statements
- prior audit reports
- any written policies/procedures
- internal control objectives and/or techniques

4. The City Auditor also sends a **Letter to City Officials** such as the Mayor, Members of the City Council and appropriate Administration Officials notifying them of the audit's commencement and requesting their input regarding any areas of interest or concern they would like the auditor to consider when developing the audit scope.

5. Hold an **Entrance Conference**. The objectives of the entrance conference are to: 1) provide for auditor and auditee staff introductions, 2) discuss the scope and objective(s) of the audit, 3) describe the audit process, 4) obtain the information mentioned in the Job Start Letter, 5) request that the auditee provide a statement describing any significant program accomplishments for possible inclusion in the final audit report, 6) indicate the proposed timing for the audit, 7) request that the auditee designate an individual to act as the key auditee contact and/or liaison, 8) make arrangements for working space if necessary, and 9) discuss any management concerns.

Phase 2: Preliminary Survey

Conduct a **Preliminary Survey**. The object of the Preliminary Survey is to gather historical, organizational, and financial information that will help to familiarize the auditor regarding the audit subject, provide background data for the **Preliminary Survey Memorandum** and final audit report, and facilitate subsequent **Risk Assessment** and testing procedures. Audit Staff should use professional judgment to determine the applicability of each of the following audit steps depending on the type of assignment (Preliminary Survey APR).

² The City Auditor may also substitute an email for a formal Job Start Letter.



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- Obtain copies of departmental brochures, web pages, etc., to provide background information regarding the program or activity being audited.
 - Obtain an organization chart for the program or activity being audited. Identify the key divisions, their staffing, and their principal responsibilities. Identify the key program staff and describe their responsibilities for administering or monitoring the program or activity being audited. Identify key program locations and their functions.
 - Review prior audit reports and work papers from the City Auditor's Office as well as management letters from the City's outside auditors for indications of prior problems. Evaluate whether the entity has taken appropriate corrective actions in response to prior findings and recommendations.
 - Interview program managers to obtain additional background information regarding the program or activity being audited including intended benefits, history and accomplishments, current objectives, workload, peak periods, backlogs, and any known problems or obstacles.
 - Identify the key divisions, their staffing, and their principal responsibilities. Identify the key program staff and describe their responsibilities for administering or monitoring the program or activity being audited. Identify key program locations and their functions.
 - If not received during the Entrance Conference, obtain a copy of relevant written procedures and sample copies of the reports that management receives concerning workload, use of major program resources (including budget, people, and equipment), achievement of program objectives, organization and relevant process flowcharts, citizen complaints and requests for service.
 - Review budget documents for background on the program. Review department/program mission statements and objectives. Identify the principal cost and revenue elements over the last 2-3 years. Identify the program's source of funds and potential restrictions on the use of those funds. Review budget documents for background on the program. Review department/program mission statements and objectives. Identify the principal cost and revenue elements over the last 2-3 years.
 - As appropriate, interview staff on a section-by-section basis and walk through and observe processes and activities to become generally familiar with how programs operate and the program's data systems function. Identify relevant forms, files, and management reports. Obtain samples of forms, files, and reports (internal and external). Identify the principal physical assets used in carrying out the program or activity (determine their location and ownership).
 - Determine whether computer-processed data are an important or integral part of the program or activity being audited. If they are likely to be significant to the audit objectives, obtain copies of relevant written procedures, input forms, file layouts, and reports. Determine if information system's general and application controls are documented.



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- Review City Charter and Municipal Code sections relevant to the program or activity being audited. Determine the legal authority for the audited organization, program, activity, or function.
 - Identify laws and regulations applicable to the program or activity being audited. If appropriate, request the assistance of the City Attorney's Office in identifying relevant Federal and State laws and regulations and/or City Charter provisions and ordinances.
 - If the program involves a City contract, obtain and review an executed copy of the contract. Find out how the contractor was selected (competitive bidding or negotiated). Obtain background information regarding the contractor and the contract, including current and past contractors and key provisions of current and past contracts.
 - Identify authoritative standards relevant to the program (e.g. professional standards or industry associations), data sources, and/or practices in other jurisdictions that can potentially be benchmarked.
 - Obtain and review copies of audits of similar programs in other jurisdictions from the ALGA website or elsewhere.

Phase 3: Prepare a Preliminary Survey Memorandum. The purpose of the Preliminary Survey Memorandum is to summarize the Preliminary Survey efforts and results. The Preliminary Survey Memorandum usually includes:

- Background information regarding the audit assignment such as; 1) the history of the audit subject, 2) a description of current operations including key responsibilities, funds, divisions, functions, processes, activities, and revenue sources, 3) relevant auditee goals and objectives, 4) relevant organization and process flowcharts, and 5) a 2 to 3 year summary of expenses and/or revenues, budgetary, operating and capital program information, and staffing levels.
- Known problems with the auditee's operations or other local jurisdiction's operations that are performing similar functions.
- Any City Council Member or Administration input or requests regarding the audit assignment. Applicable 1) City Charter or Municipal Code provisions, 2) Federal or State laws or guidelines, 3) City policies or procedures, 4) contract or grant requirements, 5) best practices or industry standards or 6) Joint Powers or other agreements with other jurisdictions.

Phase 3: Risk Assessment

The City Auditor's Office implements a risk based audit approach to test internal controls and help identify threats inherent to the auditee's activities. The essence of a **Risk Assessment Audit Approach** is the **Overarching Risk Assessment Tenet** that Management is responsible for developing a system of **Internal Controls** that is: 1) designed to facilitate good things to happen and prevent bad things from happening, 2) well documented, complete, current, efficiently



executed, and effectively communicated, 3) consistently adhered to and applied, and 4) subject to continuous and effective monitoring and review. Therefore, it is management's responsibility to speculate on what can go wrong with its operations and put appropriate measures in place to prevent those things from happening.

It is this Overarching Risk Assessment Tenet that provides Audit Staff with the universal criteria for any and all Performance Audit assignments. In other words, does management have an adequate system of Internal Controls in place to address the risks that are inherent to the entities operations?

Audit Staff are expected to perform the following **Eight Risk Assessment Tasks** during a Performance Audit (Risk Assessment APR).

