External Quality Control Review

of the

City of El Paso
Internal Audit Office

Conducted in accordance with guidelines of the

National Association of Local Government Auditors

for the period September 1, 2006 through August 31, 2007

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August 31, 2007

Mr. Edmundo Calderon
Chief Internal Auditor
City of El Paso
Office of the City Manager
2 Civic Center Plaza
El Paso, TX 79901

Dear ~~Mr. Calderon~~ Edmundo,

We have completed a peer review of the City of El Paso Internal Audit Office for the period September 1, 2006 through August 31, 2007. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Compliance with International Standards for the Professional Practice of Internal Auditing,* published in July 2007 by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *the International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors as part of their *Professional Practices Framework.* Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the City of El Paso Internal Audit Office's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *the Standards* for assurance and consulting engagements during the period September 1, 2006 through August 31, 2007.

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

Alan Gutowski
Team Leader
City of Albuquerque
Office of Internal Audit
And Investigations

Audrey Evins
Team Member
City of Las Cruces
Internal Audit Office

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August 31, 2007

Mr. Edmundo Calderon
Chief Internal Auditor
City of El Paso
Office of the City Manager
2 Civic Center Plaza
El Paso, TX 79901

Dear ~~Mr. Calderon~~ Edmundo,

We have completed a peer review of the City of El Paso Internal Audit Office for the period September 1, 2006 through August 31, 2007 and issued our report thereon dated August 31, 2007. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

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

- The Audit process is streamlined, consistent, and well organized.
- The work environment in cohesive, and operating in a true teamwork environment.
- The Office Management and Staff appear to have a good rapport with City Management and Personnel.
- It is evident that Staff is receiving training and support needed to excel professionally.

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

- The source of criteria is not cited in the finding summary work paper or the audit report.

  Suggestion: Include the criteria source in the finding summary work paper and the audit report

- The understanding of the client consulting engagement is not documented.

  Suggestion: Implement a consulting engagement letter.

- A written understanding for consulting engagements is not communicated consistently.

  Suggestion: A written understanding should be communicated for all consulting engagements.

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

Sincerely,

Alan Gutowski
City of Albuquerque
Office of Internal Audit
And Investigations

Audrey Evins
City of Las Cruces
Internal Audit Office

Chief Internal Auditor's Responses
to the
External Quality Control Review

JOHN COOK
MAYOR

JOYCE WILSON
CITY MANAGER

EDMUNDO S. CALDERON, CIA, CGAP
CHIEF INTERNAL AUDITOR

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BETO O'ROURKE, DISTRICT 8

INTERNAL AUDIT OFFICE

August 17, 2007

Alan R. Gutowski, CPA, CISA, CITP
Audit Manager
City of Albuquerque
1 Civic Plaza NW, Suite 5025
Albuquerque, NM 87102

RE: External Quality Assurance Review

Dear Alan,

I have reviewed your Report dated August 17, 2007, containing the results of the External Quality Assurance Review for the Internal Audit Office of the City of El Paso. I am very pleased with the results of your team's work on verifying our compliance with the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors.

I submit the following responses to your findings and recommendations:

Risk Management Standard – Effective immediately, the Internal Audit Office's staff will cite specific criteria in the development of their findings. Specific verbiage will be used in the Finding Worksheet, under the Criteria Section, quoting specific guidelines used. The Finding Worksheets will continue to be reviewed by either the Audit Manager or Chief Internal Auditor.

Engagement Planning – Effective immediately the *Consulting Engagement Agreement* form contained in the Internal Audit Office's library will be used on all Consulting Engagements. The agreement will be signed by myself and the head of the department requesting the Consulting or Special Project. The agreement will be made part of the work papers and will be reviewed by either the Audit Manager or Chief Internal Auditor.

Engagement Scope – Effectively immediately, the engagement scope will be documented in the *Consulting Engagement Agreement* that will be issued for every consulting or special project request. The agreement will be signed by myself and the head of the department requesting the Consulting or Special Project. The agreement will be made part of the work papers and will be reviewed by either the Audit Manager or Chief Internal Auditor.

I want to extend my personal thanks to you and Audrey Evins, Internal Audit Manager, City of Las Cruces and Bill Greene, Deputy City Auditor, City of Phoenix, for helping our office in completing this External Quality Assurance Review. The information you have provided us will serve us tremendously in the coming years. The improvements you have suggested will ensure that our Audit Reports and Memorandums will continue to meet the Standards in future audits and projects.

Very Truly Yours

Edmundo S. Calderon

Edmundo S. Calderon, CIA, CGAP
Chief Internal Auditor

Letter Regarding Compliance
With
Generally Accepted Government Auditing Standards

August 31, 2007

Mr. Edmundo Calderon
Chief Internal Auditor
City of El Paso
Office of the City Manager
El Paso, Texas 79901

Dear Edmundo,

We have completed a limited review of compliance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller of the United States. The objective of this limited review consisted of determining what actions the Internal Audit Office must take to become compliant with GAGAS in the future.

GAGAS Chapter 1 Applicability Section 1.05 c states "The Single Audit Act Amendments of 1996 (Public Law 104-156) require that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal awards. The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* which provides the government-wide guidelines and policies on performing audits to comply with the Single Audit Act, also requires the use of GAGAS". GAGAS further defines federal awards as federal financial assistance, (grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance) and cost-reimbursements contracts.

We identified the following areas that need to be strengthened in order to come into compliance with GAGAS.

- GAGAS 3.42 Competence Standard. Audit organizations should ensure that staff members assigned to conduct an audit or attestation engagement under GAGAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment.

  Observation: The Audit Assignment Sheet does not include a section for the assigned staff to attest to their technical knowledge, skills, and experience to perform the audit.

- GAGAS 3.45 At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

Observation: Not all staff obtained the required training per GAGAS 3.45 for the period under review.

- GAGAS 8.07 The reporting standard related to the contents of the report for performance audits conducted in accordance with GAGAS is:

  The audit report should include the objectives, scope, and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and if applicable, the nature of any privileged and confidential information omitted.

  Observation: Methodology was not included in the audit reports tested.

- GAGAS 8.17 When auditors detect deficiencies in internal control that are not significant, they should communicate those deficiencies in a separate letter to officials of the audited entity unless the deficiencies are clearly inconsequential considering both qualitative and quantitative factors. If the auditors have communicated deficiencies in a separate letter to officials of the audited entity, they should refer to that letter in the audit report.

  Observation: A management letter was given to the audited entity without reference of the letter in the audit report.

- GAGAS 8.30 Auditors should report that the audit was made in accordance with GAGAS.

  Observation: The audit reports do not cite GAGAS

- GAGAS 8.38 The reporting standard related to report quality for performance audits performed in accordance with GAGAS is:

  The report should be timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits.

  Observation: One audit under review indicated the Report Date was 90 days subsequent to the Exit Conference

  Recommendation: Delays between the Exit Conference and the issuance of the Report should be documented in the audit file.

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

Sincerely,

Alan Gutowski
City of Albuquerque
Office of Internal Audit and Investigations

Audrey Evins
City of Las Cruces
Internal Audit Office