Audit Review and Follow-Up Procedures

PURPOSE

To establish guidelines for coordinating departmental audit reviews between the City Auditor and City departments and implementing audit recommendations to the satisfaction of the City Manager, the City Council, and the City Auditor.

AUTHORITIES

City Charter, Sections 805-805.2.

POLICY

It is the administrative policy of the City of San Jose that audit reviews be conducted and resulting recommendations implemented or otherwise resolved to the satisfaction of the City Manager, the City Council, and the City Auditor.

In accordance with City Charter Section 805, the City Auditor conducts or causes to be conducted annual post audits of all the fiscal transactions and accounts kept by or for the City. The City Auditor shall conduct performance audits to determine:

1. Whether the audited department, office or agency, is managing or utilizing its resources, including public funds, personnel, property, equipment and space in an economical and efficient manner.

2. Causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies and equipment.

3. Whether the desired results are being achieved.

4. Whether objectives established by the Council or other authorizing body are being met.

The City Auditor shall have access to, and authority to examine, any and all documents, records, accounts, and other property of any City department, office or agency, with the exception of the office of any elected official. It is the duty of any officer, employee or agent of the City having control of such records to permit access to, and examination thereof, upon the request of the City Auditor or his or her authorized representative. It is also the duty of any such officer, employee or agent to fully cooperate with, and to make full disclosure of all pertinent information.
THE AUDIT PROCESS

The City Auditor’s Office conducts performance audits in accordance with the Generally Accepted Government Auditing Standards (GAGAS) promulgated by the Government Accountability Office (GAO), and is peer-reviewed every two (2) years to ensure compliance with those standards. While each audit project is unique, generally most are conducted in a few phases:

- **Project initiation** – Upon initiation of an approved project, the City Auditor’s Office will schedule an *entrance conference* with the Department(s) and the City Manager’s Office to discuss the preliminary audit scope, coordinate staffing to be involved in the project, and discuss the audit schedule and next steps. The City Auditor assigns staff to complete the audit work.

- **Preliminary survey** – During the preliminary survey phase, auditors thoroughly research the subjects to be audited, identify potential risks of the audited entities, clarify audit objectives, and develop workplans for the audit. After assessing risks and controls, the City Auditor’s Office may schedule a *project scoping meeting* with the Department(s) and the City Manager’s Office to discuss the audit scope and objectives in more detail.

- **Fieldwork** – During the fieldwork phase, auditors perform detailed data collection and analysis to address the audit objectives and complete the audit steps included in their fieldwork audit program. This may include, but not be limited to, tests to determine the prevalence and severity of any problems that are identified. During the fieldwork phase, the Auditor’s Office may schedule *periodic progress meetings* with the Department(s) and the City Manager’s Office.

- **Report review and publication** – Once the bulk of the audit fieldwork is completed, the City Auditor’s Office prepares a confidential summary of potential audit findings for discussion with the Department(s) and the City Manager’s Office at a *pre-draft meeting*. The purpose of the *pre-draft meeting* is to discuss preliminary findings and recommendations.

The City Auditor’s Office then prepares a preliminary draft of the audit report, and schedules an *exit conference* with the Department(s) and the City Manager’s Office to discuss the contents of the report (in some cases, external entities may also be involved in the *exit conference*). After the *exit conference*, the City Auditor’s Office prepares and issues a final draft audit report. A formal Administration response (drafted by the responsible Department Director(s) and approved by the City Manager or designee) is requested within three (3) weeks of the *exit conference*. The final audit report, including the written response from the Department Director(s) and/or the City Manager Office, is issued by being printed and publicly released by the City Auditor’s Office and distributed by the City Manager’s Office as part of the City Council Committee packet no less than seven (7) days prior to the appropriate City Council Committee meeting.

- **Recommendation-follow-up** – After the audit is issued, the Department(s) are responsible for implementation of audit recommendations. The City Auditor’s Office monitors and tracks recommendations on a semi-annual basis (as described below), and is available at any time to discuss the recommendations.
COORDINATION OF ANNUAL EXTERNAL FINANCIAL AUDIT

The City Auditor is responsible for contracting for and coordinating the annual external financial audits for the City with an external certified public accounting firm. This includes the audit of the City’s Comprehensive Annual Financial Report, Single Audit, related financial audits, and agreed-upon-procedures. The City Auditor’s Office coordinates a periodic request for proposals, contract preparation, and any needed contract amendments with the City’s Finance Department and the City Attorney.

