OFFICE OF THE
CITY AUDITOR
ENSURING OPEN AND ACCOUNTABLE GOVERNMENT

CITY OF PORTLAND

Office of City Auditor LaVonne Griffin-Valade

Audit Services Division
Drummond Kahn, Director
1221 S.W. 4th Avenue, Room 310, Portland, Oregon 97204
phone: (503) 823-4005
web: www.portlandoregon.gov/auditor/auditservices

September 9, 2011

Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman

Dear Mayor and Commissioners:

The City Auditor's Office is proud to follow national standards for government auditing. The standards provide assurances to the public that the office conducts its work professionally. The attached letter and report contain the results of our most recent "external quality control review," also known as a "peer review." This month, a team of government auditors from three other jurisdictions came to our office for one week, reviewed our reports and working papers and interviewed our staff. This peer review was coordinated through the Association of Local Government Auditors, which assigned government auditing professionals from the governments of Austin (TX), Palo Alto (CA), and Seattle (WA). The peer review team found that our office fully complies with Generally Accepted Government Auditing Standards. Their review period was from July 1, 2008 through June 30, 2011.

Government audit offices nationwide – and at the federal, state, and local level – are required by these standards to maintain systems of internal quality control and to have an external quality review once every three years. Successful completion of reviews like this one allow our office to state in each of our reports that we conducted our work in accordance with generally accepted government auditing standards. Each report meets the requirements for issues like auditor independence, due care, professional education, fieldwork, and audit reporting.

Please contact me if you have any questions about the peer review process or our office. While we always look for ways to further improve, we are pleased to have our office's professionalism confirmed by other auditors.

L. Griffin-Valade

LaVonne Griffin-Valade
City Auditor

Attachments

External Quality Control Review

of the

Audit Services Division
Office of the City Auditor
Portland, Oregon

Conducted in accordance with guidelines of the

Association of Local Government Auditors

for the period July 2008 through June 2011

Association of Local Government Auditors

September 9, 2011

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Audit Services Director
Office of the City Auditor
Portland, Oregon

Dear Ms. Griffin-Valade and Mr. Kahn,

We have completed a peer review of the City of Portland's Audit Services Division for the period July 2008 through June 2011. 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 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 City of Portland's Audit Service Division'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 July 2008 through June 2011.

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

Corrie Stokes
City of Austin, TX

Mary Denzel
City of Seattle, WA

Ian Hagerman
City of Palo Alto, CA

449 Lewis Hargett Circle, Suite 290, Lexington, KY 40503, Phone: (859) 276-0686, Fax: (859) 278-0507

Association of Local Government Auditors

September 9, 2011

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Audit Services Director
Office of the City Auditor
Portland, Oregon

Dear Ms. Griffin-Valade and Mr. Kahn,

We have completed a peer review of the City of Portland's Audit Services Division for the period July 2008 through June 2011 and issued our report thereon dated September 9, 2011. 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:

- An extensive process for review of evidence supporting the report to ensure compliance with *Standards;*
- An exceedingly qualified and professional staff; and
- Development of high impact, high quality audit reports.

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

- Standards 3.53f and 3.54 require an ongoing, periodic assessment of work completed on audits designed to provide assurance that policies and procedures are suitably designed and operating effectively in practice. Further, the audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. Your office prepared an annual memo summarizing your quality control system, but could better demonstrate that the system is operating effectively in practice. We suggest that you consider incorporating a periodic sample of engagements for compliance with policies and standards into your annual monitoring procedures.
- Standards 7.11 (which refers to standards 7.16-7.36) requires that auditors assess audit risk and significance within the context of the audit objectives by gaining an understanding of (among other things), internal control, information systems

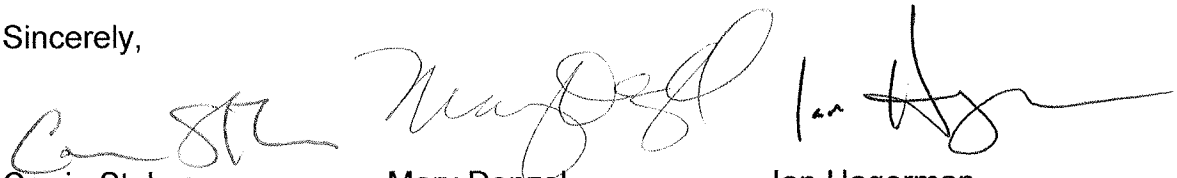
controls, and potential fraud or abuse. In reviewing the Division's work papers, we observed that for several audits it was difficult to determine what steps were taken to assess risks related to these specific areas. We suggest that you better document consideration of risk areas, even when the consideration is that the risk is not relevant within the context of the audit objectives.

- Standard 7.68 requires that "...Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence." In our review of the Division's work papers, we observed a strong system for reviewing reports to ensure evidence meets standards, but did not see documentation of an overall assessment of the collective evidence. Based on discussions with you and your staff, we suggest that you clarify your policies and procedures to clarify how your practices achieve an overall assessment of evidence.

- Standard 7.77 requires that auditors "prepare audit documentation in sufficient detail to enable an experienced auditor...to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached..." In reviewing the Division's work papers, we noted that several key work papers did not include work paper elements such as purpose, source, and conclusion. We suggest that you provide additional guidance regarding inclusion of these elements and consider changes to make your policy manual more flexible regarding requirements for documenting elements.

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

Sincerely,



Corrie Stokes
City of Austin, TX

Mary Denzel
City of Seattle, WA

Ian Hagerman
City of Palo Alto, CA

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September 9, 2011

Corrie Stokes
Peer Review Team Leader
Office of the City Auditor
PO Box 1088
Austin, Texas 78756

Dear Ms. Stokes:

We have reviewed your report of September 9, 2011 containing the results of your external quality control review of the City of Portland Audit Services Division, Office of the City Auditor. We are pleased that once again, an independent peer review team found that our office conducts our work in full compliance with generally accepted government auditing standards.

We appreciate your thoughtful comments about the areas where you found our office to excel, including our extensive evidence review process, our qualified and professional staff, and our development of high impact and high quality audit reports.

We also appreciate your additional observations and suggestions to further enhance our operations, including demonstrating our review system's effectiveness, documenting risk consideration, documenting our processes to assess evidence, and ensuring that our guidance and policies align for our working paper reviews. We will remain attentive to these issues as we conduct our audit work.

We would also like to extend our personal thanks to you and to Mary Denzel from the Office of the Seattle City Auditor, and Ian Hagerman from the City Auditor's Office in Palo Alto, California. We appreciate your participation in the peer review process and taking the time to visit our office and to review our operations. We will share your report with our Mayor and City Council, and make it available to the media and the public.

Sincerely,

L. Griffin-Valade

LaVonne Griffin-Valade
City Auditor

Drummond E. Kahn
Director of Audit Services