



**MEMORANDUM**

**To:** Mayor and City Commission  
**From:** Sam M. McCall, City Auditor *SMM*  
**Date:** April 3, 2006  
**Subject:** Quality Control Review of Audits Issued by the Office of the City Auditor

I am enclosing for your review the issued External Quality Control Review of audits issued by the Office of the City Auditor for the period October 1, 2002, to September 30, 2005. A three-person review team assigned by the National Association of Local Government Auditors (NALGA) performed this review. Reports issued as a result of the review are attached and include:

1. The NALGA opinion letter dated March 30, 2006, stating that the system of quality control of the Office of the City Auditor of Tallahassee complied with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.
2. The NALGA opinion letter dated March 30, 2006, stating that the system of quality control of the Office of the City Auditor of Tallahassee complied with the International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors.
3. The NALGA Management Letter dated March 30, 2006, that included suggestions to further enhance the office's quality control system.
4. The City Auditor's March 30, 2006, response to the above three reports indicating actions to be taken to address each suggestion.

For your information, external quality control reviews are required by professional audit standards in order for this office to continue to state that our work complies with professional auditing standards. The audit engagements reviewed by the NALGA team represented a cross section of work over the three-year period.

I have attached for your review a listing of other organizations that participate in the NALGA Quality Review Program. You can take pride in the fact that our office is the **first** office ever reviewed by NALGA that states audit work complies with Government Auditing Standards issued by the Comptroller General of the United States (standards applicable federal, state, local government, and private sector audit organizations) and the standards issued by The Institute of Internal Auditors (standards applicable to government, non-profit, and private sector internal audit organizations). NALGA found that our audit processes and audit reports complied with both organizations' standards. These opinions are reflective of the professionalism and efforts of staff.

The NALGA program requires us to pay only for each review member's travel expenses. We do not pay for any salary costs for the review team. In turn, our staff participates in reviews of other cities. That experience is invaluable as a training tool, and the exchange of ideas with other local government auditors often results in additional improvements in our audit processes.

The City Audit Committee approved NALGA to conduct this review. If you have any questions relating to this review, please do not hesitate to contact me.

SMM  
attachments

Copy: City Audit Committee  
Appointed Officials  
City Auditor Staff



# *National Association of Local Government Auditors*

March 30, 2006

Sam M. McCall, CPA, CGFM, CIA, CGAP  
City Auditor  
City of Tallahassee  
300 S. Adams Street, Box A-22  
Tallahassee, FL 32301-1731

Dear Mr. McCall,

We have completed a peer review of the Tallahassee City Auditor's Office for the period October 1, 2002, to September 30, 2005. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May 2004, by the National Association of Local Government Auditors.

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 Tallahassee City Auditor's Office 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 October 1, 2002, to September 30, 2005.

We have prepared a separate letter that lists some of your office's strengths, as well as suggestions to further strengthen your internal quality control system.

Mike Edmonds, CIA  
City of San Jose, CA

Drew Harmon, CPA, CIA  
City of Roanoke, VA

Theresa McGrady, CPA, CIA, CISA  
Fairfax County Public Schools, VA



# *National Association of Local Government Auditors*

March 30, 2006

Sam M. McCall, CPA, CGFM, CIA, CGAP  
City Auditor  
City of Tallahassee  
300 S. Adams Street, Box A-22  
Tallahassee, FL 32301-1731

Dear Mr. McCall,

We have completed a peer review of the Tallahassee City Auditor's Office for the period October 1, 2002, to September 30, 2005. In conducting our review, we followed the standards and guidelines developed by the National Association of Local Government Auditors.

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 *the International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors as part of their *Professional Practices Framework*. 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 Tallahassee City Auditor's Office internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *the Standards* for assurance and consulting engagements during the period October 1, 2002, to September 30, 2005.

We have prepared a separate letter that lists some of your office's strengths, as well as suggestions to further strengthen your internal quality control system.

