# Performance Audit of the City Auditor of Long Beach For the Three Years Ending June 30, 2006

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# Performance Audit
# Of the City Auditor of Long Beach
# For the Three Years Ending June 30, 2006

## Executive Summary

Since 1908, the residents of the City of Long Beach, as well as the public in general, have entrusted the City Auditor to provide independent assurance that public funds controlled by the City are well managed, spent prudently and as intended, provide the expected services, and are recorded and reported accurately. To fulfill the fiduciary responsibility of the Office, the City Auditor must ensure that all work conducted under the Office's purview is accurate, independent, complete, objective, balanced, fair, and timely as the City Council, department directors, local leaders, and the public rely on this work. Our review of the operations and controls over the City Auditor's Office for the three years ending June 30, 2006, to determine compliance with Generally Accepted Government Auditing Standards[1] reveals significant weaknesses in several important areas of internal quality control. Specifically, it appears that the audit organization's internal quality control system was not suitably designed or effectively followed to provide reasonable assurance of compliance with these standards. Moreover, based upon the work we reviewed, we found that many individual audits conducted prior to the transition in leadership would not conform to these standards. Consequently, we find it unlikely that the Office would pass, for the period we reviewed, an external quality control review ("peer review') which is the industry benchmark for government audit organizations. As we noted significant deficiencies in several key quality control and operational areas during our audit, we find that the newly elected City Auditor should take immediate corrective action to strengthen the system and improve operations.

We identified notable deficiencies in both the organization-wide operations over audit work conducted and within the individual engagements we reviewed. Regarding organization-wide activities, we believe that there was an overall lack of key elements of a sound administrative structure necessary to effectively manage an independent audit organization for a city the size of Long Beach. While we found the former City Auditor prepared manuals specifying processes, policies, and procedures for conducting audit operations, our review of work and files suggest that expectations for staff to follow such rules and protocols had not been set. In addition, we were unable to identify records that provide reliable and complete history of work previously conducted nor any reliable listing of files and file locations that supports this work. Also, we found incomplete and missing records relative to staff qualifications, experience, and continuing professional education which are key components of audit standards for ensuring the competency of audit staff. Finally, of significant importance, we found a complete lack of a quality control process that ensures that each audit conducted by the audit organization meets all the requirements promulgated under Government Auditing Standards. One aspect of this quality control process is a triennial

[1] Generally Accepted Government Auditing Standards are promulgated by the Comptroller General of the United States. These comprehensive standards provide an overall framework for governmental audits. These standards are intended to ensure that government audit entities have a system of internal quality control so audit work complies with these standards and that auditors have the competence, integrity, objectivity and independence in planning, conducting, and reporting on their work.

"peer review," which had never been conducted for the City Auditor's Office, although required by these standards since 1988.

According to the current City Auditor and City Auditor staff, upon taking office she found electronic files and computers had been purged to a greater extent than she had expected. In particular, some hard drives were missing from desktop computers used by the Assistant City Auditor and two Deputy City Auditors, application programs had been removed from two other computers, and a third reflected a different operating failure. Additionally, shared files hosted on the server used for office-wide administrative and audit files, workpapers, and other related documents were significantly incomplete. It is important to note that credible and complete records supporting all important aspects of the audit organization's system of quality control and audit activities will be needed in the future to assure compliance with applicable audit standards and City Charter provisions.

We also reviewed the audit files and reports for 27 reports issued by the former City Auditor for the three years ending June 30, 2006. The Office conducted financial audits jointly with the independent audit firm, KPMG. Under this agreement, City Auditor staff conducted the majority of the work for four projects under KPMG's umbrella and such work was overseen, reviewed for quality control, and issued jointly within this arrangement. We found that the quality of the financial work conducted by the City Auditor staff in conjunction with KPMG during the period of our review appeared to comply with relevant Government Auditing Standards and had consistent quality and format.

However, this is not true of the non-financial or "performance audit" work conducted and issued by City Auditor staff for the three years ending June 30, 2006. We selected 20 completed audits for review and found a widespread lack of consistency and quality across the audit organization. Specifically:

- Only 6 of the 20 audit files would likely meet the majority (but not all) of the Government Auditing Standards and comply with most of the provisions set out in the *Office of the City Auditor Standards Manual*, May 2003.
- Five other sets of non-financial audit files included some of the required elements such as planning documents and/or an audit program; and, workpapers were organized, logical and appeared sufficient; but, other required elements were missing such as evidence of supervisory review, cross referencing, or any type of quality control or tie out documentation.
- The remaining 9 sets of workpapers we reviewed were clearly deficient—they had no form of audit program or plan; lacked organized and required workpaper content; included little if any evidence of supervisor review or intervention, and had no tie-out or quality control documentation.

Given that some of the audit files included required elements expected under standards or set out in the Office manuals, it appears that some individuals may have been familiar with the *Office of the City Auditor Standards Manual*, May 2003 or brought strong skills and techniques from prior audit experience. Nevertheless, based upon our review of the 20 selected audits, we found significant deficiencies in the former City Auditor's system of quality control over performance audit work.

The current City Auditor needs to take some swift actions to improve the Office's audit operations and put it on a path that will instill the quality control processes needed to fully comply with Generally Accepted Government Auditing Standards, including eventually passing an external quality control review. While a subsequent report will provide our detailed recommendations to accomplish this overall goal, in the near term the Office should:

- Begin developing a process to track and inventory all engagements initiated.
- Review the existing *Office of the City Auditor Standards Manual*, May 2003 and require that staff follow the guidelines for audit planning, fieldwork, and reporting until the Office has an opportunity to revise or develop an alternate set of guidelines.
- Establish an office-wide system of quality control that ensures that each engagement deemed to be an audit is independently reviewed by a manager not directly involved with the work to verify that the engagement meets all aspects of auditing standards.
- Survey the audit staff to ascertain the amount and type of continuing professional education they have recently received and develop office-wide protocols for qualified training and tracking of the courses taken.
- Arrange for all staff to attend training covering Government Auditing Standards.

In a subsequent report, Sjoberg Evashenk Consulting will provide detailed recommendations and identify opportunities for operational improvements and audit efficiencies and effectiveness.

## Scope and Methodology

In April 2006, the voters of Long Beach, California elected a new City Auditor, who assumed office in July 2006. As the former City Auditor held this position for 14 years, the newly elected official was interested in determining the "as is" condition of the activities of the Office in order to establish a baseline from which to measure her accomplishments and progress. Sjoberg Evashenk Consulting was selected to conduct a performance audit to determine, from an independent third-party perspective, the City Auditor's Office condition in terms of administrative and audit operations and compliance with Generally Accepted Government Auditing Standards prior to the change in administration.

On September 1, 2006, the Office of the City Auditor engaged Sjoberg Evashenk Consulting to conduct a two-phase performance audit of the Office for the three year period ending June 30, 2006, thus setting a benchmark for the new administration. The first phase of the performance audit was to apply Generally Accepted Government Auditing Standards tests to the operations and work products of the Office for the three year period ending June 30, 2006, to determine compliance with such standards and to identify deficiencies, areas needing attention, and opportunities for making the Office more efficient and effective. In the second phase, Sjoberg Evashenk Consulting will assess the weaknesses identified in the first report and provide detailed recommendations, options for corrective actions, and opportunities to improve operational effectiveness and efficiency.

To conduct phase one of this engagement we used the following methodology and tasks:

- Obtained written and verbal information related to the protocols, rules, regulations, policies, and procedures governing the operations of the Office and the conduct of City Auditor engagements.
- Assessed the processes used for selecting audit assignments, for assessing risk, assigning staff, and committing of audit resources.
- Interviewed executives and staff of the current Office, City Human Resources, and City Clerk's office.
- Compiled from a variety of sources, a listing to define the full population of audits commenced and completed over the 3 year period ending June 30, 2006. From that listing, we selected a judgmental sample of 21 performance and 7 financial audits completed during that period seeking to include at least one audit managed or conducted by each member of the staff employed during that time.
- Consulted the (National) Association of Local Government Auditors (NALGA) Peer Review Guide (5/2004) and other NALGA guidelines and protocols.
- Reviewed reports, workpapers, planning documents and other supporting information available for the selected audits and assessed them against the provisions of Generally Accepted Government Auditing Standards (GAGAS), internal manuals and protocols, and our experience in best practices.
- Evaluated the adequacy of employee, personnel, desk, and office operations handbooks or manuals.
- Reviewed available employee files to assess the completeness and uniformity of recordkeeping, including meeting minimum qualifications, conducting periodic assessments, and continuing professional education records.

