



Peer Review Team

November 6, 2008

City of Seattle Auditor's Office
Ms. Susan Cohen, City Auditor
P.O. Box 94729
Seattle, Washington 98124-4729

Dear Auditor Cohen:

The peer review team has completed the peer review audit of the City of Seattle's Auditor's Office for the period of January 1, 2006 to August 1, 2008. In conducting the review, the peer review team followed the guidelines contained in the WSLGAA Peer Review Roles and Responsibilities provided by the Washington State Local Government Auditors Association (WSLGAA).

The team reviewed the internal quality control system of the City of Seattle's Auditor's Office and conducted tests in order to determine if the office's internal quality control system operated to provide reasonable assurance of compliance with the 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 the peer review teams' opinion that the City of Seattle's Auditor's Office internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the Government Auditing Standards for audit engagements during the January 1, 2006 – August 1, 2008 review period.

It should also be noted that during the period of review the City of Seattle's Auditor's Office has been nationally recognized by the Association of Local Government Auditor's for the Quality of their work. The City of Seattle Auditor's Office received the 2007 Knighton Award – Silver, for the Seattle Indigent Public Defense Services Audit. The awards committee found the audit innovative in its approach and persuasive in its recommendations.

Additional details of the peer review are contained in the detailed report which is enclosed.

Sincerely,

Handwritten signature of Gwen Fuller-Vernier in black ink.

Gwen Fuller-Vernier, CPA, MBA
Spokane City Auditor
City of Spokane

Handwritten signature of Mark Fleming in black ink.

Mark Fleming
Research Analyst
JLARC

Handwritten signature of Gary Nystul in black ink.

Gary Nystul, CPA
City Auditor
City of Bremerton



PEER REVIEW REPORT FOR CITY OF SEATTLE AUDITOR'S OFFICE



11/6/2008



This is an external peer review of the Office of City Auditor for the City of Seattle. We found the organization to embrace excellence in its people and work products.

Peer Review Report for City of Seattle Auditor's Office

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BACKGROUND

According to the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, periodic peer reviews are a review of the quality of the audits produced by the audit organization and the competence of its professional staff. This review was designed to assess whether or not, during the period of review, the reviewed audit organization's internal quality control systems were adequate. Additionally, this assessment was made to determine if quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conformance to applicable professional standards.

The City of Seattle's Auditor's Office requested this periodic peer review in order to assess the degree to which the Office of City Auditor adhered to the standards set forth by the Government Accountability Office. This periodic peer review was conducted by a team of three auditors approved by the Washington State Local Government Auditor's Association Peer Review Oversight Committee and each has backgrounds in local government auditing and audit experience specific to the State of Washington.

METHODOLOGY

The three individuals who composed the peer review audit team based their assessment on review work performed both on and off-site as well as through personal observations made during individual onsite visits to gather and perform work between September 3 and November 6, 2008. During the review period, the peer review audit team was given full access to staff, working papers, supporting documentation, and relevant reports.

This review addressed general standards and the review of individual audit engagement documentation for a broad selection of audit activities performed by a cross section of auditors over the period of the review. Questions were compiled from the Association of Local Governments Auditors' quality control review guidelines and the Washington State Local Government Audit Associations Roles and Responsibilities.

Each peer review team member prepared for their individual site visits by reviewing the audit entity's background information, policies and procedures manual, annual report for the review period, and quality control description. Additionally, each team member took responsibility for a set of reports selected for review by working with the Peer Review Liaison to obtain copies of the reports and any supporting documentation. Each peer review team member then reviewed the selected reports and supporting work papers, and, during their onsite visit, interviewed City of Seattle Auditor's Office staff who worked on the selected audit.

The entire peer review team met collectively after the individual site visits to discuss their respective examinations of the organization's internal control structure, quality control system, and the sample of the work that was selected for compliance with Government Auditing Standards. The team assessed the overall level of compliance and developed recommendations.

The review team then provided audit management with a briefing of final conclusions during the exit conference held November 6, 2008 at the City of Seattle Auditor's Office. The exit conference provided

reviewers an opportunity to share feedback and informal comments with participants (which included all staff).

OVERVIEW

In our opinion, the Office's quality review process was designed and employed effectively during the period reviewed. Consequently, we provide reasonable assurance that the Office was in conformance with applicable standards for quality assurance, report quality, and staff competency as defined in the United States Government Auditing Standards issued by the Comptroller General of the United States, during the period reviewed. We found overall report quality to be high and the staff to be competent.

