



Association of Local Government Auditors

November 1, 2012

Mr. Kip Memmott
Director of Audit Services
Office of the Auditor, City and County of Denver
201 West Colfax Avenue, Department 705
Denver, Colorado 80202

Dear Mr. Memmott,

We have completed a peer review of the Office of the Auditor, City and County of Denver for the period May 1, 2009 through April 30, 2012. 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 whether 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. Our procedures included:

- Review of the audit organization's written policies and procedures.
- Review of internal monitoring procedures.
- Review of a sample of audit and non-audit engagements and working papers.
- Review of documents related to independence, training, and development of auditing staff.
- Interview of auditing staff and management, to assess their understanding of, and compliance with, relevant quality control policies and procedures.

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 Office of the Auditor, City and County of Denver internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and non-audit engagements during the period May 1, 2009 through April 30, 2012.

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

Ruthe Holden
Management Audit Services
Los Angeles County Metropolitan
Transportation Authority

Wendy Gamble
Internal Audits and Inspection
Division
Los Angeles Police
Department

Robert Elizondo
Office of the City Auditor
City of Austin, Texas



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Mr. Kip Memmott
Director of Audit Services
Office of the Auditor, City and County of Denver
201 West Colfax Avenue, Department 705
Denver, Colorado 80202

Dear Mr. Memmott,

We have completed a peer review of the Office of the Auditor, City and County of Denver for the period May 1, 2009 through April 30, 2012 and issued our report thereon dated November 1, 2012. We are issuing this companion letter to offer certain observations and recommendations stemming from our peer review.

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

- **Significant Improvement in Audit Quality:** Under the current Audit leadership, there have been increased efforts to improve compliance with standards, and focus on completing quality audits.
- **Increased Focus on Information Technology Audits:** In recent years, the Office of the Auditor has increased staffing and emphasis on auditing Information Systems.
- **Implementation of TeamMate Software:** The Audit Services Division has effectively implemented TeamMate® work paper package software, and streamlined the audit processes to take advantage of the software's capabilities.)
- **Format and Structure of Audit Reports:** Improvements to the organization and presentation of the Office of the Auditor's reports has significantly enhanced their readability.

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

- Standard 3.95 requires the audit organization to analyze and summarize the results of its monitoring process at least annually. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action. In discussion with Audit Services Division management, the periodic monitoring was done informally on an ad-hoc basis and was not documented or communicated to appropriate personnel at least once a year. In addition, the requirements in Standard 3.95 have not been included in the current version of the Policy Manual.

We recommend the Audit Services Division Policies and Procedures Manual Quality Control section be updated to include the additional required standards for quality control and assurance. We recommend you comply with the standards requirements related to Monitoring of Quality.

- Standard 6.83c requires auditors to document supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report. In reviewing the engagement work papers, we observed 9 of the 15 files reviewed where some workpapers were signed off by Supervisors after the audit report was issued. While we do not believe that this impacted the quality of the reports issued, adherence to this standard is a good internal control for Supervisors to monitor compliance to standards.

We recommend including in the Audit Services Division Policies and Procedures Manual a requirement that all workpapers are reviewed and signed off prior to issuing the report. We suggest you consider

adding this requirement to Audit Services Division's management's performance criteria to ensure accountability at the individual audit engagement level.

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.

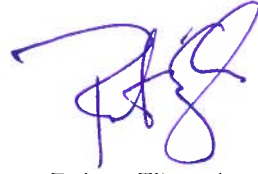
Sincerely,



Ruthe Holden
Management Audit Services
Los Angeles County
Metropolitan Transportation
Authority



Wendy Gamble
Internal Audits and Inspection
Division
Los Angeles Police Department



Robert Elizondo
Office of the City Auditor
City of Austin, Texas



City and County of Denver

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Rensis Gallagher
Auditor

November 1, 2012

Ruthe Holden,
Chief Auditor
Los Angeles, CA

Wendy Gamble
Performance Auditor III
Los Angeles, CA

Robert Elizondo
Supervising Auditor
Austin, TX

Dear Ms. Holden, Ms. Gamble, and Mr. Elizondo:

I have received your peer review letter dated November 1, 2012, notifying this office that the Audit Services Division was in full compliance with *Government Auditing Standards* for the performance of audits and non-audit service activities during the period of May 1, 2009 through April 30, 2011. I have also received and appreciate your companion management letter of the same date identifying areas where the Audit Services Division excels and including suggestions for enhancing some of our internal policies and processes.