- Requested employee training files or records, asked for Office training plans or course curricula, reviewed individual personnel files, and researched imprest fund expenditures to determine whether evidence exists to support auditors meeting GAGAS standards for continuing professional education.
- Reviewed timesheets, project management records, audit initiation sheets, budgets and memoranda within audit files to determine processes for managing and overseeing engagements and completing projects.
- Assessed the imprest cash account to determine the types of expenses paid, what training was procured, the propriety of expenditures, and the adequacy of documentation and authorization.
- Reviewed major personal service contracts to determine the services rendered, the method of procurement, and the delivery of products.
- Identified the policies and processes for document retention and the records supporting the management of audit documentation.

The current City Auditor and staff attest that they provided us with full access to all documents they have for the Office. However, they stated that some automated and other files appear to be missing or incomplete. We obtained representation letters from the City Auditor affirming that she made available all known documents to our audit team. She also asserts that some records were deleted or destroyed prior to the change in administration; specifically, certain data bases, and electronic files were purged by the City although still in use by the Office, files on personal computers and shared drives were scrubbed including those non-personal in nature, and hard drives and computers were completely missing or application files deleted making the computers inoperable. We do not believe this missing data poses a scope limitation since we found sufficient data to support the findings, conclusions, and recommendations included in this report.

We conducted this performance audit in accordance with applicable Generally Accepted Government Auditing Standards.

# Audit Results

In the nearly 100 years since its inception, the residents of the City of Long Beach, as well as the public in general, entrusted the Office of the City Auditor to provide independent assurance that public funds controlled by the City are well managed, spent prudently and as intended, provide the expected services, and are recorded and reported accurately. To fulfill the fiduciary responsibility of the Office, the City Auditor must ensure that all work conducted under the Office's purview is accurate, independent, complete, objective, balanced, fair, and timely as the City Council, department directors, local leaders, and the public rely on this work. Our review of the operations and controls over the City Auditor's Office for the three years ending June 30, 2006, found an absence of, and reveals significant weaknesses in, several important areas of internal quality control. Of greatest import is the apparent absence of the audit organization's internal quality control system and sustainable organizational infrastructure—integral parts to ensure the competent succession of the Office. In addition, based upon the work we reviewed, we found that many individual audits conducted prior to the transition in leadership would not conform to Generally Accepted Government Auditing Standards (GAGAS). Consequently, we find it unlikely that the Office would pass an external quality control review ("peer review'), which is a benchmark for government audit organizations. As we noted significant deficiencies in several key quality control and operational areas during our audit, we find that the new City Auditor should take immediate corrective action to strengthen the system and improve operations.

We identified notable deficiencies in both the organization-wide operations over audit work conducted and within the individual engagements we reviewed. Regarding organization-wide activities, we believe that there was a general lack of the key elements of a sound administrative structure that is necessary to effectively manage an independent audit organization for a city the size of Long Beach. While we found the former City Auditor prepared manuals specifying processes, policies, and procedures for conducting audit operations, our review of work and files suggest that expectations for staff to follow such rules and protocols had not been set. In addition, we were unable to identify records that provide reliable and complete history of work previously conducted or any reliable listing of files and physical file locations that supports this work. Also, we found records relative to staff qualifications, experience, and continuing professional education which are key components of audit standards for ensuring the competency of audit staff, were incomplete or missing. Finally, of significant importance, we found a complete lack of a quality control process that ensures that each audit conducted by the audit organization meets all the requirements promulgated under GAGAS.

## Background

The first City Auditor of Long Beach took office in 1908. Under Article 8 of the Long Beach City Charter, the City Auditor "shall be the general auditor of the City and of every department, commission and office thereof." The mission of the Office, as conveyed in the adopted fiscal year 2006 budget, "is to protect the public's interest and assets; ensure City resources are used to provide optimum benefits to the City's residents; enable the public's trust in City financial information; and, improve the quality of, and confidence in, City decision making." With 18.6 full-time positions budgeted and funding of over $2.7 million, the former City Auditor sought to fulfill this mission through a number of goals that included applying professional audit services to enhance revenues and identify efficiency improvements through auditing, investigations, reviews, analyses, and strategic planning. Additionally, the goals included conducting voucher compliance reviews prior

to disbursing City funds and performing the Annual Financial Audit as well as conducting audits of cash and investments as mandated by City Charter.

According to the March 31, 2006 *Comprehensive Annual Audit Report*, the City of Long Beach is California's fifth largest city with a population of nearly one-half million and an annual budget expending nearly $1.4 billion. Geographically, the City covers 50 square miles and provides a variety of typical services to its residents including police, fire, public health and environmental services, library, parks and recreation, social services, engineering, public works, planning and community development, and general administration. The City also operates and maintains a deep water harbor and port, airport, water department, and administers oil and gas leases on behalf of the California State Lands Commission.

Within government, the role of the auditor is essential to the system of checks and balances. In addition to the auditor's traditional role of "checking the books" to verify expenditures and ensure transactions comply with mandates, auditors are also tasked to protect the public interest and serve as the watchdog to ensure that government operates efficiently and effectively. In fact, as stated by the Comptroller General of the United States, "the concept of government accountability for public resources is a key in our nation's governing process and a critical element for a healthy democracy." Government auditing assists in fulfilling the government's duty to be accountable to the legislative bodies and to the public that programs, services, and activities achieve objectives and outcomes at a reasonable cost. Hence, the residents of the City of Long Beach as well as the public in general entrusts the City Auditor to provide independent assurance that the public funds controlled by the City are well managed, spent prudently and as intended, provide the expected services, and are recorded and reported accurately.

To fulfill the fiduciary responsibility of the Office, the City Auditor must ensure that all work conducted under the Office's purview is accurate, independent, complete, objective, balanced, fair, and timely as the City Council, department directors, local leaders, and the public rely on this work. In demonstrating commitment to the highest levels of quality and assurance, beginning with the City Budget for 2004, the former City Auditor asserted that all audits conducted by the Office were in accordance with "Generally Accepted Auditing Standards,"[2] although such compliance is not required by City ordinance. By making this assertion, the former City Auditor states that work performed by the Office conforms with these standards and, thus, meets the highest levels of rigor, consistency, and reliability.

Under the intent and provisions of GAGAS, audit organizations must have in place an adequate system of internal quality control to ensure that key audit and administrative policies and procedures are complied with to provide the audit organization with assurance of conforming with the applicable professional standards. In government, a key aspect of this system of internal quality control is a triennial "Peer Review" where qualified auditors "audit the auditors." To our

[2] Of note, the Auditor's submission to the annual City Budget document states that "All audits are conducted based on the professional judgment of the City Auditor and his professional staff in accordance with Generally Accepted Auditing Standards." Generally Accepted Auditing Standards usually refer to the body of standards promulgated by the American Institute of Certified Public Accountants and relate to audits of financial statements and other attestation engagements. As the City Auditor refers to all audits in this statement and issues operational and revenue audits in addition other reports he entitled "audit report," we apply GAGAS as these are the most appropriate standards for government audit work.

knowledge, the Office of the Long Beach City Auditor has not undergone a peer review as required under GAGAS since 1988.

## Significant Weaknesses in the Administrative Structure

First and foremost in our review of the Office for the three years ending June 30, 2006, is the lack of the key elements of a sound administrative structure needed to effectively manage an independent audit organization for a city such as Long Beach. For example, we found deficiencies in the communication and application of uniform policies and procedures—cornerstone elements of audit organizations, whether following auditing standards or not. In addition, files and records of the office were incomplete or missing including those for personnel, project management, and document retention. A strong infrastructure is a necessary and traditional component of a well run and managed audit organization.

### Weaknesses in Policies and Procedures

During our audit work we identified two manuals prepared under the direction of the former City Auditor: *Office of the City Auditor Standards Manual*, (May 2003) and *Audit Manual Office of the City Auditor*. Both of these documents provide a view of the former administration's policies and procedures. The *Office of the City Auditor Standards Manual* closely mirrors GAGAS and includes provisions and directions for conducting work in conformance with these standards. The *Audit Manual Office of the City Auditor,* includes many aspects of auditing standards, but also discusses administrative operations including retention of files, working hours, dress code, and position descriptions. It is unclear whether these documents were widely distributed and communicated, or whether the policies and procedures established therein were ever integrated into the operations of the organization. As we discuss more fully in subsequent sections of this report, we found significant inconsistency in the quality and conduct of audit engagements.