It should also be noted that during the period of review the City of Seattle's Auditor's Office was nationally recognized by the Association of Local Government Auditors for the Quality of their work. The City of Seattle Auditor's Office received the 2007 Knighton Award – Silver, for the Seattle Indigent Public Defense Services Audit. The awards committee found the audit innovative in its approach and persuasive in its recommendations.

STRENGTHS

During the course of the Peer Review Audit the following strengths were noted:

- ✓ The writing and editing in the audit reports was consistently clear, concise, and of extremely high quality. Some audit reports also had a "Report Highlights" issued in addition to the report to summarize the key issues contained within the full report. The peer review team found these "Highlights" to be effective snapshots to communicate key information.
- ✓ Work papers reviewed consistently included evidence and documentation supporting the audit and study objectives. Cross-referencing was complete and clear. The reports selected for review met the reviewer's tests of completeness, accuracy, reliability, and sufficiency.
- ✓ Professionalism of staff was apparent in their interactions with the peer review team and within and amongst themselves during the site visits. Individuals within the Auditor's Office appeared skilled and competent.
- ✓ The individuals within the Auditor's Office work well together. There is open communication and regular collaboration as well as mutual respect for each other. Their effective teamwork was witnessed by the peer review team on their respective site visits and all were impressed by the energy, creativity, and the synergistic high quality work products that have resulted.

OPPORTUNITY

During the course of the Peer Review Audit the following opportunity was noted:

- ✓ Seattle City Council might wish to consider creating an independent audit committee to help guide and support the work of the City Auditor. The implementation of an independent audit committee might engender greater support and provide additional transparency without impinging on the office's independence. Because the government auditor's role is to provide unbiased and accurate information on the use of public resources, auditors must be able to conduct and report on their work without interference and without the appearance of interference. One best practice option utilized by Denver that could be considered is a model where the Independent Audit Committee is at the charter level and independent from operational management. The audit committee consists of seven members chaired by the City Auditor. The Council, Mayor and Auditor each appoint two members. Creation of such a committee would truly make the City Auditor an independent agent of City government and further insulate the position from political pressures and influences while still providing additional transparency and support mechanisms. The Association of Local Government Auditors may be a resource for other models which Seattle may also wish to consider.

REVIEW OF AUDIT ENGAGEMENT DOCUMENTATION

The following section contains two sub-sections. One related to ALGA General Standards and the second which is related to ALGA Performance Standards. For each category the Office of City Auditor's performance the Peer Review Team made a determination regarding the City of Seattle Auditor's Office performance and/or compliance.

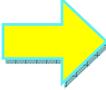
GENERAL STANDARDS

The following table contains a brief description of the general standard for each of the following categories: Independence, Professional Judgment, Competence, and Quality Control as well as a dashboard rating (green upwards arrow, yellow sideways arrow, or red a downward arrow), and comments from the peer review team. Due to variances in performance and judgment, green and yellow ratings do not imply adherence to standards in every case, but they imply adherence in general.

TABLE 1: LEGEND FOR GENERAL STANDARDS DASHBOARD

satisfactory performance	some improvement needed	serious problems
		

TABLE 2: GENERAL STANDARDS

GENERAL STANDARDS	DASHBOARD	PEER REVIEW TEAM'S COMMENTS
INDEPENDENCE		
<p>1. Audit organization must in fact and appearance be independent. Have Policies & Procedures to identify report and resolve personal impairments. Communicate Policies & Procedures to staff, monitor compliance, and maintain documentation. (GAS 3.02-3.09)</p>		<p>Seattle's City Council has taken steps to maintain the independence of the Office of City Auditor's.</p> <p>The Office of the City Auditor has a Policies and Procedures Manual (last updated January 2008) which clearly communicates requirements.</p>
<p>2. Be free from external impairments. Have Policies & Procedures for resolving and reporting external impairments. (GAS 3.10-3.11)</p>		<p>Upon joining the office, staff members sign a document attesting they have read, understand, and will adhere to the ethical responsibilities of the Office of the City Auditor.</p>
<p>3. Be free from organizational impairments. (GAS 3.12):</p> <p><u>External audit organizations</u>, through appropriate reporting or organizational structure (GAS 3.13-3.14) or through other statutory safeguards. (GAS 3.15)</p> <p><u>Internal audit functions</u>, by meeting all required criteria (GAS 3.16) reporting regularly (GAS 3.17) and documenting conditions allowing organizational independence. (GAS 3.19)</p>		<p>The principles of transparency and accountability for the use of public resources are critical to governing processes and credibility. Current trends and longer-range fiscal challenges make oversight especially important. The City of Seattle may want to consider the establishment of an Independent Audit Committee.</p>