Mike Edmonds, CIA  
City of San Jose, CA

Drew Harmon, CPA, CIA  
City of Roanoke, VA

Theresa McGrady, CPA, CIA, CISA  
Fairfax County Public Schools, VA



# *National Association of Local Government Auditors*

March 30, 2006

Sam M. McCall, CPA, CGFM, CIA, CGAP  
City Auditor  
City of Tallahassee  
300 S. Adams Street, Box A-22  
Tallahassee, FL 32301-1731

Dear Mr. McCall,

We have completed a peer review of the Tallahassee City Auditor's Office (office) for the period October 1, 2002, to September 30, 2005, and issued our report dated March 30, 2006. We are issuing this companion letter to mention areas in which your office excels and to offer observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- Your office serves as a significant component of the City's governance process;
- Staff are experienced and highly qualified;
- Your use of different report formats provides timely and valuable information to users;
- The annual risk assessment leads to a thorough consideration of City-wide risk;
- The follow up process assists in ensuring timely implementation of audit recommendations; and
- Staff evaluations provide timely and valuable feedback to staff on their performance.

We offer the following observations and suggestions to enhance your organization's compliance with *Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*:

## **1. City Commission Policy**

The City Commission Policy #104 (Audit Policy) describes the nature, objective, and scope of the office's audit activities. This policy has not been updated since 1998. During this time period, both Government Auditing Standards and IIA Standards have been revised.

### **Suggestion**

Review Policy 104 and recommend changes to the City Commission to ensure that Policy 104 is consistent with current nature, objective, and scope of the office's audit activities.

## **2. Nonaudit Services**

Government Auditing Standards require auditors to consider and document their consideration that performing non-audit services will not result in violating the overarching principles of the independence standard. Although the office generally does not perform nonaudit services, it needs a procedure to ensure it documents its consideration of the overarching principles for providing nonaudit services. Government Auditing Standards also require auditors to apply specific safeguards when providing nonaudit service to management to ensure that services will not violate the overarching principles.

### **Suggestion**

Develop a procedure to fully reflect these requirements.

## **3. Defining Services**

IIA Standards define assurance and consulting services and have specific requirements for both types of services. Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. Consulting services are advisory in nature, and are generally performed at specific request of an engagement client. The office considers its work to be both assurance and consulting.

### **Suggestion**

Develop a process to define engagements as assurance and/or consulting services and follow the standards appropriate for those engagements. In addition, for those engagements considered as both assurance and consulting, the audit process guide should be revised to ensure the IIA standards are followed for both assurance and consulting work for the same engagement.

## **4. Audit Process Guide**

IIA Standards require the audit organization to develop policies and procedures to guide the internal audit activity. Although the office has developed an extensive policies and procedures manual, we believe that the procedures could be designed to better address compliance with IIA Standards.

### **Suggestion**

Review and revise the office policies and procedures manual to better incorporate compliance with IIA standards.

## 5. Risk Assessment

IIA standards require risk assessment as part of the planning process for each audit engagement. While we were able to verify that risk was properly assessed, documentation of the risk assessment was not consistent within the workpapers.

### Suggestion

Procedures for consistently evaluating risk to the degree required by IIA Standards should be developed and consistently applied in all engagements.

## 6. Work Programs

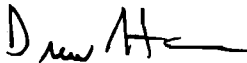
IIA Standards require the work programs to be approved prior to their implementation, and any adjustments approved promptly. We observed that approval of work programs was not formally documented prior to their implementation.

### Suggestion

Develop a process to document approval of work programs and adjustments prior to their implementation.



Mike Edmonds, CIA  
City of San Jose, CA



Drew Harmon, CPA, CIA  
City of Roanoke, VA



Theresa McGrady, CPA, CIA, CISA  
Fairfax County Public Schools, VA



March 31, 2006

Mr. Michael Edmonds, CIA  
Supervising Auditor  
City of San Jose, California  
Office of the City Auditor  
200 E. Santa Clara St.  
San Jose, CA 95113

Dear Mr. Edmonds:

I am responding to the National Association of Local Government Auditors' (NALGA) external quality control report issued on the Office of the City Auditor of Tallahassee. The review addressed audits issued during the period October 1, 2002, through September 30, 2005. We are pleased that the review team concluded that the system of quality control for audits issued during the period was working effectively and that audits and procedures performed by the Office of the City Auditor complied with Government Auditing Standards issued by the Comptroller General of the United States and the Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors.