1. Identify the **Threats** associated with the subject of the audit.
2. Assess the **Inherent Risk Level** for each Threat.
3. Prepare a **Threat List**.
4. Obtain the auditee's **Internal Control Objectives** and **Internal Control Techniques**.
5. Assess the **Relative Strength Level** of the auditee's **Internal Controls**.
6. Assess the auditee's **Vulnerability** to identified Threats.
7. Prepare the **Risk Matrix**.
8. Write the **Audit Program**.

First Risk Assessment Task

The purpose of this task is to identify the Threats associated with the activities that are the subject of the audit. A Threat is an unwanted event or occurrence that relates to a program's ability to 1) safeguard its assets 2) comply with laws, rules, regulations, policies and procedures 3) accomplish its goals and objectives 4) produce reliable financial and management information and 5) operate economically and efficiently.

Audit staff identifies Threats by: a) reviewing the information gathered during the Preliminary Survey phase of the audit and the Preliminary Survey Memorandum, b) talking to auditee officials and employees, c) observing operations, d) reviewing previous internal and other local jurisdiction's audit reports, and e) participating in **Brain Storming Sessions** with the City Auditor and other Auditor Staff. During these Brain Storming Sessions, the City Auditor and assigned Audit Staff attempt to identify the Threats by speculating on "what could go wrong" with the activities that are the subject of the audit.

Second Risk Assessment Task

The purpose of this task is to assess the **Inherent Risk Level** of each identified Threat as **High**, **Moderate**, or **Low**. The City Auditor and Audit Staff assess Inherent Risk Levels during the Brain Storming Session in the First Risk Assessment Task.



A Threat would have **High Inherent Risk** if it would cause significant:

- Damage to the auditee's reputation.
- Losses of assets or revenues.
- Excessive costs, inefficiencies or duplication of efforts.
- Ineffective service delivery.
- Noncompliance with local, state, or federal laws, contract or grant provisions, policies, procedures, or rules and regulations.
- Inaccurate or misstated financial and management statements and reports.
- Exposure to fraud or abuse.
- Exposure to potential litigation.
- Failure to achieve program goals and objectives.

Threats that have Moderate or Low Inherent Risk differ from those with High Inherent Risk only in terms of the level of significance relating to the aforementioned exposures. The City Auditor and Audit staff must use their professional judgment when determining whether a Threat has High, Moderate, or Low Inherent Risk.

Third Risk Assessment Task

The purpose of this task is to prepare a Threat List that should include all of the pertinent, realistic, and/or predictable Threats that the City Auditor and Audit Staff identified during the Brain Storming Session. As part of its **Audit Scoping Process**, the City Auditor and Audit Staff may elect to limit the Threat List to only those Threats with Moderate Inherent Risk or greater.

Forth Risk Assessment Task

The purpose of this task is for Audit Staff to determine and obtain the auditee's Internal Control Objectives³ and Internal Control Techniques⁴ that are in place to prevent the Threats on the Threat List from occurring or to mitigate the consequences of those Threats should they occur.

Internal Controls are the system of organization and all the coordinate methods and measures an entity uses to safeguard its assets, assure the accuracy and reliability of the information it receives and reports, guarantee its adherence to applicable laws, regulations, policies and "best practices", and promote operational economy, efficiency and effectiveness.

It is very important during this Task that Audit Staff obtains 1) a detailed description of any asserted Internal Control objectives and Techniques, 2) the order in which they take place in the auditee's Internal Control System and 3) all

³ **Internal Control Objectives** are the positive things auditee management want to happen or the negative things it wants to prevent.

⁴ **Internal Control Techniques** are the procedures managers use to provide reasonable assurance that their Internal Control Objectives are achieved.



written procedures to implement any asserted Internal Control Techniques. This information is necessary to Audit Staff completing the remaining four Risk Assessment Tasks.

Fifth Risk Assessment Task

The purpose of this task is to assess the Relative Strength Level of the auditee's Internal Controls as Strong, Adequate, or Weak. The City Auditor and Audit Staff should consider the following General and Specific Internal Control Standards when making that assessment.

The Five General Standards for Internal Controls:

- Internal Control Systems are to provide reasonable assurance that management's objectives will be accomplished.
- Managers and employees maintain and demonstrate positive and supportive attitudes toward Internal Controls at all times.
- Managers and employees are to have personal and professional integrity and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good Internal Controls.
- Internal Control Objectives are to be developed for each entity activity and are to be logical, applicable, and reasonably complete.
- Internal Control Techniques are to be effective and efficient in accomplishing Internal Control Objectives.

Standards for Internal Controls:

- Transactions and other significant events must be documented, recorded promptly, and authorized and executed by persons operating within their authority.
- Key duties and resources must be separated among different individuals.
- Qualified and continuous supervision must be provided to ensure that Internal Control Objectives are achieved.
- Access to assets and records must be limited to designated individuals.
- Specific written operating procedures should be known, available to staff and regularly updated.
- A formal monitoring or feedback mechanism should exist to assure conformance over time.

The City Auditor and Audit Staff should also use the following criteria when assessing the Relative Strength of the Auditee's Internal Control Techniques.

An Internal Control System is **Strong** if:

- Management and staff demonstrate a constructive attitude, including an eagerness to anticipate and forestall problems, a positive attitude toward



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- the importance of internal controls and have developed Internal Control Objectives and Internal Control Techniques for all significant activities.
- Prior audits and the Preliminary Survey have not disclosed any problems.
 - Numerous and effective Internal Control Techniques are in place.
 - Procedures to effectuate Internal Control Techniques are written, complete, current, and regularly reviewed and updated.
 - Employees do not perform incompatible duties or functions or have inappropriate spans of control.
 - Access to assets and records is limited to employees who are properly authorized.
 - Employees are properly trained and competent to perform their assigned duties.
 - Employees are properly supervised.
 - An effective feedback or monitoring system is in place to ensure compliance with written procedures to effectuate Internal Control Techniques.

An Internal Control System is **Adequate** if:

- Management and staff demonstrate a cooperative attitude with regard to compliance, recordkeeping, external review and internal controls and have developed Internal Control Objectives and Internal Control Techniques for most significant activities.
- Prior audits or the Preliminary Survey has disclosed some problems but management has implemented remedial action and has satisfactorily responded to audit recommendations.
- An adequate and/or sufficient number of Internal Control Techniques are in place.
- Although deficient or outdated, documentation of procedures to effectuate Internal Control Techniques is still useful or can easily be updated.
- Employees perform some incompatible duties or functions and/or have less than optimal spans of control.
- Although employee access to assets and records is limited it is less than optimal.
- Employees receive sporadic and inconsistent training and have some competencies for their assigned duties.
- Although employee supervision exists it is not optimal or consistent.
- Feedback or monitoring for compliance with written procedures to effectuate Internal Control Techniques is inconsistent or less than optimal.