4. Policies & Procedures to evaluate whether the provision of nonaudit services impairs independence, report impairments, determine type of nonaudit service, and application of safeguards, when required. (GAS 1.33, 1.34, 3.20-3.30)



At the beginning of each audit engagement, the auditors must read and sign a form known as the Independence Statement. This form is then reviewed and signed by the City Auditor.

PROFESSIONAL JUDGMENT

5. Use professional judgment in planning and performing audits and attestation engagements and in reporting the results. (GAS 3.31, 3.38)



Resolution Number: 31030, adopted January 22, 2008, established goals for the overall work plan and establish a process to be used to continually update the work program.

COMPETENCE

6. Staff assigned possess adequate professional competence. Assess skill needs. (GAS 3.40)



During interviews with staff it was clear that individual staff members are competent and they work together well as a team.

7. Process for recruitment, hiring, continuous development, assignment, and evaluation of staff. (GAS 3.41)



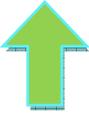
Professional Judgment is used to determine the type of staff to recruit and hire. Continuous development is required but also appears to be part of the culture. Staff members are evaluated annually.

8. Staff assigned to conduct audit or attestation engagement must collectively possess the technical knowledge, skills, and experience necessary. (GAS 3.43)



Individual staff members appeared to be of the highest caliber and were viewed as well rounded professionals.

Collectively it is evident they work as a team for the best possible outcomes and they are supportive of each other.

<p>9. Auditors performing financial audits or attestation engagements are knowledgeable in the relevant principles and standards (e.g. GAAP, SAS, SSAE, etc.) (GAS 3.44-3.45)</p>	<p>Not Applicable for Review Period</p>	<p>Financial Audits and/ Attest engagements are performed annually by the State Auditor's Office under statutory authority. During the period reviewed the Office of City Auditor did not perform any Financial Audits or Attest engagements.</p>
<p>10. Auditors should complete, every 2 years, at least 80 hours of CPE, of which 24 hours directly relate to government auditing. (GAS 3.46)</p>		<p>During the time period review the Office of the City Auditor had a professional staff of nine FTE Auditors who were all current on CPE requirements.</p>
<p>11. Audit organization has quality control procedures to help ensure that auditors meet CPE requirements. (GAS 3.48)</p>		<p>Audit Staff who worked on GAS audits complied with continuing professional education requirements and their training hours are appropriately documented.</p>
<p>12. External specialists assisting in performing a GAGAS assignment are qualified. (GAS 3.49)</p>		<p>Per policy this is the responsibility of the City Auditor to determine need and qualifications.</p>
<p>QUALITY CONTROL</p>		
<p>13. Document and communicate quality control policies and procedures. (GAS 3.52-3.53)</p>		<p>The Master Job Checklist is a comprehensive tool used consistently by staff and monitored closely by managers and supervisors.</p>
<p>14. Analyze and summarize the results of its monitoring procedures at least annually. (GAS 3.54)</p>		<p>They analyze and summarize the results annually in response to a recommendation made in a contracted performance review dated 12-13-05.</p>
<p>15. Have external peer review every three years. (GAS 3.50, 3.55, 3.56)</p>		<p>The last peer review report was dated 12-13-05.</p>
<p>16. Make most recent peer review report publicly available. (GAS 3.61)</p>		<p>Peer reviews are made available to the public by request.</p>

PERFORMANCE STANDARDS

The following table contains a brief description of the performance standard for each of the following categories: Planning, Supervision, Evidence, Documentation, and Reporting. Each standard is certified as meets or does not meet with comments from the peer review team to provide additional information.

