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# External Quality Control Review

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of the  
City of Seattle  
Office of City Auditor

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

for the period  
August 1, 2011 through October 17, 2014

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## Association of Local Government Auditors

November 21, 2014

Mr. David Jones, City Auditor  
Office of City Auditor, City of Seattle  
700 Fifth Avenue, Suite 2410  
Seattle, WA 98124-4729

Dear Mr. Jones,

We have completed a peer review of the Seattle Office of City Auditor for the period August 1, 2011, through October 17, 2014. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and nonaudit services engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff, and management to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Seattle Office of City Auditor's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period August 1, 2011, through October 17, 2014.

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

Harriet Richardson  
CPA, CIA, CGAP, CRMA  
City of Palo Alto, CA

Lori Brooks  
CPA, CIA, CGAP, CRMA  
City of Arlington, TX

Larry Stafford  
CIA, CGAP, CRMA  
County of Clark, WA



## Association of Local Government Auditors

November 21, 2014

Mr. David Jones, City Auditor  
Office of City Auditor, City of Seattle  
700 Fifth Avenue, Suite 2410  
Seattle, WA 98124-4729

Dear Mr. Jones,

We have completed a peer review of the Seattle Office of City Auditor for the period August 1, 2011, through October 17, 2014 and issued our report thereon dated November 21, 2014. 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 highly experienced and dedicated staff members are very knowledgeable about the *Government Auditing Standards* and their office policies and procedures.
- The office enjoys a high level of respect and credibility with city management, as demonstrated by the number of requests for audits and nonaudit services.
- Well-documented policies and procedures, accompanied by a variety of checklists, including a Master Job Checklist and an extensive data reliability template; and use of ALGA's Audit Engagement and Nonaudit Services Documentation checklists, serve to ensure compliance with Government Auditing Standards.
- The engagement planning process is extremely thorough and demonstrates auditors' abilities to explore and use highly credible resources for benchmarking and audit criteria.

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

- Standard 3.46 requires auditors to use the conceptual framework to evaluate independence for providing nonaudit services. In reviewing the Office's Policies and Procedures Manual, we observed that it made no reference to using the conceptual framework to evaluate independence for providing nonaudit services. Further, although audit staff signed independence statements prior to providing a nonaudit service, none of the nonaudit services projects we reviewed included documentation to indicate that the conceptual framework was considered prior to signing the independence statement.

We recommend that the Policies and Procedures Manual be revised to specifically require use of the conceptual framework when assessing independence with regard to providing nonaudit

services, and add to the A04 - Statement of Independence a reference to the Policies and Procedures Manual's list of threats to be considered.

- Standard 3.76 requires auditors to complete at least 24 hours of continuing professional education (CPE) every 2 years that directly relate to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. The GAO publication, *Guidance on GAGAS Requirements for Continuing Professional Education*, provides additional guidance on the types of training that generally count as government CPE and nongovernment CPE. Standard 3.78 requires procedures to help ensure auditors meet CPE requirements. In reviewing the Office's CPE records, we were unable to confirm that all employees met the 24-hour CPE requirement, based partly on inconsistency in recording government-related CPE.

We recommend that the office establish procedures that document and ensure all auditors complete the required 24 hours of governmental CPE every two years.

- Standard 6.43 requires auditors to assess the professional qualifications of specialists used in audits and provides examples of how to assess those qualifications. The Policies and Procedures Manual does not specifically address this requirement. In the one audit where they used specialists, the City Auditor had verbal discussions with department management regarding the specialists' qualifications; however, there was no documentation of this assessment.

We recommend that the Office develop a procedure to require documentation of the steps taken to assess specialists' qualifications when using specialists on an audit.

- Standard 6.65 requires that when auditors use information provided by officials of the audited entity as part of their evidence, they are required to determine what the officials of the audited entity or other auditors did and, if necessary, to perform procedures to obtain assurance over the reliability of information provided by officials of the audited entity. Standard 6.69 requires auditors to perform and document an overall assessment of the collective evidence used to support findings and conclusions. The Office's Policies and Procedures Manual addresses the requirement and states that the City Auditor's sign-off in the referencing document verifies that the evidence taken as a whole is sufficient and appropriate. However, in reviewing the Office's work papers, we observed that specific engagements did not contain documentation of what auditors did to obtain assurance over the reliability of testimonial information provided by officials of the audited entity or of an overall assessment of the collective evidence.