An Internal Control System is **Weak** if:

- Management and/or staff demonstrate an uncooperative or uncaring attitude with regard to compliance, recordkeeping, external review and



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- internal controls and have not developed any Internal Control Objectives or Internal Control Techniques.
- Prior audits or the Preliminary Survey has disclosed significant and/or unresolved problems.
 - An adequate and/or sufficient number of Internal Control Techniques are not in place or nonexistent.
 - Documentation of procedures to effectuate Internal Control Techniques is lacking, outdated, of little use or nonexistent.
 - Employees perform numerous incompatible duties or functions and/or have excessive spans of control.
 - Employee access to assets and records is excessive and/or inappropriate.
 - Employees do not receive training or have inadequate or minimal competencies for their assigned duties.
 - Employee supervision is inadequate or nonexistent.
 - Feedback or monitoring of any Internal Control Techniques that should be in place is minimal or nonexistent.

Sixth Risk Assessment Task

The purpose of this task is to conduct a Vulnerability Assessment. An organization's Vulnerability to an identified Threat is a function of both the Level of Inherent Risk and the Relative Strength of the Internal Control System. For example, High Inherent Risk coupled with Weak Internal Controls produces High Vulnerability. Conversely, Low Inherent Risk coupled with Strong Internal Controls produces Low Vulnerability. Different Levels of Inherent Risk coupled with different Internal Control Strengths produce the following different Assessments of Vulnerability: Low, Low to Moderate, Moderate, Moderate to High, or High as shown on the following page.



Inherent Risk Level	Assessed Internal Control Strength	Vulnerability Assessment
High	Weak (1) Adequate (2) Strong (3)	High (5) Moderate to High (4) Moderate (3)
Moderate	Weak (1) Adequate (2) Strong (3)	High (5) Moderate to High (4) Moderate (3) Low to Moderate (2)
Low	Weak (1) Adequate (2) Strong (3)	Moderate (3) Low to Moderate (2) Low (1)

The City Auditor and Audit Staff should use the combinations of Inherent Risk and Internal Control Strengths shown in the above Table when assessing the auditee’s Vulnerability to a Threat.

Seventh Risk Assessment Task

The purpose of this task is the completion of the **Risk Matrix**, which integrates the six prior steps of the risk assessment into one spreadsheet. The **spreadsheet** is composed of six parts.

- The first part is the Threats that were identified during the first Risk Assessment Task, listed vertically in the far left hand column of the Risk Matrix.
- The second part is the assigned level of Inherent Risk for each Threat. The Inherent Risk is shown in the Matrix in the vertical column next to the Threat Column.
- The third part is the Internal Control Techniques (the auditee provided during the second Risk Assessment Task), listed in the top row of the Risk Matrix from left to right in the order in which they occur in the Internal Control System.
- The fourth part is the Assessed Internal Control Strength (Strong=3, Adequate=2, Weak=1) of each Internal Control Technique. This is indicated on the Matrix under the “C” Heading at the intersection of the listed Threat and any applicable Internal Control Techniques.
- The fifth part is the Vulnerability Assessment (High=5, Moderate to High=4, Moderate=3, Low to Moderate=2, Low=1) for each Internal Control Technique that applies to the listed Threats. This is indicated on



- the Matrix under the “V” Heading at the intersection of the listed Threat and any applicable Internal Control Technique
- The sixth part is Overall Vulnerability for each listed Threat. These Vulnerabilities are listed on the Matrix in the vertical column next to the Inherent Risk column.

A sample completed Risk Matrix is shown below.

SAMPLE RISK MATRIX								
INTERNAL CONTROL TECHNIQUES								
			Accounting reconciles		Sewer Billing Gives		City Attorney	
			Remittances		Accounting Tax Data		Review	
THREATS	INHERENT RISK ASSESSMENT	OVERALL VULNERABILITY	C	V	C	V	C	V
County remitted Sewer Charges are wrong	HIGH	Moderate/ High	3	3	2	4		
Sewer Charges Prop 218 Noncompliance	HIGH	High					1	5

A completed Risk Matrix is the cornerstone of the Performance Audit Process used by the Sacramento City Auditor’s Office. At this preliminary stage of the **Audit Process**, audit staff may be able to develop potential “**Audit Findings**” regarding exposure to uncontrolled Threats or inefficiencies in Management’s Internal Control System. Audit Staff should start a **Finding Development Worksheet** as soon as it identifies a potential Audit Finding, citing the Overarching Tenet regarding Management’s Internal Control responsibilities as the Finding criteria. When completed, a Finding Development Work Sheet should contain all five of the Audit Finding Elements- Criteria, Condition, Effect, Cause, and Recommendation unless the Audit Objective is limited to developing only some of the Audit Finding Elements. For example the Audit Objective may be limited to identifying Best Practices (Criteria) or determining the current state of an operation (Condition). In these situations, identifying the Criteria or Condition would address the Audit Objective and development of the other Finding Elements would not be necessary.

Once the **Risk Matrix** is completed it provides the audit staff with 1) a **High Level Overview** of the auditee’s entire Internal Control System and 2) the basis for writing the detailed Audit Program steps for subsequent **Audit Fieldwork**.

The High Level Overview of the Risk Matrix quickly identifies those Threats with High Vulnerability due to their Assessed Inherent Risk and Internal Control Strength Levels. The Risk Matrix also identifies the auditee’s Internal Control Techniques that are critical or important. The first reason an Internal Control Technique should be considered critical or important is when it addresses a Threat that has High Vulnerability. The second reason that an Internal Control Technique should be considered critical or important is when it addresses a large number of Threats that have only Moderate or even Low Vulnerability. While



these Threats may not be significant on an individual basis they could be significant on a collective basis. When that is the case, the Internal Control Techniques that address these collective Threats should be considered critical or important.