While a few of the audits we reviewed reflected some of the elements set out in the provisions of these manuals, the majority of the work reviewed was inconsistent in, and non-compliant, with the Office's policies and procedure manuals since most did not include all the necessary audit components. This lack of uniformity in format and approach and the wide variation in content leads us to believe that despite the existence of the manuals, Office practice or culture did not require following these guidelines. Interviews with staff who worked at the Office prior to the change in administration stated that while they recollect being given the *Office of the City Auditor Standards Manual*, in practice office management and staff did not reference or require following the manual. Additionally, while we located the *Audit Manual Office of the City Auditor*, we cannot determine whether this document was ever distributed. Some staff we interviewed recalled being trained on Office policies and procedures, but most indicated that it was the skills, abilities and prior experience of the auditors that drove the approach, format, and conduct of the work rather than Office policies and procedures. Without a strong administrative structure that is based upon policies, procedures, and protocols that firmly convey the expectations of management and staff, an audit organization cannot expect to have in place a system of internal quality control sufficient to meet GAGAS.

## Missing and Unsecured Personnel Records

We also noted another significant organizational deficiency related to personnel records. Many files relating to former employees seem to be missing and current City Auditor staff stated that the only personnel files they could locate for former employees were stored in a box in an office rather than in a secure location as would be expected. Our review of City policies and procedures, the personnel files found, and research done by the Department of Human Resources (DHR) suggests that some personnel files were removed or lost prior to the transition. The City Auditor's Office is considered a "non-City Manager department," and as such has much direct control over personnel files of current and former employees. City of Long Beach Personnel Policies and Procedures require that in the case of an interdepartmental transfer, "the departmental personnel file of an employee who transfers from a non-City Manager department shall be transmitted directly to the Department of Human Resources," and the file will then be transmitted to the new department. Thus, when a City Auditor staff member transfers to another City Department, the expectation is that the file will follow that individual. However, in the case of terminating employees, the policy is unclear, however, staff from the DHR informed us that these files are to be maintained by the non-City Manager departments.

Contrary to these policies, personnel files on site at the City Auditor's Office included a mix of current and former employees and the DHR had records of receiving only a few personnel files for recently terminated employees. Specifically, we obtained a roster of City Auditor Employees from 2002 through 2006 that included 34 current and former employees. Of this group, 15 are current employees of the Office. Of the 34 listed employees, 22 were employed by the Office during the three-year period of our review including 14 audit staff. Current City Auditor staff located personnel files on-site for 5 of the 14 auditors. To be sure that the files for the terminated employees were not in the custody of the DHR, we sent a listing of the remaining 9 employees to the DHR for follow-up. Of these 9 former employees, the DHR informed us that 2 individuals work for other City departments and their files are with the new department. Neither the DHR nor the City Auditor's Office could locate the remaining 7 files. As City policy does not require the submission to the DHR of personnel files for terminating employees and the fact we found a number of personnel files for long-terminated employees on site, we would expect that the Office would have secure custody of all files for terminated employees not moving to other City departments. Thus, it is unclear why the personnel files from some long-terminated employees were still in the custody of the City Auditor while many other files were not on-site or sent to DHR. The loss or removal of these files proves significant as the City has long-term responsibilities related to the employment information for its former employees. In the future, since personnel files contain legally-regulated materials and private data, these documents should be highly controlled and the newly elected City Auditor should establish and maintain policies and procedures related to these files and designate a secure location for their retention.

## Lack of Project Tracking and Completion

Additionally, it appears that the Office did not have in place a system to track work: reports issued publicly; reports issued to departments; projects resulting in closure before completion; or the completion of an effort that did not result in a deliverable or other product. To ensure that work meets audit requirements for appropriate supervision and management and the standards for timeliness, an administrative process should be in place to track work-in-progress so that each project commenced can be followed through to its formal completion or closure. Even though the

Office applied a systematic approach to project commencement using an Audit Assignment and Approval Form that employed an appropriate numbering system restarting with each new fiscal year and based on the nature of the audit to be conducted (such as operational, financial or survey), there appeared to be no system or listing that reflects the closure of each engagement started. Over the period of our review, the City Auditor initiated 184 projects; however, we were able to ascertain the outcome, closure, or completion for only 104 or approximately 57 percent of those projects. While the nature of some of these engagements would likely not result in a formal report, it is important, nonetheless, that the Office track all projects initiated to their ultimate completion or closure.

Furthermore, we were unable to obtain a single complete listing of all reports issued over the three years ending June 30, 2006. We found a binder including lists of audit reports covering a number of years. This listing was sorted by date and topic, but did not include project numbers. The last entry in this listing was for reports issued in February 2006—other data shows that reports were issued by the former City Auditor through June 2006. We also created a listing of reports from two bound volumes of issued reports covering the two fiscal years 2004-2005 and 2005-2006. In addition, the newly elected City Auditor was able to obtain, through an electronic file recovery process, additional listings of reports issued though May 1, 2006. To assess the completeness of any of these report listings, we compared them and found that none of the listings included a full inventory of all reports actually issued. Additionally, we noted that the former City Auditor did not issue all reports that were completed. Furthermore, while the Office did maintain a timekeeping database that appeared to include most projects initiated, and compiled charges from timesheets to these projects, this system was intended for budget purposes and did not provide information for project tracking or management, or to track report issuance. Thus, we cannot accurately ascertain the full universe of reports completed or issued during the period of our review.

## Inadequate Document Handling and Retention Records

Records supporting audits must not only be retained for purposes of supporting a report, meeting auditing standards, or to provide information to a "peer reviewer," but they may also be an important starting point for a future audit or project. The *Audit Manual Office of the City Auditor* includes specific guidelines and steps for managing file retention using a database and prescribes scheduling the transfer of dated files to the City's Records Center. Records we reviewed indicate that at some point the practices outlined in the manual were in place as we found listings that detailed contents of certain audit files and the location of the file boxes at the City Records Center. However, at some time during the period of our review the updating of these listings and the monitoring practices appeared to cease. The report we found from the workpaper database was out-of-date, with the most recent entries being for a few projects initiated during the 2004-05 fiscal year. We found a number of more recent files are also in storage at the Records Center as current City Auditor staff were able to retrieve some requested document files. Moreover, contrary to Office Audit Manual provisions stipulating that completed audit files should be stored in the Office library not in individual offices, at the transition, staff found files all in a number of offices and work spaces and not centrally recorded into any document retention log that could be located. Furthermore, it appears that some audit workpaper files may have also been maintained electronically; however, as mentioned in other parts of this report, many electronic files were deleted and the files currently available on the Office shared drives and on desktop computers appear incomplete. Current City Auditor staff could not locate a credible log or inventory of electronic files maintained prior to the transition. As a result of the inadequate practices for physical

and electronic file management and retention, the City Auditor cannot be sure which files they have, where files are stored, and which may be missing or in another location.

## Inadequate Internal Quality Control System

GAGAS specifies that the audit organization have in place a structure of quality control elements that are suitably designed and effectively followed to provide reasonable assurance of compliance with these standards. As noted in the prior section, we identified weaknesses in project management and document maintenance and retention—both are elements of quality control under GAGAS. We also noted a number of other deficiencies in areas required for audit organizations conducting work in accordance with GAGAS, specifically in the matters of:

- staff qualifications,
- continuing professional education,
- independence,
- timely work, and
- system of quality control review covering quality control reviews at the project and office-wide levels.

Without improvements in the system of quality control, it is unlikely that the Office would pass an external quality control review that is a government auditing benchmark of quality.

### Unable to Verify the Qualifications of Staff

Chapter 3, General Standards of the *Government Auditing Standards*[3] states "The staff assigned to perform the audit or attestation engagement should collectively possess adequate professional competence for the tasks required." However, due to a number of factors, including the inability to locate personnel files for former employees, we could determine the minimum qualifications, experience, and skills of only 4 of the 14 auditors on staff during our period of review. The audit organization holds the responsibility to ensure that each audit is conducted by staff with the skills, knowledge and experience necessary for the engagement, including establishing the level of competency for each key audit position and, for peer review purposes, be able to demonstrate that auditors possess the skills, education, and experience for their position. The *Audit Manual Office of the City Auditor* adequately detailed each audit position and the minimum qualifications. Further, it stipulates that each auditor is formally assessed twice yearly. Customarily, personnel files include information such as education, and other qualifications.