TABLE 3: PERFORMANCE STANDARDS

PERFORMANCE STANDARDS	MEETS OR DOESN'T MEET	PEER REVIEW TEAM'S COMMENTS
PLANNING		
17. Plan and document work necessary to define audit objectives, scope and methodology such that work provides reasonable assurance that sufficient, appropriate evidence supports conclusions. (GAS 7.06-7.10)	MEETS	<p>A Master Job Checklist is used extensively to plan and manage the Audits.</p> <p>The work reviewed demonstrated both research and extensive analysis that was well documented.</p>
18. To the extent relevant to the audit objectives, planning allows auditors to understand and assess risks related to the: <ul style="list-style-type: none"> • Nature of the program and needs of potential users (GAS 7.11 a; 7.13) • Design and implementation of internal controls (GAS 7.11 b; 7.16) • Design and implementation of information system controls (GAS 7.11 c; 7.24; 7.27) • Legal and regulatory requirements, contract provisions and/or grant agreements (GAS 7.11 d; 7.28) • Potential for fraud and abuse (GAS 7.11 d; 7.30) • Results of previous audits (GAS 7.11 e; 7.36) 	MEETS	<p>Policies and procedures state that staff must perform adequate planning to ensure meaningful audit objectives and sufficient evidence is gathered to decrease audit risk.</p> <p>This was verified in the reports that were reviewed. Risk assessments were extensive, and the research and analysis was well documented.</p>

<p>19. To the extent relevant to the audit objectives, planning allows auditors to identify potential criteria and sources of evidence, and evaluate whether to use the work of other auditors or experts. (GAS 7.12 a-c; 7.37; 7.39; 7.41)</p>	<p>MEETS</p>	<p>The Office's policy and the Master Job Checklist specifies during an audit's design phase reviewing certain information that could serve as criteria.</p> <p>The Master Job Checklist has five steps which address obtaining background information on the issue being audited.</p>
<p>20. Determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. Evaluate whether internal control or other program weaknesses are the cause when auditors conclude that sufficient, appropriate evidence is not available. (GAS 7.40)</p>	<p>MEETS</p>	<p>The Office's Policies and Procedures and the Master Job Checklist ensure adequate evidence is obtained in the phases of Job Design, Data Gathering, and Analysis.</p>
<p>21. Extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred; don't interfere with legal proceedings or investigations. (GAS 7.32; 7.34-35)</p>	<p>MEETS</p>	<p>As per the Office's policies it appeared that all auditors understood the potential for fraud and abuse. Procedures are identified in the Master Job Checklist and supervisors are consulted immediately with any concerns.</p>
<p>22. Assign sufficient number of appropriately skilled staff. Engage specialists when necessary. (GAS 7.12d; 7.44-45)</p>	<p>MEETS</p>	<p>All auditors in the Office are very experienced. Team assignments are made as part of the Audit Job Design phase.</p>
<p>23. Communicate planned testing and reporting to management, those charged with governance and requestors. Document communications. Follow appropriate requirements if audit is terminated before completed. (GAS 7.12e; 7.46-49)</p>	<p>MEETS</p>	<p>Policies address communication in the phases of the process.</p> <p>The Go/ No Go Decision (which is part of the Master Job Checklist) guides the documentation and early termination of audit work.</p>
<p>24. Prepare and update a written audit plan. (GAS 7.12f; 7.50)</p>	<p>MEETS</p>	<p>Verified in Audits reviewed.</p>

SUPERVISION

<p>25. Properly supervise staff. Review work performed and document review of work before issuing the audit report. (GAS 7.52-7.80c)</p>	<p>MEETS</p>	<p>Documented in the Audits Master Job Checklist but also occurs via email. Interviews with staff indicated requirements and expectations were clear for supervision.</p>
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EVIDENCE

<p>26. Obtain sufficient, appropriate evidence to provide reasonable basis for findings and conclusions. Document assessment that evidence taken as a whole is sufficient and appropriate for addressing audit objectives and supporting findings and conclusions. Apply additional procedures, redefine the audit objectives, or revise the findings and conclusions if necessary based on the assessment. (GAS 7.55-57; 7.68; 7.70-71)</p>	<p>MEETS</p>	<p>Policy and Procedures outline what the audit team is to consider in order to ensure adequate evidence is obtained.</p> <p>Based on the Audits reviewed in each case sufficient, appropriate evidence was gathered to persuade a knowledgeable person the findings were reasonable.</p>
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DOCUMENTATION