We recommend that the Office develop a procedure for documenting the procedures performed to obtain assurance over the reliability of information provided by officials of the audited entity and the overall assessment of the collective evidence used to support findings and conclusions.

- Standard 7.13 requires that when sampling significantly supports the auditors' findings, conclusions, or recommendations, auditors should describe in the methodology section of audit reports the sample design, why the design was chosen, and whether the results can be projected to the intended population. The Office's Policies and Procedures Manual does not discuss these requirements, and in reviewing audit reports, we observed that the methodology

section of three of the four audit reports we reviewed did not include these requirements when sampling was used.

We recommend that when sampling significantly supports findings, conclusions, or recommendations, the Office develop a procedure for documenting their sample design, why it was chosen, whether the results can be projected to the intended population, and that these requirements be included in the methodology section of audit reports.

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

Sincerely,



Harriet Richardson  
CPA, CIA, CGAP, CRMA  
City of Palo Alto, CA



Lori Brooks  
CPA, CIA, CGAP, CRMA  
City of Arlington, TX



Larry Stafford  
CIA, CGAP, CRMA  
County of Clark, WA



# City of Seattle

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## Office of City Auditor

November 21, 2014

Ms. Harriet Richardson, City Auditor  
Office of the City Auditor  
250 Hamilton Avenue  
Palo Alto, CA 94301

Re: Response to November 21, 2014 ALGA Peer Review Letter

Dear Ms. Richardson:

On behalf of Seattle's Office of City Auditor, I want to thank you, the Association of Local Government Auditors (ALGA), and the other members of your peer review team (Lori Brooks, City Auditor, City of Arlington, TX; Larry Stafford, Senior Management Analyst and Performance Auditor, Clark County, WA) for the recently performed ALGA peer review of our office. This was the second time that our office, which began operations in 1993, has undergone a formal ALGA peer review, and, as was the case with our November 2011 ALGA peer review, we benefited greatly from the experience.

We were pleased to learn that your independent peer review team concluded that our internal quality control system is suitably designed and operated to provide reasonable assurance of compliance with the *Government Auditing Standards* issued by the Comptroller General of the United States. We also appreciate the companion letter to the report that described those areas in which we excelled as well as areas in which we could improve our internal control systems. We concur with each of the improvement suggestions, and will act to implement each of them as follows:

**Standard 3.46: Conceptual Framework to Evaluate Independence for Providing Nonaudit Services**

We will revise our policies and procedures to require use of the conceptual framework specified in the *Government Auditing Standards* when assessing independence with regard to providing nonaudit services, and add to our A04 Statement of Independence form a reference to our policies and procedures manual's list of threats to independence that should be considered.

**Standard 3.76: Continuing Professional Education (CPE) Procedures**

We will revise our training procedures to better ensure that all auditors in our office meet the 24 hour government CPE requirement, and that their achievement of this requirement is appropriately documented.

**Standard 6.43: Documenting Assessments of the Professional Qualifications of Specialists**

We will develop a procedure to require the documentation of the steps we took to assess specialists' qualifications when we use them on an audit. As we discussed with the peer review team, for the one audit in which we used specialists from a City of Seattle department, we had extensive discussions internally and with the department about the specialists' roles. However, we agree that in the future we should better document such discussions.

**Standards 6.65 and 6.69: Documenting Assurance of the Reliability of Information and Overall Assessment of Evidence**

We will develop procedures to document the procedures we perform to obtain assurance over the reliability of information provided by officials of the audited entity and the overall assessment of the collective evidence used to support findings and conclusions.

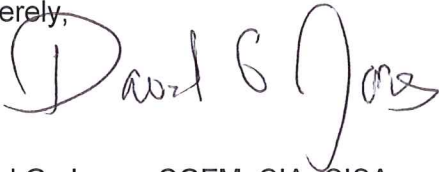
**Standard 7.13: Sampling Methodology in Policies and Procedures and Audit Reports**

We will revise our policies and procedures to require a discussion of sampling methodology in our audit reports' methodology sections.

**Conclusion**

We appreciate the thorough work performed by the peer review team during the week it spent in our office, and the numerous observations they shared with our staff. We thank you for your leadership of the team, and ALGA for providing a highly experienced team of auditors to perform the review.

Sincerely,



David G. Jones, CGFM, CIA, CISA  
Seattle City Auditor

Cc: Seattle City Councilmembers  
Matt Weller, Chair, ALGA Peer Review Committee  
Erin Kenney, ALGA Region V Peer Review Coordinator