As briefly noted in the preceding section, a number of personnel files cannot be located for former City Auditor staff working at the Office during the period of our review. Our review of the four personnel files available demonstrated that each of these auditors employed during the period of review were well qualified for their positions. We also noted that each auditor's file included written performance assessments, albeit not always as many assessments as would be expected under a semiannual review process. Nonetheless, interviews with staff stated that a semiannual process took place in May and December. The four personnel files we located support less than one-third of the auditors working at the Office during the period of our review. While two auditors

[3] GAO-03-673G Government Auditing Standards, Section 3.39

moved to other City departments and their personnel files appropriately followed the transfer and one other file was in transit back to the City Auditor's Office, of the remaining 7, neither the Department of Human Resources nor the City Auditor's Office could locate those files. Thus, we have insufficient evidence to state that all audit staff conducting work during the period of our review were appropriately qualified.

## Unable to Assess Compliance with Continuing Professional Education Standards

In addition to finding insufficient evidence to conclude whether audit staff working during the period of our review met minimum qualifications, we also cannot determine whether these individuals met provisions of the GAGAS for Continuing Professional Education (CPE). We could not locate the office's records reflecting training for staff—neither a database of training reflecting courses staff attended individually, an Office plan setting out specific training conducted in-house during the period, or the required documentation within personnel files. The *Audit Manual Office of the City Auditor* addresses continuing educational requirements stating "Auditor's Office training and development program is intended to meet CPA, CIA, and Yellow Book standards [GAGAS] ...(and) a minimum of 40 hours of continuing professional education will be provided to each professional staff." Further, it states that on a bi-monthly basis the Office would conduct "one-hour training classes designed to provide development in general or City-related subjects and to provide Continuing Professional Education for certified employees." Interviews with audit staff working during the period of our review indicate that the in-house training did occur, but the practice was not sustained as planned.

Each auditor performing work under GAGAS must complete, every 2 years, at least 80 hours of CPE that directly enhances the auditor's professional proficiency to perform audits and/or attestation engagements."[4] It is the responsibility of the audit organization to maintain records to demonstrate that audit staff meet CPE requirements. Interviews with staff suggest that at some point during the period of our review training records for auditors were maintained by a Deputy City Auditor who also approved all training requested. However, we could not locate such records. Further, in our review of personnel files we found a few certificates of completed training or letters requesting training reimbursement, but these were few and did not appear to be common practice.

Our review of imprest fund expenditures occurring during the period of our review indicates that the Office paid for training and seminars for auditors and interviews with staff convey that the Office was responsive to requests to obtain outside training. However, it appears that the emphasis for providing CPE focused on meeting professional certification requirements (driven and reported by the licensee) and not GAGAS provisions which are mandated organization-wide. GAGAS requires that CPE directly relate to "professional proficiency to perform audits and/or attestation engagements." Specifically, our review of imprest fund expenditures for training suggests that the City paid for training that did not relate to the business of city auditing and would not qualify under GAGAS—for example income tax preparation and formation of limited liability companies. While these courses would qualify for CPA license renewal, they would not qualify for CPE requirements under GAGAS.

[4]GAO-030673G Government Auditing Standards, Section 3.45.

## Inconsistent Independence Documentation

It appears that during the period of our review, the Office of the City Auditor was inconsistent in ensuring that staff assigned to audit work were appropriately independent and free from an appearance or actual impairment to independence. Despite having written provisions requiring "certification" of independence at the commencement of an engagement, in our review of 20 non-financial audit files, we found only one Audit Planning Memorandum that appropriately included the Office's stipulated independence statement—none of the others addressed the area of independence in any way.

Independence is a cornerstone of auditing—under GAGAS, the audit organization and the individual auditor "should be free both in fact and appearance from personal, external, and organizational impairments to independence."[5] This element is critical as auditors and their organizations have a responsibility to be impartial so that opinions, conclusions, judgments, and recommendations will be unbiased and viewed as such. In compliance with these provisions, the *Office of the City Auditor Standards Manual* states in part, "To address the requirements for independence, the auditor in charge must inquire of staff as to any possible impairments and must "certify" that there have been no impairments, or appearance of impairments, noted. This "certification" is included in the Audit Planning Memorandum."[6] In the one instance within the 20 audit files that we reviewed that included the "certification" we noted that the independence statement was signed and dated nearly two weeks after the submission of the final report to the City Council. Further, audit staff we interviewed stated that they were unaware of any Office policy or procedure that inquires or assesses staff independence at the commencement of an audit, and did not recall being asked about potential conflicts or impairments in the course of audit planning or during fieldwork. Although state law requires certain public officials[7] to complete a Statement of Economic Interest—Form 700, this form primarily concerns economic holdings, gifts, and honora and, although it could disclose potential conflicts, this form does not sufficiently cover the range of potential conflicts envisioned in the standards. Moreover, the filing requirements are restricted to the top levels of the organization.

Other audit organizations have chosen to accomplish the monitoring and certification of independence and potential conflict of interest by requiring audit staff file with the audit organization a periodic statement that may include a familial relationship with a potential auditee or contractor, or a potential financial or economic relationship with an auditee or contractor. This process, typically done annually, has a two-fold benefit: first, auditors must disclose their potential personal impairments to independence for review by management, but, second, it puts the concept of independence to the forefront of the organization's set of core values. We are unaware of any similar process within the Office.

## No Evidence of Internal Quality Control Processes

The former City Auditor's Office did not have in place an overall internal quality control system. A sound system of internal quality control includes not only supervisor or manager review of auditor's work and report products, but also a second-level review to ensure that the audit report includes

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[5] GAO-03-673G Government Auditing Standards Section 3.03.

[6] *Office of the City Auditor Standards Manual,* page 11 under Section 4 Staff Assignments/Orientation Meeting/Qualifications.

[7] According to the Long Beach City Clerk's Office, three groups of individuals within the City Auditors Office must file Form 700: City Auditor, Assistant City Auditor, and Deputy City Auditor.

sufficient information and evidence, and is accurate. Monitoring and assurance processes typically include an internal office-wide requirement whereby the audit report is "independently" assessed or reviewed prior to release. Although the *Office of the City Auditor Standards Manual* includes provisions requiring the auditor-in-charge to perform a quality control review and to document this review via the Quality Control Checklist, we found no evidence of such a process being followed. Further, as discussed in more detail later in the report, our review of a sample of non-financial audit workpaper files found the majority were missing any type of "tie out" or "report referencing" document that would verify that the data included in the report was appropriately tracked back to the evidence in the workpapers and verified by a supervisor.

Chapter 3 (Section 3.49) of GAGAS states "Each audit organization performing audits and/or attestation engagements[8] in accordance with GAGAS should have an appropriate internal quality control system in place…" In general, an audit organization's structure for internal quality control should include:

- Policies adopted and procedures established to provide the organization with reasonable assurance of complying with standards.
- Monitoring, on an ongoing basis, the established office policies and procedures to ensure that they are suitably designed to ensure quality control and are effectively applied.
- Preparation of appropriate documentation for audits that demonstrate compliance with its policies and procedures, but leaves the form and content of such documentation to the audit entity.
- Retention of documentation demonstrating compliance with the entity's system of quality control for a period of time sufficient to enable those monitoring the system and peer reviews to evaluate the extent of the organization's compliance with those policies and procedures.

Provisions of GAGAS strive to ensure that audit reports made in accordance with these standards meet a high degree of accuracy, impartiality, and sufficiency of evidence and the intent of these quality control requirements are to validate that each audit meets the rigors of the standards. Using a third party or concurring reviewer (someone not directly working on the engagement) is a common practice as is a Quality Control Checklist (as noted in the *Office of the City Auditor Standards Manual*) completed by a management-level auditor.