Eighth Risk Assessment Task

The purpose of this task is to write the **Audit Program** steps which are designed to determine if those critical or important Internal Control Techniques that Audit Staff identified in the Seventh Risk assessment Task are functioning efficiently and effectively. **Writing Audit Steps** to test Internal Controls begins with a detailed description of Internal Control Techniques the Audit Staff acquired during the Third Risk assessment Task. Audit Staff should decide what type of and how much evidence it should gather to test the functioning of the Internal Control Technique to determine if a **Deficiency in Design or Operations** exists

A Deficiency in Design exists when (a) a control (technique) necessary to meet the control objective is missing or (b) an existing control (technique) is not properly designed so that, even if the control (technique) operates as designed, the control objective is not met.

A **Deficiency in Operation** exists when a properly designed control (technique) does not operate as designed, or when the person performing the control (technique) does not possess the necessary authority or qualifications to perform the control (technique) “effectively” (Emphasis added). Accordingly, audit staff should write Audit Program steps to determine if a deficiency in design or operation exists in the auditee’s Internal Controls.

GAGAS requires auditors to be aware of **Audit Risk** in the planning of audits. Audit Risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete... “Auditors should be aware of Audit Risk in the planning of audits and should take steps to reduce it to an appropriate level to provide reasonable assurance” (Emphasis added). A Risk Assessment Approach allows the Sacramento City Auditor’s Office to reduce its Audit Risk exposure to its lowest practical level.

Phase 4: Field Work

Audit Fieldwork is the execution of the written audit program during which the City Auditor or Audit Staff performs procedures to develop the elements of a finding for inclusion in the audit report.

Appropriate and Sufficient Evidence

GAGAS requires Auditors to “... obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions...”. Interpreting, summarizing, or analyzing evidence is typically used in the process of



determining the appropriateness and sufficiency of evidence and in reporting the results of the audit work.

Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for Audit Findings and Conclusions related to the Audit Objectives. Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the issue being addressed. Validity refers to the extent to which evidence is based on sound reasoning or accurate information. Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.

The following contrasts are useful in judging the appropriateness of evidence.

- Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.
- Evidence obtained through the Auditor's direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.
- Examination of original documents is generally more reliable than examination of copies.
- Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons feel intimidated.
- Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about an area.
- Evidence obtained from a knowledgeable, credible and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity.

Sufficiency is a measure of the quantity of evidence used to support the Audit Findings and Conclusions related to the Audit Objectives. In assessing the Sufficiency of evidence, Auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the Audit Findings are reasonable.

The following presumptions are useful in judging the sufficiency of evidence.

- The greater the audit risk, the greater the quantity and quality of evidence required.
- Stronger evidence may allow less evidence to be used.

Having a large volume of evidence does not compensate for a lack of relevance, validity, or reliability.



According to GAGAS Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole. The concept of sufficient, appropriate evidence is integral to an audit. The working papers should reflect the details of the evidence and disclose how it was obtained.

Types of Evidence

Audit programs should be designed to rely on different types of evidence depending on the audit objective. The types of evidence include:

- **Physical evidence** -- Physical evidence is obtained by direct inspection or observation of (a) activities of people, (b) property, or (c) events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed; photographs; charts; maps; and actual samples.
- **Documentary evidence** -- Documentary evidence consists of created information. The documents, forms, journals or reports may originate within the auditee organization or may come from an external source. Examples are letters; contracts; laws; regulations; procedures; budget information; accounting records; and management information on performance.
- **Testimonial evidence** -- Testimonial evidence is obtained from others through statements received in response to inquiries or through interviews. Statements important to the audit should be corroborated when possible with additional evidence. Testimonial evidence also needs to be evaluated from the standpoint of whether the individual may be biased or only have partial knowledge about the area.

Staff will initiate preparing a **Finding Development Work Sheet** as soon as it identifies potential **Audit Findings** during the course of fieldwork. An audit Finding typically⁵ include the following five elements:

- Condition: What is
- Criteria: What should be
- Cause: What produced the condition (Who? Why?)
- Effect : The “so what” or the product of the condition
- Recommendation: Proposed mitigating action

On a **bi-weekly** basis staff will meet with the City Auditor to discuss the progress of the audit assignment. During the bi-weekly meeting staff will: 1) report on what it accomplished since the last meeting with the City Auditor, 2) present any initiated or completed Finding Development Work Sheets, 3) discuss any audit issues needing City Auditor direction or resolution, and 4) submit its written

⁵ See GAGAS section 7.72 developing elements of a finding



commitment regarding what it will accomplish during the ensuing two week period.

At the conclusion of Fieldwork, staff will meet with the City Auditor for a “**Pre-Draft**” Conference. The purpose of the Pre-Draft Conference is to help expedite the report drafting process by ensuring concurrence from the City Auditor and staff regarding 1) the Audit Findings, 2) the Punch Paragraph(s), 3) the finding(s) outline and 4) finding conclusions and recommendations. In order to facilitate the Pre-Draft Conference, staff will submit completed Finding Development Work Sheets to the City Auditor and have indexed work papers available for review.

Phase 5: Audit Reporting

The City Auditor performs the following Audit Reporting Functions.

1. Directs staff to prepare a **Draft Report** that incorporates the decisions reached during the Pre-Draft Conference. Staff submits the completed draft report to the City Auditor for review and editing. Each audit report shall include:
 - A statement of audit objectives and a description of the audit scope and methodology.
 - A full discussion of Audit Findings and Conclusions.
 - Each Audit Finding should have a descriptive Title. An Audit Finding begins with a Punch Paragraph which is a succinct summary of the information contained in the Audit Finding in the order the information is presented in the Audit Finding. An example of an Audit Title and Punch Paragraph is shown below.
 - Recommendations for necessary or desirable action.
 - A response from the city manager or the highest official of the audited entity, except as described above.

Staff will also index the draft report to the work papers prepared during the audit as a means to facilitate the **Referencing Process**. The Referencing Process involves an Auditor who did not work directly on the audit assignment, comparing the indexed audit report to the supporting work papers to insure compliance with the GAGAS Evidence Standards. Referencing is one of the most important audit quality assurance steps in the City Auditor’s Office audit process. During the Referencing Process the Referencer uses the Referencing Form to record his or her Reference Notes which identify any questions or comments related to the adequacy and sufficiency of the evidence supporting the draft audit report. The Audit Staff that prepared the draft report must respond to all Reference Notes to the satisfaction of the Referencer. Failure to do so will result in amendments to or elimination of items in the draft report. When the Referencer is satisfied with Audit Staff’s responses to his or her Reference Notes he or she draws a



blue line through the Reference Note and initials the Reference Note. Should the Audit Staff and the Referencer disagree on whether the Audit Staff's response satisfies the Referencer's Reference Note the City Auditor will make the final decision in order to resolve the disagreement.