<p>27. Prepare and maintain audit documentation related to planning, conducting, and reporting on the audit to support findings, conclusions and recommendations before issuing the report. (GAS 7.77-7.80)</p>	<p>MEETS</p>	<p>The office's Master Job Checklist guides the procedural steps of the audit team members which are then reviewed by a supervisor.</p>
<p>28. Document departures from GAS requirements and the impact on the audit and auditors' conclusions. (GAS 7.81)</p>	<p>MEETS</p>	<p>Documented according to Policy and explained as part of the audit report's scope and methodology.</p>
<p>29. Establish policies and procedures for custody, retention, retrieval and sharing of audit documentation. (GAS 7.82-84)</p>	<p>MEETS</p>	<p>Records retention schedule is approved by the Washington State Secretary of State. Internal records storage policies are in place.</p>

REPORTING

<p>30. Issue audit report. Make the report available to the public, as allowable under applicable public records laws. (GAS 8.03-8.06)</p>	<p>MEETS</p>	<p>Reports are published and available on the Seattle Auditor's Office web site. Additionally "Report Summaries" are also available.</p>
<p>31. Clearly describe in an unbiased manner the objectives, scope, and methodology, as well as other report requirements. (GAS 8.08-8.13)</p>	<p>MEETS</p>	<p>Policy and Procedures, Supervisory Review, and the Master Job Checklist insure all elements of this standard are met.</p>
<p>32. Present sufficient, appropriate evidence to support the findings and conclusions in relation to audit objectives. (GAS 8.07-8.08, 8.14-8.18)</p>	<p>MEETS</p>	<p>Confirmed in the published reports reviewed that there was sufficient evidence documented in the Master Job Check List and work papers.</p>
<p>33. Report scope of work on internal controls and any significant deficiencies found. Refer to separate written communication to officials in audit report. (GAS 8.19-8.20)</p>	<p>MEETS</p>	<p>Required of Auditor's per policy manual when relevant to the audit objectives. All audit reports selected examined some type of internal control.</p>
<p>34. Report likely fraud, illegal acts, significant violations of contracts or grant agreements, or significant abuse. (GAS 8.21-8.23)</p>	<p>MEETS</p>	<p>Reported as a finding per policy if it does not interfere with an investigation or legal proceedings.</p>
<p>35. Report known or likely fraud, illegal acts, violations of contracts or grant agreements, or abuse to any appropriate outside parties. (GAS 8.24-8.26)</p>	<p>MEETS</p>	<p>Implemented in Audits as part of the Master Job Checklist and addressed in the Office's Policies and Procedures Manual.</p>
<p>36. Report conclusions based on objectives and findings. (GAS 8.27)</p>	<p>MEETS</p>	<p>Reviewed published reports indicate compliance with this standard.</p>

<p>37. Recommend actions to correct identified problems and to improve programs and operations. (GAS 8.28- 8.29)</p>	<p>MEETS</p>	<p>Confirmed in the published reports reviewed.</p>
<p>38. Cite compliance with GAGAS in report when all applicable requirements are followed, disclose when not followed. (GAS 8.08, 8.30-8.31)</p>	<p>MEETS</p>	<p>Implemented in Audits as part of the Master Job Checklist and addressed in the Office's Policies and Procedures Manual.</p>
<p>39. Include a copy of written comments from responsible officials or a summary of written or oral comments. (GAS 8.08, 8.32-8.37)</p>	<p>MEETS</p>	<p>Written comments are included as an appendix of the report according to policy.</p>
<p>40. If information is prohibited from public disclosure or excluded from the report due to its confidential or sensitive nature, disclose that certain information has been omitted and the reason for its omission. (GAS 8.08, 8.38-8.42)</p>	<p>MEETS</p>	<p>Limited distribution may occur but is limited to items covered by the Public Records Act, technology security, or personnel items. Determinations of which individuals they are distributed to is the responsibility of the City Auditor.</p>
<p>41. Submit report to those charged with governance, appropriate officials, and appropriate oversight bodies; document any limitation on report distribution. (GAS 8.43)</p>	<p>MEETS</p>	<p>Reports receive wide distribution both internally and externally including being posted on national audit websites.</p>

CONCLUSION

The peer review team has completed the peer review audit of the City of Seattle's Auditor's Office for the period of January 1, 2006 to August 1, 2008. In conducting the review, the peer review team followed guidelines provided by Washington State Local Government Auditors Association (WSLGAA) in the *WSLGAA Peer Review Roles and Responsibilities* document.

The team reviewed the internal quality control system of the City of Seattle's Auditor's Office and conducted tests in order to determine if the office's internal quality control system operated to provide reasonable assurance of compliance with the *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.

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