



External Quality Control Review

of the
Audit Services Division
Office of the City Auditor
Portland, Oregon

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

for the period
July 1, 1999 – June 30, 2002



National Association of Local Government Auditors

June 20, 2002

Richard Tracy, Audit Services Director
Office of the City Auditor
Portland, Oregon

Dear Mr. Tracy:

We have completed an external quality control review of the City of Portland's Audit Services Division for audits issued during the period July 1, 1999, through June 30, 2002. In conducting our review, we followed the standards and guidelines contained in the N.A.L.G.A. *Quality Control Review Guide* published in May 1995, by the National Association of Local Government Auditors.

As prescribed by the N.A.L.G.A. *Guide*, we reviewed your audit organization's internal quality control system and tested a sample of your office's reports for compliance with government auditing standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the City of Portland's Audit Services Division was in compliance with with government auditing standards during the period July 1, 1999, through June 30, 2002. We have prepared a separate letter to management offering suggestions for further strengthening your internal quality controls.

Amanda Noble
Kansas City, MO

Harriet Richardson
King County, WA

cc: Gary Blackmer, City Auditor



National Association of Local Government Auditors

June 20, 2002

Richard Tracy, Audit Services Director
Office of the City Auditor
Portland, Oregon

Dear Mr. Tracy:

We have completed an external quality control review of the City of Portland's Audit Services Division for audits issued during the period July 1, 1999, through June 30, 2002. We have issued a report stating our opinion that your organization complied with government auditing standards over the review period. We are issuing this companion letter to provide additional observations about your organization's work and offer a few suggestions to further strengthen your system of internal quality controls.

We noted a number of areas in which your organization excels:

Staff Qualifications. Your organization has succeeded in attracting and retaining highly qualified, experienced staff members.

Reports. Your reports are well written, using direct language to address complex topics. The format is reader-friendly, with good use of summaries and graphics to illustrate main points. The uniformly high quality of your reports undoubtedly contributes to your organization's success and positive impact on city government.

Planning. Your survey memoranda are effective at highlighting the issues to focus on during fieldwork, and often address the causes underlying the concerns that spurred the audit. The comprehensive audit plan effectively combines planning and project management.

Quality Control System. Your independent review process is thorough and designed to ensure accuracy. We noted a number of instances where the process improved the accuracy of reports and their overall quality.

We offer a few suggestions to more effectively use existing controls. Because the independent review is such an important part of your quality control system and helps shape the overall report, we suggest you consider having the independent reviewer sign the independence statement to document their independence. We also suggest you add a section to your policies and procedures on the role of the independent reviewer, similar to the existing language describing the role of the Audit Director and Auditor In-Charge. You've told us that to some extent you delegate

supervisory authority to the independent reviewer. More fully describing their role in the policies and procedures would better document your existing practice.

We identified one instance during the review period where an audit was terminated prior to completion. Government auditing standards and your procedures require informing the auditee and preparing a memorandum summarizing the results of work performed and the reason the audit was terminated. This procedure was followed in the report we reviewed. However, the project was reclassified as a non-audit and some of the documents, such as the supervisory log, were removed from the files. If you believe that audits are terminated often enough to warrant additional guidance, we suggest you consider expanding your policies and procedures to identify decision points when an audit could be terminated and what should be retained in the files.

Finally, you asked us to provide our observations regarding the degree to which your non-audit work could be considered as audits. Based on our review of six non-audit reports, we believe that most, if not all, could appropriately be considered audits of limited scope. While your procedures state that you follow general standards for non-audit work, we also found evidence of planning, supervision and quality assurance to varying degrees in the report documentation. While not conducted as audits, the work would fully comply with government auditing standards with a little more documentation. The reports clearly described the scope of work and limits in how results should be interpreted.

Government auditing standards currently provide little guidance on conducting non-audit work. As the term performance audit has evolved, government auditors need to consider what distinguishes audit from non-audit work and what standards should apply. In the meantime, we suggest that you consider how to interpret the general standards on due professional care and internal quality control with regard to non-audit projects. It may be appropriate to establish criteria to decide whether a non-audit project should undergo internal review.

We appreciate the hospitality of you and your staff.



Amanda Noble
Kansas City, MO



Harriet Richardson
King County, WA

cc: Gary Blackmer, City Auditor



CITY OF
PORTLAND, OREGON

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Audit Services Division

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June 20, 2002

Amanda Noble
Peer Review Team Leader
Kansas City Auditor's Office
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414 East 12th Street
Kansas City, MO 64106-2705

Dear Ms. Noble:

I have reviewed your report dated June 20, 2002, containing the results of your external quality control review of Portland's Audit Services Division. I am pleased that our office was once again found to conduct its audit work in full compliance with *Government Auditing Standards*. I also appreciate your remarks about areas in which our office excels, including the qualifications of our staff, the quality of our written reports, the effectiveness of our audit planning procedures, and the thoroughness of our quality control system.

I also appreciate your suggestions for strengthening some of our existing controls. We will add provisions in our policies and procedures manual to address the role and independence of the independent reviewer, procedures for audit staff to follow when a formal audit engagement is terminated, and clarification on the distinction between audits and non-audits.

Finally, I want to personally thank you and Harriet Richardson for the professional manner in which you conducted your review. I appreciate your willingness to take time away from your individual offices and homes. I will share your report with City Auditor, Gary Blackmer, and our City Council, and make it available to the media and the public.

Sincerely,



Richard Tracy,
Director of Audits