The City Auditor provides a copy of the Draft Audit Report to representatives of the audited entity for review and comment during the Exit Conference stage of the audit process.

2. Schedules an Exit Conference with representatives of the audited entity to receive their input and comments on the Draft Audit Report. To ensure technical accuracy and fairness to the audited entity, the City Auditor incorporates any needed changes to the Draft Audit Report identified during the Exit Conference into the Final Audit Report. The City Auditor then allows the representatives of the audited entity two weeks to prepare a written response for inclusion in the Final Audit Report. If the City Auditor's Office does not receive a written response from the Administration within the aforementioned two weeks, the City Auditor will reserve the right to issue the audit report to the City Council without a written response from the Administration. If the Administration provides a response that the City Auditor believes is inaccurate or misleading, the City Auditor reserves the right to include a rebuttal to the Administration's Response in the final report.
3. The City Auditor may meet with City Council Members prior to the issuance of the final report to alert them that a report is forthcoming and inform them regarding the report findings and recommendations.
4. Issues the **Final Audit Report** simultaneously to the City Council, the audited entity, the media and the public
5. Presents completed audit reports to the Audit Committee which will also hear testimony from the audited entity and other interested parties. The Audit Committee will report at a subsequent City Council meeting the results of the Committee's review of the audit report and its recommendations. The City Auditor may present an audit report directly to the City Council when the City Council directs him or her to do so.

If, after an audit report is issued, it is determined that the auditors lacked sufficient, appropriate evidence to support the findings or conclusions, the Office should notify appropriate officials (City management and City Council) and should remove the report from the Office website and post a public notice that the report was removed. They should then decide whether to do more audit work to reissue the report with revised findings and conclusions (GAGAS Section 8.07).



Audit Documentation

Auditors should prepare and maintain audit documentation related to planning, conducting, and reporting on the audit. Documentation should be sufficient to enable an experienced auditor who has had no previous connection with the audit to ascertain whether the evidence that supports the auditor's judgment and conclusions is adequate. Audit documentation should contain support for findings, conclusions, and recommendations. Documentation collected during the audit can be retained in the form of both electronic files and hard copy working papers.

Subject matter in working papers that is deemed confidential should be handled with care and stored separately from non-confidential work papers. In accordance with GAGAS Section 7.84, the Auditor's Office has considered how requests for work papers from outside parties should be handled. Work papers generally may be subject to the public records law (California Public Records Act).

According to California Government Code 36525:

(a) As used in this section "city auditor" includes an elected or appointed officer or full-time employee of the city who is compensated, but does not include an independent contractor.

(b) All books, papers, records, and correspondence of the city auditor pertaining to his or her work are public records subject to Chapter 3.5 (commencing with Section 6250) of Division 7 of Title 1 and shall be filed at any of the regularly maintained offices of the city auditor. However, none of the following items or papers of which these items are a part may be released to the public by the city auditor, or his or her employees:

(1) Personal papers and correspondence of any person providing assistance to the city auditor when that person has requested in writing that his or her papers and correspondence be kept private and confidential. Those papers and that correspondence shall become public records if the written request is withdrawn or upon the order of the city auditor.

(2) Papers, correspondence, memoranda, or any substantive information pertaining to any audit not completed.

(3) Papers, correspondence, or memoranda pertaining to any audit that has been completed, which papers, correspondence, or memoranda are not used in support of any report resulting from the audit.



Requests from outside parties for work papers will be dealt with on a case-by-case basis, taking into consideration the information contained therein, whether any of it should be redacted, and the public records requests.

Audit work papers are essential to a successful audit. Audit work papers provide the principal evidentiary support for the audit report and the related conclusions. They document whether the audit objectives were achieved; facilitate review and evaluation of work performed; provide a central ongoing reference during the audit so that the audit can proceed effectively and efficiently; and provide a convenient reference for audit follow-up.

Section 7.82 of GAGAS requires that audit organizations establish information systems controls concerning accessing and updating electronically maintained audit documentation. Audit work papers are stored on the shared drive in the Auditor's folder. Access to this folder is limited to the City Auditor's Office staff. In accordance with Section 7.82 of GAGAS, after the completion of an audit, work papers are saved to a CD and stored with the hardcopy work papers.

Whenever possible, source documents should be included in the working papers. However, when source documents are too voluminous to be incorporated, auditors should identify the specific documents they examined, copy relevant data, and/or include samples of documents to facilitate the reviewer's understanding of what the auditors did. Auditors are not required to include copies of every document they examined, nor are they required to list detailed information from every document they examine.

The form and content of audit documentation may vary depending on the circumstances of the particular audit. Working papers should include:

- Work paper index.
- Cross-indexed audit program for each phase of the audit (as appropriate) describing the objectives, scope, and methodology of the audit. If an audit step is omitted or not applicable, this should be explained in the work papers.
- Working papers to document the work performed to support significant judgments and conclusions, including descriptions of records examined, interviews conducted, procedures performed, sampling, and other selection criteria used
- Supervisory review log or other documentation of supervisory review.
- Cross-indexed and referenced copy of the audit report.
- Quality control questionnaire documenting compliance with GAGAS.

Labeling Working Papers

Individual work papers should include title (e.g. name of person interviewed, type of test performed), electronic filename, date, preparer, source, purpose, conclusion, and name of audit. Records and documents obtained during the



audit should be labeled to show source and date received. When data is obtained electronically, the original data file should be retained. Standard work paper templates are available on the audit drive.

Organizing and Numbering Working Papers

Working papers should be organized in a logical manner. As working papers are gathered and prepared, they should be placed in a 3-ring binder (working papers may be created and organized electronically following the same scheme). At the beginning of the audit, the auditor-in-charge prepares a numbering scheme for working papers.

To be consistent with the standard audit programs, auditors are encouraged to organize their binders as follows:

A	Audit Administration
PS	Preliminary Survey
RA	Risk Assessment
FW	Fieldwork Objectives

Auditors are encouraged to number work papers according to the audit step performed. The abbreviations listed above are used to identify the audit phase in which the information was obtained followed by a hyphen and numerals to identify the work paper number and page. For example: PS 21 - 25

- “PS” indicates the work paper was created in preliminary survey
- “21” represents the 21st work paper created
- “25” represents the page number of the 21st work paper.

