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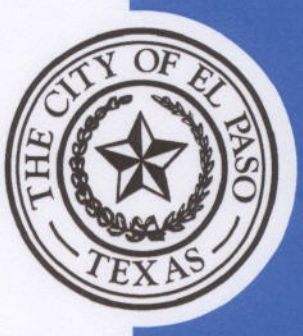

October 6, 2010

LaDonia M. Wilkins, CPM, CIGA
Deputy Assistant Inspector General for Audits
Office of the Inspector General
Government of the District of Columbia

Dear LaDonia,

Thank you and your team very much for completing Quality Assurance Review (Peer Review) for the City of El Paso's Internal Audit Office during the week of September 13-17, 2010. Two sets of professional standards were used to complete the Peer Review. One set of professional standards were the Generally Accepted Government Auditing Standards established by the Comptroller General of the U.S. General Accountability Office. The other set of professional standards were the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

I have received your final reports for the Peer Review. For the findings identified under the Generally Accepted Government Auditing Standards, I submit the following responses to the findings.

1. **Stating Compliance with GAGAS in Audit Reports** – I agree with the finding and recommendation. The City of El Paso's Internal Audit Office will immediately begin using the prescribed verbiage in our Audit Reports as required by Standard 1.12. We will be using the verbiage contained in Section 8.30 of the Generally Accepted Government Auditing Standards.

2. **Planning** – I agree with the 2 findings and recommendations contained in this area. Corrective action has already been taken to insure full compliance with Standards 7.11 b. & c. and 7.32. The results of the Peer Review identified 1 out of 3 audit files did not contain an Internal Control Questionnaire. Staff has been instructed to ensure that every audit completed will contained an Internal Control Questionnaire which will include an assessment of risks as they relate to internal controls, information systems controls, and fraud.

   Also included in this assessment of risks will be inquires of outside agencies/entities conducting audit work in the area under review as required by Standard 7.12 a-c. The audit clients will be specifically asked if outside agencies/entities have conducted audits in their area. Copies of the Audit Reports will be requested.

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John F. Cook

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District 2
Susie Byrd

District 3
Emma Acosta

District 4
Carl L. Robinson

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Rachel Quintana

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Eddie Holguin Jr.

District 7
Steve Ortega

District 8
Beto O'Rourke

City Manager
Joyce A. Wilson

3. **Audit Documentation** – I agree with the finding and recommendation. Corrective action has already been taken to insure full compliance with Standards 7.77 & 7.80. The results of the Peer Review identified 1 out of 3 audit files contained the deficiency of work papers being prepared and reviewed after the report was issued. Staff has been instructed that Audit Reports are to be dated after all field work has been completed and reviewed. Under no circumstances will Audit Reports be dated before work papers are still being prepared and reviewed.

   In reviewing the Audit file in question, the reason why the work papers were dated after the Audit Report was issued was due to the Auditor and Audit Manager attempting to make the work papers neat. Under no circumstances was there audit work being completed after the Audit Report was issued. The audit work was completed before the Audit Report was written.

4. **Reporting** – I agree with the 2 findings and recommendations in this area. Corrective action has already been taken to insure full compliance with Standards 8.13 and 8.27. For Standard 8.13, the Peer Review identified 2 out of 3 audit files reviewed did not cite the audit methodology used to complete the audit. Our Audit Report's format has been revised to included separate sections for Executive Summary, Background, Audit Objectives, Audit Scope, Audit Methodology, Findings, and Conclusion. This revision will ensure that we satisfy the requirements of this Standard.

   For Standard 8.27, the Peer Review identified that 1 out of 3 audit files reviewed did not contain an audit conclusion for each audit objective. Effective immediately, the audit staff has been instructed to include in the Conclusion Section of their Audit Reports that the audit objectives have either been met or not.

For observations identified under the International Standards for the Professional Practice of Internal Auditing, I submit the following responses to the observations.

1. **Observation 1** – Regarding the suggestion that Consulting Reports and Management Letters should include planned actions and management's comments. It is our procedure to required management's responses for Audit Report Findings only. Issues identified in our Consulting Reports/Memos and Management Letters are for information purposes only for management's use. I offer Standard 2410.C1 which states *"Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and needs of the client".*

   I also offer Practice Advisory 2410-1, #1 which states *"Although the format and content of the final engagement communication varies by organization or type of engagement, they are to contain, at a minimum, the purpose scope, and results of the engagement"*.

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2. **Observation 2** – Regarding the suggestions that our Consulting Reports/Memos provide a reference that the audit work was conducted in accordance with IIA Red Book Standards. It has been our practice to include a statement in our Audit Reports that the audit was "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing." It has not been our practice to include this statement in our Consulting work memos. I offer Standard 2430 which states *Internal auditors may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing," only if the results of the quality assurance and improvement program support this statement.* The standard states "may". Therefore, we have opted not to include this statement in our Consulting Reports/Memos.

3. **Observation 3** – Report findings did not always tie back to supporting work papers, in accordance with IIA Red Book Standards. In reviewing the Audit File in question, the audit was a very difficult engagement. The data reviewed was very complex and hard to interpret. The Peer Review Team has identified a need for data to be presented in an understandable format. I offer Standard 2300 which states *Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives*. I also offer Standard 2310 which states *Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives*. Going forward the Internal Audit Staff has been instructed to include in their work papers summaries of the data obtained during the course of their audit work. This data will be referenced to the supporting work papers. This should make it possible for a prudent person to reach the same conclusion as the auditor.

I am very confident that our Quality Control System is properly designed and operating effectively. The issued identified in this Quality Assurance Review are isolated instances and not representative of our entire audit process. In several cases, only 1 instance was identified. The majority of our audit engagements reviewed met both professional standards.

Again I would like to thank the Peer Review Team for their efforts in assisting us in evaluating our Audit Shop. It was truly a learning experience and I found it very valuable.

Respectfully Yours,

Edmundo S. Calderón

Edmundo S. Calderón, CIA, CGAP, MBA
Chief Internal Auditor

THE CITY OF EL PASO TEXAS

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