## Lack of External Peer Review

Audit organizations conducting work under provisions of GAGAS are required to undergo an external quality control review, or "Peer Review." This "audit of the auditors" is to be conducted triennially. However, it is our understanding, that although peer reviews have been an audit standard for 18 years—since 1988—the former City Auditor's Office did not undergo such a review. A peer review ensures that work cited as being conducted following standards withstands the scrutiny of peers conducting comparable work. These external reviewers, who must be independent from the audit organization, review office operations related to audits performed in

[8] GAO-03-673G Government Auditing Standards Section 1.13, page 10 defines attestation engagement as one where "auditors issue an examination, a review, or an agreed-upon procedure report on a subject matter or on an assertion about a subject matter, based on or in conformity with criteria that is the responsibility of another party. Attestation engagements can cover a broad range of financial or non-financial objectives and provide various levels of assurance about the subject matter or assertion dependent upon the user's needs."

accordance with GAGAS and conduct a rigorous review looking for conformity to standards and internal office policies and procedures, and assessing the quality control process. Most importantly, the peer reviewers look at individual audits to determine, based on the workpapers, whether a competent, experienced, third-party reviewer can reach the same conclusions as the auditor—thus, assessing the quality of work and competency of evidential matter. It is our understanding that at no time did the former City Auditor obtain such reviews.

### Audit Reports Not Always Issued in a Timely Manner

Government auditing standards recognize that audit information is only valuable if it is provided in time to make decisions and that the data included are relevant and current. Our assessment of the reports issued within our period of review suggests that non-financial audits appeared to take an inordinate amount of time, in terms of duration, to issue especially when the budgets of such audits are taken into consideration. Specifically, 38 percent of the audits completed took more than nine months to finish; of this group, only 17 percent were assigned budgets of 500 or more hours. Further, nearly 86 percent of the audits finished during our period of review took longer than six months to complete; yet, the budgets for these audits averaged 230 hours—comparable to one full-time auditor working less than two months. We did note that the Quarterly Cash and Investment Audit Reports were generally issued within 4 to 5 months of commencement and had 300 hour budgets; this duration appears reasonable. However, we noted that the December 31, 2005 report was not issued for nearly 6 months after the end of the period and we could not find evidence that the March 31, 2006 report had commenced as of June 30, 2006.

While GAGAS does not attempt to dictate a specific definition of "timely," the importance of this element is reflected in the standards for audit reporting stipulating, "the report should be timely, complete, accurate, objective, convincing, clear, and concise as the subject permits."[9] We found that nearly three-quarters of the non-financial audits where there was budget and actual data exceeded the assigned budgets by 78 percent; put into context, that would add an average of about 4.75 additional audit weeks to the average budget. Thus, assuming that only one person worked on the project, and that the average audit budget is 230 hours, a 78 percent overage calculates to a budget of approximately 400 hours, or one auditor full-time for 2.7 months, far less than 6 to 9 months we found. We noted that project initiation documents included budgets for nearly all projects, however, due dates were rarely noted. Thus, we cannot determine whether reports met deadline requirements.

## Significant Deficiencies in Performance Audit Planning and Fieldwork

Performance audits[10] require rigorous planning and management as these engagements cover a wide variety of areas and topics that often are conducted on a one-time basis with little or no prior experience or exposure. The majority of the work conducted by the former City Auditor appears to fall into the general area of Performance Audits as the Office categorized its work as survey, operational, contract, economical/feasibility/analytical, or internal control system engagements. With the exception of the survey category, which may not comprise a full audit, all others would likely fall within the definition of performance auditing. The Office was also tasked to conduct

[9] GAO-03-673G Government Auditing Standards Section 8.38.

[10] GAO-03-673G Government Auditing Standards Section 2.09 describes "Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability."

financial audits, which by-in-large were managed under contract by an independent certified public accounting firm. We found deficiencies in nearly all the performance audit working paper files we sampled in the planning and fieldwork aspects of auditing; and, in fact found 9 of the 20 non-financial audit engagements we reviewed severely deficient.

GAGAS sets out that "performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments to provide a prospective focus or that synthesize information on best practices or cross-cutting issues."[11] In order to ensure that these audit efforts entail the rigor and structure to meet GAGAS quality benchmarks, GAGAS sets out specific standards for this type of audit work recognizing that these audits may include broad or narrow scopes, large programs or small areas of operation, and include various approaches and methodology, analyses, research, and evaluation.

## Inconsistent and Inadequate Planning of Performance Audits

One of the key aspects of conducting a performance audit is the planning effort. All audit working papers should, at a minimum, include documentation setting forth the scope and objectives of what the audit is intended to accomplish, methodologies for conducting tasks to achieve the objectives, the related criteria for evaluating the subject, and identifying potential sources of information or data. We found within the *Office of the City Auditor Standards Manual*, an extensive section related to audit planning that details the various planning steps such as the preliminary survey, entrance conference, staff assignment, audit planning memorandum, audit program, analytical procedures, and risk and control matrices. This manual also includes an outline guiding the elements to be included in the Audit Planning Memorandum. If the Office's standards manual was followed, the GAGAS criteria would likely be fulfilled.

In our review of former City Auditor's administrative files we found that the staff consistently prepared Audit Assignment and Approval forms (pink sheets) that assigned a project number and category, specified the staff assigned, stated the general audit objectives, and established a budget for the project. However, our review of a sample of 20 non-financial audit workpaper files reveals that the other elements of planning included in the *Office of the City Auditor Standards Manual* were inconsistently followed. Specifically, only 11 of the 20 engagements included an audit program (which details the tasks to be conducted to meet the audit objectives), 2 of the 20 included the Office's Audit Planning Memorandum, and 5 of the 20 included other notes or memoranda that would meet the criteria for planning documentation. However, in 9 of the 20 projects we reviewed, we could find no audit program, memoranda, or other documentation that could reasonably be construed to be planning documents. Moreover, within the audit files, the existence and quality of audit programs and planning documents appeared to be dependent upon the individuals conducting the audit work and varied widely between audits.

Alternatively, we selected 7 financial audits for which City Auditor employees had significant involvement[12] and found the majority of workpaper files supporting those audits to include the

[11] GAO-03-673G Government Auditing Standards Section 2.09

[12] Under the contract with KPMG, City Auditor employees conduct the majority of work on four engagements annually (Appropriations Limit Worksheet (GANN) which is an agreed upon procedures engagement, Airport Enterprise Fund, Long Beach Parking Authority, and AQMD), that are a part of the Comprehensive Annual Financial Report of the City

expected planning documentation. As mentioned previously, these audits are managed under contract by an outside certified public accounting firm.

## Fieldwork Documentation and Evidence of Supervision Vary Widely

Auditors conduct fieldwork when undertaking the tasks established in the planning process to gather, examine, and evaluate sufficient evidence to reach conclusions related to the objectives and intent of the performance audit. These fieldwork efforts culminate in written workpapers that provide analysis, source evidence, and criteria that support the conclusions, findings, and recommendations that are ultimately included in a report or other document. We requested working papers for 21 performance audit reports issued by the City Auditor's Office during the three year period of our review—20 of the 21 workpaper files were located—one is still missing. We found the workpaper files in various conditions from clearly organized and complete to boxes of files that appeared to have no organization or continuity. Our review found that 6 of the 20 files would likely meet the majority of GAGAS provisions while 9 of the 20 were significantly deficient. In addition, in the majority of audit files we reviewed, we found a lack of evidence of supervisory review of the work.

GAGAS Chapter 7 (Section 7.48 through 7.61) requires that auditors obtain sufficient, competent, and relevant evidence to provide a reasonable basis for the auditor's findings and conclusions. Further, Sections 7.66 through 7.68 require the appropriate preparation and maintenance of audit documentation. Specifically, audit documentation should support planning, conducting, and reporting on the audit. Moreover, an experienced auditor, who has no previous connection with the audit, should be able to ascertain from the workpapers the evidence that significantly supports the auditors' judgment and conclusions and provides underlying evidence for findings, conclusions, and recommendations. In fact, the *Office of the City Auditor Standards Manual*, sets out fairly strong guidelines for the conduct, documentation, and evidence required for the audits conducted by the Office. Indeed, our review of workpapers suggest that at least some staff must have been aware of either the GAGAS or Office standards as nearly half of the audits we reviewed appear to generally meet the these requirements for the documentation and evidence aspects of performance audit fieldwork, even though the form and substance of these workpapers varied greatly between engagements.

In the six workpaper files we reviewed that would likely meet the majority of the GAGAS provisions for contents of the working files, we found that the projects were organized and appeared complete. Each of the six included some type of planning document and/or audit program that tied back to working papers, had logically laid out and organized work that seemed to have the expected elements of analyses and evaluation, appeared to have appropriate evidence,[13] and were cross-referenced to allow the reader to link the workpapers to the audit work. Another 5 sets of files included some type of planning documents and/or an audit program; were organized and included apparently logical and sufficient workpapers, but were missing some of the other important elements required related to audit evidence and form. Conversely, 4 of the 20 performance engagements we sampled were represented by boxes of loose documents with no form, format, or

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of Long Beach. In addition, the quarterly cash and investment verifications required of the City Auditor are reviewed and included in the City's annual financial audit by KPMG.