Cross-indexing: Auditors are encouraged to cross-reference working papers to each other during the audit process. Both the audit program (either explicitly or by use of the above work paper numbering system whereby work papers are numbered by audit step) and the final report **MUST** be cross-indexed to the working papers.

Findings of Illegal Acts, Noncompliance, Abuse, or Fraud

If auditors conclude, based on evidence obtained, that an illegal act⁶, noncompliance⁷, fraud⁸, or abuse⁹ has either occurred or is likely to occur, they should promptly report relevant information to the City Auditor. When information

⁶ An illegal act is defined as a violation of a law and or a regulation.

⁷ A noncompliance is a violation of a provision of a contracts or grant agreement.

⁸ Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation.

⁹ Abuse occurs when the conduct of a government organization, program, activity, or function falls far short of societal expectations for prudent behavior.



comes to the auditors' attention indicating that fraud, significant within the audit objectives, may have occurred, the City Auditor and audit staff will discuss additional audit steps, as necessary, to determine whether the fraud has likely occurred and if so, determine its effect on the audit findings. If the fraud is not significant within the context of the audit objectives, the City Auditor may conduct additional work as a separate assignment, or refer the matter to other parties with appropriate responsibility.

Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to imply that they have made a determination of illegality.

Auditors should exercise due professional care in pursuing indications of possible illegal acts so as not to interfere with potential investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies require auditors to report indications of certain types of illegal acts to law enforcement or investigatory authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

If evidence indicates that an illegal act, noncompliance, fraud, or abuse has occurred, the City Auditor will determine whether additional work needs to be performed or whether audit work should be suspended as a result of the finding, and determine whether a referral should be made to the City Attorney and/or Law Enforcement regarding potential investigations or legal proceedings. GAGAS 8.21 now states "When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding."

GAGAS 8.24 states that auditors should report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse directly to parties outside the City in two circumstances: (1) when management fails to satisfy legal or regulatory requirements to report to external parties or (2) management fails to take timely steps to respond to fraud, illegal acts, violations of contracts or grant agreements, or abuse that is significant to the findings and conclusions and also involves funding from a government agency, and when required to do so by law or regulation.

Since city officials are responsible for taking timely and appropriate steps to remedy these types of acts, the Office will in such instances contact the department, City Manager, and City Attorney to discuss the matter (and to the extent possible provide documentation), and will document those discussions in the work papers. If formal notifications and letters are appropriate to the circumstances, the Auditor's Office will retain those documents as part of our



working papers.

Quarterly Status Reports

The City Auditor issues quarterly reports to the Audit Committee describing the status and progress towards completing the audits on the annual audit plan. Quarterly reports to the Audit Committee also provide an opportunity to reprioritize projects and to obtain City Council approval to amend the audit plan as necessary during the year. The Audit Committee reviews the quarterly reports and forwards the reports to the City Council for approval.

Audit Recommendation Follow-up

On a semiannual basis, the Auditor's Office generates a report that details the implementation status of council adopted recommendations. In creating this report, a request to provide evidence of status is sent to all affected departments. The City Auditor and audit staff review the status reports and documentation that has been submitted to determine and verify the current status of the recommendations.

The Auditor's Office compiles a draft of the report. The report indicates whether the recommendation is "completed or resolved", "in process", or "not started". It discusses those recommendations that should be modified or dropped, and provides an agreed-upon course of action to implement remaining recommendations.

Prior to issuance, the Auditor's Office distributes a draft of the report to the City's Executive Leadership Team (including the City Manager and City Attorney) for their review and comments. The Auditor's Office then issues the final report to the Audit Committee. The Committee discusses the status of open audit recommendations from audit reports that were originally heard in that committee. Department heads are generally requested to be present to answer City Council questions.



SECTION 3: ACHIEVING AUDIT QUALITY

The City Auditor's Office is committed to achieving a high level of audit quality. The Office has established a quality assurance program to ensure compliance with Government Auditing Standards.

GAGAS Section 3.53 requires an audit organization to include policies and procedures in its system of quality controls that collectively address (1) leadership responsibilities for quality within the audit organization (2) independence, legal, and ethical requirements (3) initiation, acceptance, and continuance of audit and attestation engagements (4) human resources (5) audit and attestation engagement performance, documentation, and reporting and (6) monitoring of quality. Section 3.54 goes on to say that an "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. (Under GAGAS, reviews of the work and the report that are performed as part of supervision are not monitoring controls when used alone. However, these types of pre-issuance reviews may be used as a part of this analysis and summary.)"

The Auditor's Office uses a review sheet (at the end of this manual) to document the annual analysis and summary of monitoring procedures to comply with GAGAS Section 3.54.

Government Auditing Standards

The concept of accountability for public resources is key in our nation's governing process and a critical element for a healthy democracy. Government auditing is a key element in fulfilling the government's duty to be accountable to the people. Auditing allows stakeholders to have confidence in reported information about the results of programs and operations, and in the related systems of internal control. Government Auditing Standards (GAGAS), as codified in "the Yellow Book", provides a framework to auditors so that audit work can lead to improved government management, decision making, oversight, and accountability. GAGAS provides an overall framework for ensuring that auditors have the competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work.

Each staff member receives an electronic copy of "the Yellow Book" and is responsible for becoming familiar with and adhering to its requirements.

The Association of Local Government Auditors (ALGA) has published the ALGA Peer Review Guide to help local government auditors meet the requirement of GAGAS. The Auditor's Office has incorporated portions of the Guide into the audit process to help ensure audit work conforms to GAGAS.



Each audit report includes a statement in the introduction section indicating that the work was conducted in accordance with GAGAS. The Office uses the wording suggested by GAGAS 8.30.

“We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.”

According to GAGAS 8.31 “When auditors do not comply with all applicable GAGAS requirements, they should use a statement that includes either (1) the language in 8.30, modified to indicate the standards that were not followed or (2) language that the auditor did not follow GAGAS.”

