



# *National Association of Local Government Auditors*

July 13, 2006

Mike Clark, CPA  
Director of Internal Audit  
City and County of Denver  
Office of the Auditor  
201 West Colfax Ave., Dept 705  
Denver, Colorado 80202

Dear Mr. Clark,

We have completed a peer review of the City and County of Denver Internal Audit Division for the period May 1, 2003 through April 30, 2006. 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 (N.A.L.G.A.).

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 Denver City and County Internal Audit Division 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 of May 1, 2003 through April 30, 2006.

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

We note a critical weakness in the lack of formal, authoritative enabling legislation for the Internal Audit Division as noted in your 2003 peer review. We recognize that you have pursued the legislation since the last peer review. Current contractual terms and working relationships appear to provide adequate support for the work of the Internal Audit Division, however we strongly encourage you to continue to pursue formalizing these important protections, through either modifications to the City Charter or additions to the City Code. The Internal Audit Division has made progress since the last peer review through increased exposure to the City's audit committee. Key elements for an effective independent audit function (as identified by NALGA Model Legislation) include the following:

1. Requirement for a written report of audit results and recommendations.
2. Assurance of full, free, and unrestricted access to local government employees, officials, records, vendor contracts, and reports.
3. Ensure that all contracts contain a right to audit provision.
4. Existence of an audit committee for review of the auditor's work.
5. Assign the auditor responsibility to coordinate and monitor all audits and audit related services including the services provided by public accountants.
6. Compensating controls that balance the influence of partisan politics on the selection and operation of the audit function.
7. Requirement for managers to respond in writing to audit recommendations.


8. Requirement for follow-up on significant findings and recommendations from previous audits.
9. Requirement for periodic quality assurance reviews of the audit function.

Government auditing standards and the Internal Audit Division policies and procedures may not be sufficient to obligate the City and County of Denver and its agents to provide full and free access to staff, records, and other information, or to respond promptly to audit recommendations.

We appreciate the assistance and full cooperation of all the staff of the Internal Audit Division during this Quality Assurance Review.



Sue Polys  
City Auditor's Office  
Kansas City, MO



Cristina Preciado  
City Auditor Department  
Phoenix, AZ



John Turner  
City Auditor's Office  
Oklahoma City, OK



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July 13, 2006

Mike Clark, CPA  
Director of Internal Audit  
City and County of Denver  
Office of the Auditor  
201 West Colfax Ave., Dept 705  
Denver, Colorado 80202

Dear Mr. Clark:

We have completed a peer review of the City and County of Denver Internal Audit Division for the period May 1, 2003 through April 30, 2006 and issued our report thereon dated July 13, 2006. 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 organization of workpapers was commendable. The use of forms and checklists ensured the quality of the work performed by the division.
- The thoroughness of workpapers improved over the three-year span that we reviewed.
- The Policies and Procedures Manual appeared thorough and well organized.
- The Division uses a risk assessment in the development of its audit plan. Publishing this assessment and the audit plan provide transparency to the Internal Audit Division's work.
- The Division continues to play a significant role in providing accountability and improvements in city operations even though it is not formally recognized under city charter and city code.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to government auditing standards:

Documentation of sufficient, competent, and relevant evidence supporting the auditor's reliance on computer-processed data was lacking. While the Internal Audit Division's policies and procedures address the need to assess the reliability of computer-processed data, the work papers we reviewed did not clearly establish reliability. Audit conclusions were drawn based on data from systems with no documented testing. Additionally, the Internal Audit Division relies heavily upon work performed by the external auditor (KPMG) with regard to assessing the reliability of one of the City's primary systems, Peoplesoft. Internal Audit needs to clearly document reliability testing of computer-generated data and update documentation supporting this reliance on the work of the external auditor.

Internal Audit can improve the timeliness of reports. Many audits included in our review had timelines well over one year with several approaching or exceeding two years. Internal Audit's report timelines were not supported by either the size or complexity of the audits and work performed. Several of the audits appear to backlog in the audit review and reporting phases.

We suggest the Internal Audit Division consistently document in work papers consideration of independence. Government auditing standards require that auditors be responsible for independence in fact and appearance when providing audit services. Because of the organizational structure that the Internal Audit Division falls under, there is a possible perceived lack of independence when auditing or relying on data from the city's Peoplesoft accounting system. We recommend developing a more formal system for documenting consideration of independence issues and conclusions reached with regard to each audit performed. This process could be incorporated into the planning phase of the audit process.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Sue Polys  
City Auditor's Office  
Kansas City, MO



Cristina Preciado  
City Auditor Department  
Phoenix, AZ



John Turner  
City Auditor's Office  
Oklahoma City, OK



# City and County of Denver

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*Dennis J. Gallagher*  
Auditor

July 14, 2006

Sue Polys  
City Auditor's Office  
Kansas City, MO

Cristina Preciado  
City Auditor's Office  
Phoenix, AZ

John Turner  
City Auditor's Office  
Oklahoma City, OK

Dear Ms. Polys, Ms. Preciado, and Mr. Turner:

I have received your peer review report dated July 13, 2006, notifying this office the Internal Audit Division was in full compliance with *Government Auditing Standards* for the performance of audits, attestation engagements, and non-audit service activities during the period May 1, 2003 through April 30, 2006. I have also received and appreciate your companion management letter of the same date identifying areas where this office excels and suggestions to strengthen our internal quality controls.

I am pleased the review team concluded that our office complies with *Government Auditing Standards*. The audit staff members have devoted a great deal of effort to develop and implement an internal quality control system to help us achieve this goal.

I agree with the review team's recommendations to seek formal authoritative enabling legislation, fully document and test reliance on computer-processed data, improve timeliness of reporting, and routinely document independence disclosure considerations. I will seek input from our staff members to collaboratively make these improvements in our quality control system.

Thank you for your constructive suggestions to improve our quality control system and for taking time away from your families and work to accomplish this review. We appreciate the thoroughness and professionalism demonstrated by each of you in conducting the review.

Sincerely,

*For:* Mike Clark, CPA  
Director of Internal Audit

Cc: Bill Greene, ALGA Peer Review Coordinator