[13] Our review did not include reviewing the audit files to assess whether a competent third party would find the evidence and logic of the work to be sufficient to bring that third party to the same conclusion as the auditor. Rather we reviewed the files to assess whether the content and organization would suggest work was competently conducted.

organization. We could identify pieces of source data, random analyses, and evidence gathering was performed, but we could not ascertain how the work supported the report, if there was a plan or method employed, or determine the existence of sufficient evidentiary matter. We also found 5 other workpaper files to be significantly deficient yet some were generally organized and somewhat logically presented, but they did not include the components in the workpapers to fulfill fieldwork standards.

As with the planning aspects of the work, we found in the seven financial audits conducted by City Auditor staff included all reasonable evidence, form, and format required under the GAGAS standards for financial audits. The files included appropriate planning documents, work was cross-referenced, and workpapers were logical, organized, and easy to follow.

In conjunction with the conduct of fieldwork, GAGAS requires "adequate supervision" of the work that includes directing the efforts of the staff assigned to ensure that audit objectives are accomplished, ensuring all audit team members understand the work they are tasked to do, and reviewing the work completed by staff. As we cannot retrospectively assess the supervisory intervention and guidance provided on the engagements we reviewed, we looked to the workpapers to determine whether it appeared that supervisors reviewed the written work prepared by audit staff. Of the 20 non-financial engagements we selected for review, that included a broad range of supervisors and managers, we found 6 had adequate evidence of supervisory review with another 3 occasionally reflecting supervisor intervention such as marginal comments or initialing some workpapers. Of the remaining 11 audits, the workpapers of 5 engagements are so inadequate that we cannot ascertain the work performed or whether there was any supervision and another 4 sets do not include appropriate evidence of supervisory review.

Although GAGAS does not specify the exact means for supervision, Section 7.47 states "reviews of audit work should be documented." The *Office of the City Auditor Standards Manual* page 6 delineates the responsibilities of supervision for the Office and to meet "Government Auditing Standards." Provisions set out in the manual require:

- Reviewing the audit program to ensure all steps were completed.
- Ensuring that the auditor's initials and w/p [workpaper] references are noted on the audit program.
- Manager's initials and date at the bottom of each workpaper.

Further, as discussed earlier in this report, the Office manual also requires the manager to complete a Quality Control Checklist. In the workpapers we noted having appropriate evidence of supervisory review, we found a variety of approaches from the supervisor initialing and dating each workpaper, to signing off on large sections of workpapers, to simply initialing entire bundles. A few workpaper files showed supervisory signoff on the audit program. Overall, generally we noted that the format of the workpapers and the evidence of review seemed to be driven by the auditor or audit senior on the job rather than the manager or deputy.

Planning and supervision are critical elements to ensure that audit efforts meet objectives, auditors remain on track and reach reasonable and supported conclusions, and to ensure the integrity and accuracy of the work conducted.

## Weaknesses in Reporting and Lack of Quality Control Processes

We also reviewed the performance audit reports to determine whether these reports appear to meet GAGAS reporting standards. Overall, we found the reports we reviewed to minimally meet standards for reporting—including some level of covering the basic elements of objectives, scope, methodology, findings, and recommendations. We found that some of the conclusions were somewhat vague and not all reports incorporated recommendations, although not a required element. However, only 6 of the 20 reports issued that we reviewed included views of responsible officials of the audited program and discussion of any corrective action taken. Of greatest importance, however, is the omission of one very important element of GAGAS that was missing in every performance audit report we reviewed—none of the engagements included a statement or reference to compliance with government auditing standards. To the contrary, all of the financial audits we reviewed, with the exception of the quarterly Cash and Investment Audit Report, included appropriate standards citations. As the former City Auditor publicly stated that all audits of the Office were conducted in accordance with these standards, this omission is problematic and confusing to the users of the reports and the public. Further, as previously noted, because we could not determine the outcome of all engagements undertaken by the Office during the period of our review, we could not accurately assess whether the Office complied with GAGAS reporting standards requiring the preparation of a report for each audit. Finally, we found that many of the reports we reviewed did not reveal any evidence that they were subjected to a systematic quality control review either at the project level or office-wide. Specifically, only 5 of the 20 performance audits we reviewed had evidence of any type of final quality control that demonstrated tracking final reported information back to the source working papers, evidence, findings, and conclusions.

GAGAS requires that reports include objectives, scope and methodology and convey the audit results, including findings, conclusions, and recommendations, where appropriate.[14] Additionally, these standards require that auditors prepare audit reports communicating the results of each audit, that the audit report be appropriate for its use and retrievable.[15] Also, the report should include views of responsible officials of the audited program and any corrective actions taken.[16] In reviewing the sampled reports in view of the GAGAS provisions, we found that generally all the reports included objectives and scope, some description of methodology, and nearly all included findings and conclusions. Further, the majority of the reports proposed recommendations. However, only 6 of the 20 non-financial audits reviewed included the views of a responsible official of the audited program.

Two areas of deficiency are of greater significance than other reporting standards areas. First, is the absence or omission, required in all audits conducted under GAGAS, of a statement that the report was made in accordance with GAGAS. According to Section 8.30 of performance audit reporting standards, this statement refers to all the applicable standards that the auditors should have followed during the audit. If auditors did not follow a particular standard this departure should be described in the scope section of the audit and the implications of not following the standard must be considered by the auditor in terms of the audit results. The second area of great significance is the lack of a systematic quality control process at the report/project level, and at the overall office level, despite the fact that the *Office of the City Auditor Standards Manual*[17] sets out an entire process for

[14] GAO-03-673G Government Auditing Standards Section 8.07-8.12
[15] GAO-03-673G Government Auditing Standards Section 8.02 through 8.05
[16] GAO-03-673G Government Auditing Standards Section Sections 8.07, 8.31 to 8.34
[17] *Office of the City Auditor Standards Manual, May 2003* pages 62 and 63

"Referencing the Audit Report" that requires indexing and referencing the draft report back to the workpapers to provide "adequate workpaper support for the draft." The manual also stipulates that adequate support "is that which enables another person to verify that statements, conclusions, numbers, etc. in the draft report are documented in the workpapers." While we saw a few instances where draft reports had what was characterized as tie-out versions whereby on some pages the auditor wrote index numbers referencing back to the work—the items indexed were typically numbers and statistics, not facts or analyses. Further, in two instances, we found summaries of findings that supported the report, but the summaries were not indexed back to the source work. In none of these instances did we find evidence that a supervisor or manager actually reviewed tied-out or summary documents to verify the information. In the case of the 7 financial audits we reviewed, 5 of the projects included tie-out copies that appropriately referenced the numbers back to the source. In two instances these documents were absent.

Finally, the former City Auditor issued a number of reports during the period of our review, approximately 77. What we cannot ascertain is whether other of the 184 projects initiated should have resulted in a report, and if a report was completed, whether it was actually released. Interviews and other documents indicate that some reports that were completed were never issued. There is no central source of information to determine the outcome of the many of the projects that were begun. We are told that the former City Auditor chose over the years not to publicly issue certain audits—certain audits, by agreement, resulted in a letter to the Department Director for management information while others were not released or formally submitted to the City Council. Further, it is reasonable to assume that some projects, perhaps those classified as administrative, survey or initial assessment, would not develop into a full audit or a final product. Other projects, however, may have been discontinued or never completed. While the rationale for each of these outcomes may have been appropriate, neither the current City Auditor and her management team nor an external reviewer can ascertain from the records the history or outcome of all engagements commenced during the period of our review.

Providing valuable, timely, and accurate information via government auditing is founded on sound fieldwork and reporting. Ensuring that each report is accurate and supported by sufficient evidential matter is critical to the confidence the users will have in the auditor's report. By citing within the audit report that the audit was made in compliance with Government Auditing Standards affords the reader confidence that the work underlying the findings, conclusions, and recommendations of the report is sound, supported, supervised, and reviewed. Moreover, following auditing standards requiring the issuance of all completed audit reports ensures that decision-makers and the public receive all the information they expect from an objective, independent auditor. Thus, immediate steps should be taken to ensure that an engagement-specific and office-wide quality assurance process is adopted and that all engagements have documented resolution or completion and that all completed reports are appropriately issued.