Internal Quality Controls

The Office has established procedures to ensure audit quality including:

- ***Policies and procedures manual*** – detailing the specific procedures and controls that we use to ensure compliance with professional standards. Each staff person is issued a copy of the manual. An electronic version of the manual and forms are on the shared drive.
- ***Standard audit programs for each phase of our performance audits*** – listing forms and procedures to be completed for each phase of the audit including preliminary survey, risk assessment, fieldwork, and report writing. The standard programs require auditors to establish appropriate objectives depending on the audit topic. The Appendix contains template forms for each audit phase.
- ***Supervisory review by the City Auditor and In-Charge Auditors*** – include periodic briefings and meetings to discuss audit steps and results; reviews of working papers, audit programs, and independent reviewer notes; and editing of report drafts. Supervisory review is documented by the City Auditor (and by the In-Charge Auditor, when appropriate) initialing working papers, audit programs, and review sheets.
- ***Independent report review, or “referencing”*** – is done by audit staff not assigned to a project. Auditors are responsible for cross-referencing each statement of fact in an audit report to the working papers. The independent reviewer traces all facts and statements in the report to supporting work papers to ensure that the information is accurate and factual. The Appendix contains template forms to document reference notes.
- Use of a **Standards Review** checklists. The Office uses a checklist at the end of each audit assignment to ensure documentation of each applicable standard. The Appendix contains the template form for the checklist.



External Quality Control Reviews

The Office participates in the Association of Local Government Auditor's Peer Review program. It is the goal of the office to send one auditor each year on a peer review of another jurisdiction. It is the policy of the Office to have an external review of its audit practices once every 3 years by reviewers independent of the City of Sacramento. Consistent with Section 3.61 of the GAGAS, Sacramento reports issued by the peer reviewers are publicly available. We post the most recent peer review on our website.

In accordance with GAGAS 3.50, if the Auditor's Office does not have an external peer review every 3 years audit reports will include a modified GAGAS compliance statement.

Independence

GAGAS requires that the audit organization and individual auditors be free both in fact and appearance from personal, external, and organizational impairments to independence.

- ***Personal impairments.*** To ensure auditors are free from personal impairments to independence, each auditor completes a Staff Assignment Sheet (Form B) for approval by the City Auditor. In addition, auditors are required to complete annual conflict of interest statements (Fair Political Practices Commission form 700). If a personal impairment to independence is identified, the City Auditor will meet with staff to reassign the project, or to discuss mitigating the impairment or withdrawing from the project. If there are any remaining potential personal impairments, they would be disclosed in the scope section of the report. Contractors or specialists who perform audit work are also required to complete the Assignment Sheet.
- ***Organizational independence.*** The City Auditor is appointed by and reports to the City Council. The City Council approves the annual audit plan and reviews audit report findings and recommendations, and monitors the implementation of recommendations. Consequently, the Office is presumed to be free from organizational impairments to independence when auditing City operations that are under the control of the City Manager.
- ***External impairments.*** The Sacramento City Code grants the City Auditor and the audit staff access to all sources of information, property, and personnel relevant to the performance of an audit, unless restricted or prohibited by law. Nonetheless, if for any reason factors external to the Office restrict or interfere with an auditor's ability to form independent and objective conclusions, the City Auditor will meet with the management of the program or entity under audit to attempt to remove the impairment. If the impairment cannot be removed or mitigated, the Auditor's Office will



attempt to withdraw from the engagement and report publicly to the City Council on the impairments and the factors causing audit termination. If the Auditor's Office is unable to withdraw from the audit, the impairment will be clearly disclosed in the scope section of the written audit report.

- ***Impairments identified after audit report is released.*** In accordance with Section 3.06 of the Yellow Book, if after an audit is issued, an impairment to independence is identified, the Auditor's Office should assess the impact on the audit. If it's determined that the audit did not comply with GAGAS, the Auditor's Office should notify (in writing) relevant management and others known to be using the report.

Supervision

Supervision provides assurance that audit staff perform responsibilities efficiently and effectively, and that internal policies and procedures are complied with. The City Auditor supervises the work of the City Auditor's Office. Depending on the project, in-charge auditors may be asked to supervise the work of others.

Role of the City Auditor – The City Auditor has significant involvement in audits conducted. The City Auditor:

- Assigns staff and makes sure they understand the audit objectives.
- Attends entrance, exit, and other major conferences with auditees.
- Meets with the auditor/team on a regular basis to ensure that the audit is progressing satisfactorily.
- Reviews and approves audit programs, selected working papers, report drafts, and the final report.
- Maintains contact with the department head of the audited department, the City Manager, and City Attorney.
- Acts as the primary contact with the news media and the public.

Role of the In-Charge Auditor – The In-Charge Auditor is responsible for coordinating all phases of the audit, and for ensuring audit objectives are achieved. The In-Charge Auditor:

- Prepares administrative documents such as assignment sheets and audit programs.
- Conducts fieldwork.
- Briefs the City Auditor on audit progress, any problems encountered, and deviations from the audit program.
- Prepares finding development sheets and drafts audit report.
- Ensures the audit report is completely referenced and all notes by the Independent Reviewer are cleared.



Professional Judgment

GAGAS requires use of professional judgment in planning and performing audits and reporting the results. The Office provides an electronic copy of the Yellow Book to each auditor; auditors are responsible for understanding and exercising professional judgment as described in section 3.31-3.39 of the Yellow Book. All members of the audit team are expected to apply ethical principles of integrity, objectivity, and professional behavior.

To help ensure that sound professional judgment is exercised in planning and conducting an audit, the City Auditor assigns staff deemed competent to conduct the audit, and provides ongoing supervision of assigned staff.

For each audit conducted, the auditor-in-charge prepares a comprehensive audit program based on the standard audit programs the office has adopted for preliminary survey, risk assessment, field work, and report writing. Auditors are expected to assess risk, plan audits, and conduct examinations with an appropriate level of testing, considering the possibility of material irregularities or noncompliance.

All members of the audit team are expected to render the care and skill expected of a prudent and competent auditor in the same or similar circumstances. In exercising due professional care, the audit staff should be alert as to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. Such conditions and activities should be discussed with the City Auditor.

Auditors are required to assess the materiality, impact, and effect in developing potential audit findings. Potential audit findings are discussed with the City Auditor throughout the audit process. Findings that are not material in nature may be communicated internally to City staff through a separate management letter.

Competence

GAGAS requires that the staff assigned to an audit collectively possess adequate professional competence for the tasks required. The City Auditor is responsible for staffing the Office with competent personnel, ensuring that sufficient and qualified staff is assigned to each audit, and ensuring that audit work is conducted in a competent and timely manner. In assigning staff to audit projects, the City Auditor attempts to match skills and interests of auditors to areas of audit work.