NOTIFICATION OF OTHER EXTERNAL AUDITS

To facilitate coordination of audit work, Departments shall notify the City Auditor of any other audits that may be conducted by outside agencies that result in a written audit report. This may include compliance reviews of City programs and/or financial transactions conducted by outside agencies that result in a written report and could reasonably be deemed as an audit; however, this does not include periodic monitoring visits or general oversight by granting authorities unless they result in a written report. Departments are to provide copies of any written report to the City Auditor.
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PROCEDURES

Guidelines for obtaining City Council approval of City Auditor assignments, coordinating audit report issuance and the Administration’s response, and reporting on the status of open audit recommendations:

A. CITY COUNCIL APPROVAL OF ANNUAL AUDIT WORKPLAN

City Auditor

1. Request suggestions for audit subjects from City Council members, the City Manager, and Senior Staff.
2. Prepare a proposed audit workplan incorporating a risk assessment of City Departments and programs, and suggestions from others.
3. Distribute rough draft of proposed audit workplan to the City Manager and Senior Staff for purposes of discussing scope and timing.

City Manager and Senior Staff

4. Review proposed workplan, and discuss scope and timing issues with the City Auditor.

City Auditor

5. Submit to the Rules Committee a proposed audit workplan no less than five (5) days prior to the meeting of the Rules Committee.

Rules Committee

6. Review and approve the proposed audit workplan for the next fiscal year.

B. CITY COUNCIL APPROVAL OF ADDITIONS TO THE APPROVED ANNUAL AUDIT WORKPLAN

City Council Members, Council Appointees, City staff, or members of the public

1. Submit request for City Auditor services to the City Auditor and/or the Rules Committee.

City Auditor

2. Review request. Respond to the requestor and/or the Rules Committee (as appropriate) including: availability of staff and resources, any external time constraints relative to the requested assignment, and other factors the City Auditor deems important.

Rules Committee or City Council

3. Review the request and the City Auditor’s response. Approve or disapprove the requested assignment.
C. COORDINATION OF AUDIT REPORT ISSUANCE AND THE ADMINISTRATION’S RESPONSE

City Auditor

1. Prepare preliminary draft of audit report. Send copies to City Manager or Designee, Department Director(s), and other Departments affected by the audit findings. Hold an Exit Conference with Department Director(s) and/or City Manager’s Office to discuss findings and recommendations. Advise City Manager or Designee of scheduled Exit Conference. Determine whether outside agencies affected by the audit findings need to be included in the Exit Conference process.

2. Revise preliminary draft as necessary and submit final draft audit report to City Manager or Designee and Department Director(s) with a request for approved Administration response within three weeks.

Department Director(s)

3. Prepare response to final draft audit report indicating what corrective action has been or will be taken and the implementation target date for each recommendation. Send the response to the City Manager or Designee within one (1) week (but no later than two (2) weeks) from receipt of the final draft report.

City Manager or Designee

4. Within one (1) week of receipt, review and approve Department(s) response and send the approved response to the City Auditor.

City Auditor

5. Issue written audit report, including the City Manager’s approved response, as part of the Council Committee packet no later than seven (7) days prior to the appropriate Council Committee meeting.

City Auditor and Department Director

6. Present audit report to the Public Safety, Finance, and Strategic Support Committee, and request a cross-reference to the City Council.

7. Present audit report to the City Council.

Department Director(s)

8. Implement recommendations, and provide status updates on the status of open recommendations through the City Auditor’s Semi-Annual Recommendation Follow-up Report (below).
D. **SEMI-ANNUAL RECOMMENDATION FOLLOW-UP REPORT**

City Auditor

1. At the end of each reporting period (June 30 and December 31), provide the City Manager’s Office, Department Directors, and relevant staff with a report of open recommendations showing the prior implementation status, and requesting an updated summary of the status of each open recommendation.

Department Director

2. Ensure report is distributed to proper staff as required to obtain response information. Ensure that responses are prepared and sent to the City Auditor with copies to the City Manager’s Office and other affected Departments.

   NOTE: *Department responses to the City Auditor should be accompanied by relevant supporting data, procedures, etc., that can be used by audit staff to verify the implementation status of each recommendation.*

City Auditor and staff

3. Review Department responses and verify implementation of recommendations. Prepare draft recommendation follow-up report summarizing the verified status of each open audit recommendation.

4. Send preview copy of recommendation follow-up report to the City Manager and Department Directors not less than one (1) week prior to publication.

City Manager’s Office and Department Directors

5. Review City Auditor’s report and notify City Auditor of any issues.

City Auditor

6. Issue the Semi-Annual Recommendation Follow-Up Report as part of the packet for the Public Safety, Finance, and Strategic Support Committee not less than seven (7) days prior to the Committee meeting.

7. Present Report to the Public Safety, Finance, and Strategic Support Committee and, as needed, to the City Council.

   /s/ Sharon Erickson       June 25, 2012
   City Auditor               Date