



External Quality Control Review

of the
Office of the City Auditor
City of Stockton, California

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

for the period May 1, 2003, through June 30, 2006

Association of Local Government Auditors



September 27, 2006

F. Michael Taylor
City Auditor
City of Stockton
Suite 325
22 E. Weber Avenue
Stockton, CA 95202

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Dear Mr. Taylor:

We have completed a peer review of the Office of the City Auditor, City of Stockton, for the period May 1, 2003, through June 30, 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 (ALGA). We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Office of the City Auditor, City of Stockton, internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits during the period May 1, 2003, through June 30, 2006.

We have prepared a separate letter noting some of the strengths of your office and offering suggestions to further strengthen your internal quality control system.

We appreciate the exceptional preparation your office made for this peer review and the courtesies shown to us during our visit.

Mark Petterson, CISA, CPA
Audit Manager
Arizona Board of Regents

Bob Koury, CIA
Principal Internal Auditor
City of Fresno, California



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September 27, 2006

F. Michael Taylor
City Auditor
City of Stockton
Suite 325
22 E. Weber Avenue
Stockton, CA 95202

Dear Mr. Taylor:

We have completed a peer review of the Office of the City Auditor, City of Stockton, for the period May 1, 2003, through June 30, 2006, and issued our report thereon dated September 27, 2006. 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 City Audit Department Policies and Procedures are comprehensive and well-written and provide a strong foundation for meeting Government Auditing Standards.
- The high quality of your audit documentation and audit work indicates that the City audit staff understands and complies with the requirements of your policies and procedures and with Government Auditing Standards.
- Discussions with four elected and appointed officials indicated their high expectations of the Office of the City Auditor are being met.
- Procedures for assessing staff development needs and tracking continuing professional education ensure staff training needs are met.
- The audit follow-up database and effective follow-up of audit recommendations provides strong encouragement to management to implement audit recommendations in a timely manner.

We offer the following suggestions to enhance your organization's demonstrated adherence to government auditing standards:

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- The City Auditor occasionally is asked to perform nonaudit services such as serving on panels evaluating potential City Department heads. Prior to performing nonaudit services, consideration should be given as to whether such work is an impairment to independence. The consideration should be documented.
- Our sample of seven audits included several audits that were suspended for many months because other projects were given higher priority. When that situation occurs, the basis for delaying an audit should be clearly noted in the workpapers.

Mark Petterson, CISA, CPA
Audit Manager
Arizona Board of Regents

Bob Koury, CIA
Principal Internal Auditor
City of Fresno, California



CITY OF STOCKTON

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September 27, 2006

Mark Petterson, Arizona Board of Regents
Bob Koury, City of Fresno, California

RE: REPORT OF THE EXTERNAL PEER REVIEW

I have reviewed your report dated September 27, 2006, containing the results of your External Peer Review of the Office of the City Auditor, performed using guidelines established by the Association of Local Government Auditors (ALGA). It was reassuring to know that based on your review, you concluded that our office continues to conduct our audit work in accordance with *Government Auditing Standards*. Additionally, I appreciate your recognition of the positive attributes you found in our office.

While an opinion on our performance is important, it is also important to identify ways to improve our operations. In your report, you have offered suggestions intended to help us enhance our compliance with the standards. Following are our responses to your suggestions:

SUGGESTION 1: CONSIDERATION OF NON-AUDIT SERVICES ON AUDITOR INDEPENDENCE

We agree. While we have been careful to discuss with management the limits of our role in providing requested non-audit services in order to preserve our independence, we have not been as careful in documenting each situation.

PLANNED ACTION:

We will develop a standard form to document our consideration of the two overarching principles (i.e. not making management decisions and not auditing our own work). We will develop a standard memo for use in documenting our understanding with management that the safeguards required by section 3.17 of *Government Auditing Standards* will be followed. Because we recognize that routine activities of an audit function could develop into non-audit services subject to the safeguards, we will also make this a point of emphasis in staff meetings.

SUGGESTION 2: DOCUMENTING DELAYS IN AUDIT ASSIGNMENTS

We agree. There have been times when audits in progress have been put on hold due to higher priority assignments. When this has occurred, we have typically reported the delay in our City Council newsletters, but we have not documented the situation in the working papers.

PLANNED ACTION:

Our office will begin using a supervisory log for each audit assignment. In addition to better documenting audit supervision, this log would be an appropriate place to record delays in audit work and the rationale for such delays.

Each of us in the Office of the City Auditor found the ALGA External Peer Review to be a valuable and constructive process. We very much appreciate the time you took away from your own offices to review our operation. Thank you for the professional and thorough conduct of your work and for the opportunity to share ideas that we can apply in our respective audit organizations.

F. MICHAEL TAYLOR
CITY AUDITOR