In accordance with GAGAS 7.43, the Office has the ability to engage specialists when necessary. Due diligence on the qualifications of outside consultants/auditors is performed as part of the City's standard request for



proposal process. The Office also uses the Assignment Sheet in Appendix B to document the specialist's qualifications and independence.

Pursuant to city policy, the City Auditor conducts annual performance evaluations for all regular staff including an evaluation of past performance, areas for improvement, performance objectives for the coming year, opportunities for improving skills, and targeting appropriate training.

Job descriptions and hiring requirements for audit staff can be found on the Human Resources webpage.

Professional Development

The City Auditor's Office has implemented a program to ensure that its staff maintains professional proficiency through continuing education and training. GAGAS requires that auditors responsible for planning, directing, conducting, or reporting on government audits should complete, every 2 years, at least 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the 2-year period. At least 24 of the 80 hours of continuing education and training should be in subjects directly related to government. Auditors are encouraged to complete a minimum of 40 hours training per year.

Part-time auditors involved in planning, directing, or reporting on government audits should complete at least 24 hours of CPE every two years in subjects directly related to government. If their time charged to audits reaches 20%, then the CPE requirements increases to 80 hours every two years.

Auditors are encouraged to obtain certifications including the Certified Internal Auditor (CIA) designation, a Certified Public Accountant (CPA) license, Certified Government Financial Manager (CGFM), Certified Information System Analyst (CISA) or Certified Fraud Examiner (CFE). To assist with meeting continuing education requirements and to encourage involvement in professional organizations, the City Auditor's Office, to the extent the Office's budget allows, will pay for or reimburse the following:

- Group membership with the Association of Local Government Auditors, and registration fees at the annual ALGA conference (travel may be reimbursed through use of personal professional development funds)
- Annual membership in the Institute of Internal Auditors necessary to maintain Certified Internal Auditor status;
- Professional meetings where continuing education credit is obtained (e.g. IIA, AGA, the Western Intergovernmental Audit Forum (WIAF) and Bay Area Local Government Auditor (BALGA) meetings.



Other training courses, conferences, and professional certifications may be eligible for reimbursement. Requests should be presented in writing in advance and submitted to the City Auditor for review and approval.

Each auditor is responsible for maintaining their certifications and meeting GAGAS training requirements. Auditors should submit a copy of the certificate of completion or agenda from each training session to the City Auditor. Each employee is responsible for maintaining a binder and log of training hours by calendar year. The two-year measurement period for purposes of complying with GAGAS begins with fiscal year 2010-11.



SECTION 4: ADMINISTRATIVE OFFICE PROCEDURES

This section of the manual describes the general office procedures for the City Auditor's Office.

Office Hours

Normal working hours are 8:00 a.m. to 5:00 p.m., with one hour lunch, Monday through Friday. The City Auditor may approve other alternate work schedules on a case by case basis. Such requests should be made in writing and discussed with the City Auditor. Each employee is expected to adhere to his or her approved work schedule.

Time Reporting

In order to be paid, employees are responsible for entering their hours worked into the City's eCAPS system on a biweekly basis. Staff should provide a hard copy of their timecard to the City Auditor for approval. eCAPS timecards are approved by the City Auditor according to Payroll's bi-weekly schedule.

Vacation, Sick Leave, and Leave of Absence

The rules and regulations for non-productive time accruals are described in the City's PERSONNEL RESOLUTION COVERING UNREPRESENTED OFFICERS AND EMPLOYEES.

Planned leave, such as vacation and personal business, of 8 hours or more should be approved in advance by the City Auditor. Leave less than 8 hours may be requested informally, but should be obtained at least 24 hours in advance. Staff is requested to notify the City Auditor by 9:00 a.m. regarding sick leave. .

Use of Computer Equipment , Electronic Mail, Internet, and Telephone

The City's policy on acceptable use of information technology resources is API 30 Information Technology Resource Policy.

Contact with the City Council and the News Media

The City Auditor is the point of contact with members of the City Council and with the news media. Any request for information should be routed to the City Auditor. The City Auditor may, at his or her discretion, delegate the responsibility to Auditors for specific issues.

Professional Appearance and Conduct

It is the policy of the City Auditor's Office to promote an attitude of professionalism and competence. Professional appearance and conduct help to convey these attributes. As such, the audit staff should dress appropriately when on the job and treat other employees with courtesy and respect. All staff



members are representatives of the Auditor's Office and should present themselves accordingly.

The success of any audit is due in part to the cooperation and assistance of City staff. As such, it is important to remember that these employees are working for their respective departments and that their primary duty is to fulfill their daily assignments. Therefore, audit staff should be courteous and understanding of employee time constraints. If the audit staff needs an employee to perform a major task, this should be discussed with the City Auditor in advance.

Staff members are responsible for keeping their work areas neat and orderly. Care is to be exercised to avoid exposure of confidential or potentially sensitive documents.

Performance Appraisals

Performance planning and appraisal is conducted at least annually prior to setting individual employee compensation.

Department Budget

The City Auditor, or his or her designee, is responsible for processing the Office's financial transactions and monitoring the Office's budget, subject to approval by the City Auditor.

Calendars, Appointments, Meetings

Staff will maintain their electronic Outlook calendar up to date in order to facilitate scheduling of appointments and meetings by others.

Travel

All travel must be approved in advance by the City Auditor through the approval of the Travel Request form. Reimbursement requests will be handled in conformance with the City's travel policy API 7 Travel Request & Reimbursement Process.

Outside Employment

Employees who would like to seek supplemental employment should fill out the City of Sacramento's Supplemental Employment Request form for review by the City Auditor.

Gifts

It is contrary to the Auditor's Office ethical standards for any employee to accept gifts or gratuities from any individual, business, or organization doing business with, seeking to do business with, seeking permits, or seeking other entitlements from the City.



Results of Annual Monitoring of Quality

In accordance with GAGAS Section 3.54, the City Auditor's Office will annually analyze and summarize the results of its monitoring procedures. Such analysis should identify any systemic issues needing improvement. Following such analysis, the following section of this manual will note that a review occurred, the results of the review, and whether the manual was revised accordingly. The history of such revisions will be noted below. If no revisions are needed in a given year, a notation will be so indicated.