## Conclusion and Recommendations

We reviewed the operations and controls over the City Auditor's Office for the three years ending June 30, 2006, to determine compliance with Generally Accepted Government Auditing Standards (GAGAS). Our review revealed significant weaknesses in several important areas concerning the Office's system of internal quality control. Specifically, we found that the audit organization's internal quality control system was not suitably designed or effectively followed to provide reasonable assurance that audits conducted comply with these standards. Moreover, based upon the work we reviewed, we found that many individual audits conducted prior to the transition in leadership also would not conform to these standards. Consequently, we find it unlikely that the Office would pass, for the period we reviewed, an external quality control review ("Peer Review') which is the industry benchmark for government audit organizations. As we noted significant deficiencies in several key quality control and operational areas during our audit, we find that the newly elected City Auditor should take immediate corrective action to strengthen the system and improve operations.

The current City Auditor needs to take some swift actions to improve the Office's audit operations and put it on a path that will instill the quality control processes needed to fully comply with Generally Accepted Government Auditing Standards, including eventually passing an external quality control review. While a subsequent report will provide our detailed recommendations to accomplish this overall goal, in the near term the Office should:

- Begin developing a process to track and inventory all engagements initiated.
- Review the existing *Office of the City Auditor Standards Manual*, May 2003 and require that staff follow the guidelines for audit planning, fieldwork, and reporting until the Office has an opportunity to revise or develop an alternate set of guidelines.
- Obtain from each audit staff member a statement of conflict of interest, independence, and confidentiality to ascertain any areas of potential independence impairments and to reinforce the professions' ethics and confidentiality values.
- Establish an office-wide system of quality control that ensures that each engagement deemed to be an audit is independently reviewed by a manager not directly involved with the work to verify that the engagement meets all aspects of auditing standards.
- Survey the audit staff to ascertain the amount and type of continuing professional education they have recently received and develop office-wide protocols for qualified training and tracking of the courses taken.
- Arrange for all staff to attend training covering Government Auditing Standards.

In a subsequent report, Sjoberg Evashenk will provide detailed recommendations and opportunities for operational improvements and audit efficiency and effectiveness.

Response from

the Office of the City Auditor,

Long Beach, CA

**OFFICE OF THE CITY AUDITOR**
Long Beach, California

**LAURA L. DOUD, CPA**
**City Auditor**

February 14, 2007

Sjoberg Evashenk Consulting, Inc.
455 Capitol Mall, Suite 700
Sacramento, CA 95814

Dear Mr. Sjoberg and Ms. Evashenk:

I have reviewed your Performance Audit of the City Auditor of Long Beach for the three-year period ending June 30, 2006. The audit comes in the form of two reports respectively dated December 7, 2006, and January 25, 2007. Each has been reviewed and your work on this matter is greatly appreciated.

Let me begin by saying "thank you" for performing such a valuable service that will have enduring positive results for the Office of the City Auditor and for the people of Long Beach. Your report has highlighted some areas of deficiency as well as provided a blueprint for excellence going forward. In fact, I am pleased to report that many of the recommendations highlighted in the audit report were implemented prior to the completion of the audit; and the others are well on their way.

While all recommendations are being considered in their entirety, the following are those I find most compelling for immediate action (the first two bullet points as noted in your two letters that I have attached):

- Request for a thorough, full-scale search for any and all City Auditor electronic files in the Technology Services Department's possession.
- Request for a thorough search of missing personnel files for people who were working in the prior administration of the City Auditor.
- Utilize petty cash as it was intended, for business-related purposes and not for personal use.

My office has vigorously addressed these issues, and we are working diligently with city officials to determine the depth and breadth of these problems and to rectify them as quickly and thoroughly as possible. We will exhaust all avenues and pursue every remedy to restore the missing files (computer and personnel) to public custody.

I assure you that the last of the three recommendations listed above was addressed immediately upon my first day of assuming office. Strict controls over petty cash have been instituted and are being followed diligently.

**333 West Ocean Boulevard, 8th Floor, Long Beach, California 90802**
**OFFICE: (562) 570-6751 FAX: (562) 570-6167 E-Mail Address: Laura_Doud@LongBeach.gov**

Attached is my summary of the findings of the audit and the status of measures already taken, underway, or planned for implementation. I trust you will review this summary and attach it to your audit report.

My goal as City Auditor has always been to promote excellence in government. I am fully committed to improving future operations, remediate weaknesses, and position our Office to successfully pass for the first time, an External Quality Control Review as required under Generally Accepted Government Auditing Standards. By looking at the past we can hope to better the future. This report gives me the confidence to know I am headed in a direction commensurate with meeting my goals.

Sincerely,

Laura L. Doud

LAURA L. DOUD
City Auditor

Attachments

## PERFORMANCE AUDIT OF THE CITY AUDITOR – City of Long Beach

### *Summary of Audit Findings*

- The administrative infrastructure of the office did not meet usual and customary public agency expectations for uniform office policies and procedures, the tracking and documentation of work performed, the hours required to perform it, and the retention of records necessary to support work products.

- There was no quality control system in place to verify staff qualifications and assess compliance with continuing professional education requirements of Generally Accepted Government Auditing Standards. The required certification of auditor independence which is the cornerstone of auditing, was absent from most audits and the office did not implement a policy or practice to guard against auditor conflicts and impairments to independence. Many audits made public were not released in a timely fashion.

- Most of the work products of the office did not meet the requirements of Generally Accepted Government Auditing Standards (GAGAS). Since 1988, GAGAS has required a "peer review" every three years to ensure conformity to standards and internal office policies and procedures, and assessing the quality control process. It appears that the previous administration never underwent the required review.

- There were significant deficiencies in the planning of performance audits and in the fieldwork documentation necessary to support audit findings. Workpapers were not well organized and, in most cases, the files supporting the audits would not meet Generally Accepted Government Auditing Standards.

- The lack of electronic and hard-copy files of audits, workpapers, etc. is indeed troubling. There are incomplete records of work performed – all of which are the property of the City of Long Beach. These documents must be recovered and restored to public custody.

- Missing personnel files are also a source of primary concern. The policies and procedures outlined by the Department of Human Resources obviously were not followed and the files were not maintained as mandated by the City.

- There were significant weaknesses in audit reporting, response and follow-through, and a lack of procedures to assure audit quality control. Notwithstanding the assurance the former City Auditor gave the public, none of the performance audits reviewed contained a statement that the audit was performed in compliance with Generally Accepted Government Auditing Standards. Just as troubling was the absence of independent verification of audit conclusions to assure that the workpapers, in fact, supported the conclusions.

***Audit Recommendations and Status***

The audit provided a benchmark against which the performance of the Office under my management may be measured. It is imperative to restore public confidence in the Office of the Long Beach City Auditor and in the quality of the work it performs. Toward that objective, your Audit makes 26 recommendations, six of them calling for immediate corrective action.

**Recommendation 1: Begin developing a process to track and inventory all engagements initiated.**

**OCA Response:**
The Office has taken steps to implement a system to track and/or monitor all engagements that were initiated after July 18, 2006. All OCA staff are required to complete an Audit, Assignment and Approval Form ("AAA Form") in order to open a job. OCA staff are also required to make final adjustments, if any, to the AAA Form prior to the issuance of the final report. The following information can be found on the AAA Form:

- A tracking number assigned to the particular engagement (job number)
- Type of engagement as defined by Yellow Book Standards
- Objective of engagement
- Staff assigned to the engagement
- Key dates, such as the beginning and end of fieldwork, dates of draft and final reports, as well as management response dates
- Estimated budget based on five budget areas including planning, fieldwork, reporting, review and file clean-up
- Supervisory sign-offs for opening of job, changes to job and job closure

In addition to the AAA Form, the OCA has developed a system in which a member of management monitors all opened engagements with respect to the following areas:

- Staff assignment
- Estimated hours charged to date vs. total budgeted hours
- Estimated date of completion
- Overall job status

Meetings are held on a bi-weekly basis between members of the engagement staff and OCA management in order to monitor the overall engagement progress.