I am pleased the review concluded that our Division fully complies with *Government Auditing Standards*. This determination is the highest possible level of compliance to *Government Auditing Standards* under the Association of Local Government Auditors' (ALGA) peer review program. The Denver Auditor's Office has devoted a great deal of effort to develop, implement and continuously improve our internal quality control system to help us achieve this goal. Your finding of full compliance is especially significant owing to the substantive transition the Division underwent during the peer review period. While all audit organizations undergo continuous change, the rate and breadth of change experienced by the Division during the peer review period has been extraordinary.

I very much appreciate the observations and suggestions identified in your management letter accompanying the compliance letter. The areas you cited where the Division excels involve core audit tenets and processes that are critical for not only an effective system of internal control required for full compliance with *Government Auditing Standards* but also for ensuring that work activities performed by the Division add significant value to City operations and to the citizenry. In particular, I am pleased that the management letter highlights the *significant improvement in audit quality* during the review period as well as the recognition of the enhancement to the presentation and readability of our audit reports. Both areas have been high continuous improvement priorities for the Division and I am grateful that your expert team has formally recognized these efforts. I also value your comments related to areas for possible enhancements to our policies and processes. We will take formal action to address the two observations noted in

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

Ms. Holden, Ms. Gamble, and Mr. Elizondo

November 1, 2012

Page 2

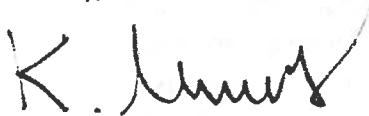
the management letter related to summarizing and reporting continuous improvement activities within the Division and related to supervisory review.

As noted, during the peer review period and beyond, the Division has been undergoing substantive organizational change owing to a significant amendment to the City's Charter, enacted in 2008, related to the roles and responsibilities of the Auditor's Office. The realignment and re-focusing of the Auditor Office's mission related to this change has inherently included numerous internal assessments and continuous improvement initiatives. Through regular meetings and other methods, Audit Services Division management has communicated the results of these self-assessments and continuous improvement activities to the elected Auditor and Deputy Auditor. As the management letter states, these communications have not been formally documented in a manner prescribed by *Government Auditing Standards*. As such, the Director of Audit Services will provide, on at least an annual basis, a formal report identifying any deficiencies identified during the Division's quality assurance monitoring process and making recommendations for correcting such deficiencies. It should be noted that the Division is adopting a formal performance metrics program in 2013 that will help with this effort.

We will also enhance our existing controls to ensure all working papers are reviewed in a timely manner by supervisory personnel. As the management letter states, the peer review team concluded that the lack of timely review of some working papers did not impact the quality of the reports issued. I want to emphasize that the Division adheres to a stringent review process for audit working papers that support audit findings included in issued reports. Specifically, the Division adheres to a cross-referencing process where all statements included in audit reports must be supported by working papers. Such working papers must be reviewed and approved by audit supervisors and verified by the Division's Deputy Directors, who review and approve cross-referenced draft reports before a report is issued. Moving forward, the Division will enhance its controls to ensure that all working papers, not just those supporting statements in issued reports, are reviewed and approved prior to report issuance.

Thank you for your professional conduct and feedback and for taking time away from your families and work to accomplish this review. Your commitment to the audit profession and the significant level of your expertise and experience are obvious and we thank you for providing this value-added service to the City and County of Denver. We also extend our sincere appreciation to the Association of Local Government Auditors, especially the Governing Board and the Peer Review Committee for their sponsorship and facilitation of this peer review.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Memmott". The signature is written in a cursive, flowing style.

Kip Memmott, MA, CGAP, CRMA
Director of Audit Services