In addition to your opinion report, the review team issued a separate letter report indicating strengths in our quality control review system and areas for further improvements. We are pleased that you identified six areas where our office excels. I am especially pleased that the review team complimented the office for having highly qualified and experienced staff, and for recognizing that our office serves as a significant component of the City's governance process. The NALGA team also noted areas where we can enhance our compliance with issued standards. We welcome your constructive suggestions.

I am especially appreciative for NALGA's willingness to accommodate our desire to demonstrate that our work complied with both Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing. As the first local government audit organization to be review by NALGA for compliance with both sets of standards, we would like to thank the NALGA Peer Review Committee for developing the additional IIA quality control review guides and the three members of the NALGA Quality Control Review Committee that agreed to conduct our review.

CITY HALL  
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JOHN R. MARKS, III  
Mayor

ANITA R. FAVORS  
City Manager

ANDREW D. GILLUM  
Mayor Pro Tem

JAMES R. ENGLISH  
City Attorney

ALLAN J. KATZ  
Commissioner

GARY HERNDON  
City Treasurer-Clerk

DEBBIE LIGHTSEY  
Commissioner

SAM M. McCALL  
City Auditor

MARK MUSTIAN  
Commissioner

I am responding to the review team suggestions as follows:

**Review Policy 104 and recommend changes to the City Commission to ensure that Policy 104 is consistent with the current nature, objective, and scope of the office's audit activities.**

*The need to update Policy 104 was discussed at the January 2006 Audit Committee meeting with the understanding that suggested changes would be presented to the Audit Committee at its next quarterly meeting. It is our intent to update the policy to take into consideration Standards revisions (many of which are already incorporated into our separate Audit Process Guide [APG]) and to suggest additional changes recognized as best practices in the profession.*

**Develop a procedure to fully reflect how to handle requests for nonaudit services.**

*Our current APG makes specific reference to Government Auditing Standards relating to independence safeguards and overarching principles and the relationship to performing nonaudit services. To further address the issue, we will specifically expand on that discussion in our APG.*

**Develop a process to define engagements as assurance and/or consulting services and follow the (IIA) standards appropriate for those engagements.**

*We conduct our work under the Government Auditing Standards umbrella of performance auditing that includes elements of both assurance and consulting services. We will review our APG to ensure that we follow the overall intent of the IIA Standards when conducting assurance and consulting work for the same engagement.*

**Review and revise the office policies and procedures manual (APG) to better incorporate compliance with IIA Standards.**

*We agree and will revise our APG accordingly.*

**Procedure for consistently evaluating risk to the degree required by IIA Standards should be developed and consistently applied (documented) in all engagements.**

*Government Auditing Standards seem to place emphasis on documenting the internal control structure and risk is one of five elements of that structure. By comparison, the IIA Standards seem to place more emphasis on documenting risk as the driver for audit engagements. It is our intent to move to electronic working papers and audit software under consideration closely follows the IIA*



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*risk model. We believe the software will assist us in implementing and documenting risk analysis in a consistent manner.*

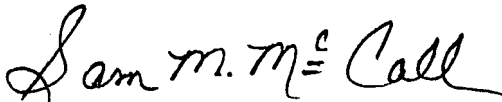
**Develop a process to document approval of work programs and adjustments prior to their implementation.**

*We will add a checklist step in our APG to provide written documentation of this approval.*

A review of several of the above suggestions indicates a need to further address the IIA Standards in our APG. We agree. Our current APG focuses on Government Auditing Standards and we modified our APG to incorporate the IIA Standards. In most instances, we found that the Standards of the two organizations are very compatible.

With assurance by the review team that our work complies with both Government and IIA Standards, we intend to further enhance our APG and to perform a broad scope of work that is viewed by our government and citizens as essential to the proper functioning of City controls and operations.

Sincerely,



Sam M. McCall  
City Auditor

Copy: Drew Harmon, CPA, CIA  
Theresa McGrady, CPA, CIA, CISA  
Mayor and City Commission  
City Audit Committee