**Recommendation 2: Review the existing *Office of the City Auditor Standards Manual*, May 2003, and require that staff follow the guidelines for audit planning, fieldwork and reporting until the office has an opportunity to revise or develop an alternate set of guidelines.**

**OCA Response:**
In order to provide further direction for conducting audit work that is in conformance with Generally Accepted Government Auditing Standards ("GAGAS") that is tailored to meet the needs and expectations of the current OCA, the *Office of the City Auditor Standards Manual*, May 2003 has been revised in the areas of audit planning, fieldwork and reporting. All current OCA staff have reviewed and signed a statement of receipt and acknowledgement as to the revised version of the *Office of the City Auditor Standards Manual*, May 2003.

**Recommendation 3: Obtain from each audit staff member a statement of conflict of interest, independence, and confidentiality to ascertain any areas of potential independence impairments and to reinforce the profession's ethics and confidentiality values.**

**OCA Response:**
All current OCA staff have certified their independence and omitted the potential for conflict of interest by signing an Annual Independence Representation Statement. In addition, all current OCA staff have signed an Internal Audit Confidentiality Agreement attesting to no direct or indirect disclosure or communication of any and all privileged information.

**Recommendation 4: Establish an office-wide system of quality control that ensures that each engagement deemed to be an audit is independently reviewed by a manager not directly involved with the work to verify that the engagement meets all aspects of auditing standards.**

**OCA Response:**
The OCA currently has a review process in place where the manager and/or deputy assigned to the engagement performs a thorough review of the audit staff's work and report product. However, the OCA agrees that it is of utmost importance that an independent party, at management level or higher, perform a concurring review of the audit workpapers and draft report to ensure that the audit has indeed met standards as set forth by GAGAS. The OCA will immediately implement a mandated level of 3rd party or concurrent review on all engagements.

**Recommendation 5: Survey the audit staff to ascertain the amount and type of continuing professional education they have recently received and develop office-wide protocols for qualified training and tracking of the courses taken.**

**OCA Response:**
OCA management maintains a current listing of the amount and types of continuing professional education ("CPE") obtained by all audit staff, as well as certificates of completion for all courses attended. The OCA is well aware of the CPE requirements as set forth by GAGAS and will comply with those requirements which will take precedence over additional CPE requirements that may be set forth by individual licensures.

**Recommendation 6: Arrange for all staff to attend training covering Government Auditing Standards.**

**OCA Response:**
The OCA is committed to obtaining training that focuses on Government Auditing Standards ("GAS"). We currently have our staff scheduled to attend GAS training in the current fiscal year and will continue to make it a priority in the future.

LLD/nb

SJOBERG EVASHENK
CONSULTING, INC

January 30, 2007

Laura L. Doud
City Auditor
City of Long Beach
Long Beach, CA 90802

Dear City Auditor Doud:

Sjoberg Evashenk Consulting has completed our Performance Audit of the City Auditor's Office, City of Long Beach. As part of this audit, we have issued a *Phase One Report* and a *Phase Two Recommendations for the Future*. While there were many issues of concern which we know your office has already begun to address concerning the management and operations of the office, one of the most critical issues relates to the retention of all shared drives, individual computer hard drives and retained documents within the City Auditor's office.

Our review has revealed significant gaps in audit-related files that will have a deleterious effect on your ability to fulfill the audit responsibilities the residents of Long Beach deserve. We strongly recommend that you request a thorough, full-scale search for any and all City Auditor electronic files in the Technology Services Department's possession.

In summary, what we found is indeed troubling as listed below:

- No support to determine the outcome, closure or completion of 80 of the 184 projects initiated during the three-year period ending June 30, 2006.
- Inadequate documentation for 9 of the 20 non-financial audits we sampled.
- No electronic files were located for 10 audits conducted during fiscal years 2005 and 2006, on which City Auditor staff charged more than 2400 hours.
- Electronic files were insufficient, minimal or otherwise incomplete for 11 other audits conducted during fiscal years 2005 and 2006, on which City Auditor staff charged more than 4400 hours.
- Complete electronic files were found for only 3 of the 39 audits completed during fiscal years 2005 and 2006.

We also found that the projects with missing electronic files, or for which the files were insufficient, minimal or incomplete, included audits of City concessionaires, lease holders, shipyard, housing authority, crime lab, redevelopment agency and police department.



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It is Sjoberg Evashenk Consulting's opinion that audit-related files are as important to a municipal audit organization as legal case files are to a city attorney. The underlying audit evidence supports the auditor's findings and conclusions, and is the basis upon which recommendations for fee recoveries, program compliance and other efficiency improvements are made. The fact that such audit files are missing or insufficient for so many audits conducted during your predecessor's term of office places you in the untenable position of attempting to support prior findings in the event that they are challenged by concessionaires, lessees or City departments without adequate support.

Moreover, you will not be able to draw upon the past audit work papers when conducting current audits at these city concessionaires, lessees or departments. This loss of historic background information will require you to conduct duplicative work rather than to rely on what previous auditors have gathered. In fact, you and your staff have mentioned in interviews that there have already been several instances where you are unable to utilize work conducted by the City Auditor's office in the past because the underlying work papers are missing. No doubt this also causes the City departments additional work, as well as for your staff.

We recommend that you formally request a thorough, full-scale search for any and all City Auditor electronic files in the Technology Services Department's possession, and request that the most sophisticated methods and techniques be utilized in this effort.

If you have any questions, please contact us at (916) 443-1300.

Sincerely,

Marianne P. Evashenk
President

Kurt R. Sjoberg
Chairman

SJOBERG EVASHENK
CONSULTING, INC

January 30, 2007

Laura L. Doud
City Auditor
City of Long Beach
Long Beach, CA 90802

Dear City Auditor Doud:

Sjoberg Evashenk Consulting has completed our Performance Audit of the City Auditor's Office, City of Long Beach. As part of this audit, we have issued a *Phase One Report* and a *Phase Two Recommendation for the Future*. While there were many issues of concern which we know your office has already begun to address concerning the management and operations of the office, one of the most critical issues relates to the inability to locate and return to their appropriate office many personnel files of people who were working in the prior administration of the City Auditor.

Pursuant to discussions during the course of our audit, we understand that upon assuming office in July of 2006 you and your staff conducted a thorough search for all personnel files. The files that could not be located were for several of the19 staff no longer employed by the City Auditor's Office. Of these 19 former staff, 14 were auditors who worked for the Office some time during the period July 1, 2003 to June 30, 2006.

Since only 5 of the 14 files for these auditors could be located, our firm contacted DHR to determine whether any of the 9 unaccounted for personnel files had been transferred to other City of Long Beach departments as employees took new city jobs or were otherwise in your department's custody. DHR staff informed us that two individuals work for other city departments and their personnel files are with the new department; however, they could not locate the remaining 7 missing personnel files. DHR staff also informed us that personnel files for employees terminated from non-City Manager departments (e.g. City Auditor) are to be maintained by that department and not DHR.

The fact that you had previously found personnel files for several long-terminated employees in your office suggests that under the prior administration such files were retained by the City Auditor and not routinely transferred to DHR. However, inexplicably, personnel files for 7 auditors are missing, suggesting that they were either removed by the employees themselves, or inadvertently sent to DHR or another city department.

These missing files are troubling to Sjoberg Evashenk and need to be highlighted for your attention on two important fronts. First, if challenged, a government audit agency that cites auditing standards (as the City Auditor has done for years) must be able to prove that the audit was conducted by appropriately qualified auditors. Consequently,



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personnel records for the auditors performing the work must be available for review and should contain evidence of the auditors' education, experience, certifications and the recent attainment of relevant continuing professional education. Obviously, unless the missing files for these 7 auditors are located, your administration will be unable to defend the reports issued by the previous City Auditor if challenged by any of the City's concessionaires, lessees or departments that were audited by these individuals.

Second, the missing files hamper your ability as City Auditor to appropriately and efficiently provide these former staff with the human resource services expected by any City of Long Beach employee, or to effectively monitor adherence with state and local personnel management mandates. The inability to verify such areas as employment and retirement-related information, job descriptions and promotions, training courses completed, career development and counseling, and awards or recognition received for any of the employee's with missing personnel files leaves the city susceptible to questions of liability. When the issues of due diligence monitoring and oversight are also considered, issues such as the presence of complaints, sexual harassment, abusive behavior, or personnel corrective actions in the files also become paramount.

For these reasons, we are recommending that you initiate a thorough search of DHR files for any of these documents, and if they remain missing, that you request that DHR contact the affected employees to determine whether they possess the personnel files or know where they are located.

If you have any questions, please contact us at (916) 443-1300.

Sincerely,

Marianne P. Evashenk
President

Kurt R. Sjoberg
Chairman