



## THE CITY OF SAN DIEGO

DATE: January 17, 2022

TO: Honorable Members of the Audit Committee

FROM: Andy Hanau, City Auditor

SUBJECT: **City Auditor's Peer Review Results**

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People often ask, "who audits the auditors?" Generally Accepted Government Auditing Standards (GAGAS) require that all audit organizations undergo an external audit called a 'peer review' every three years. These peer reviews evaluate our adherence to the Standards, which ensures the independence, objectivity, and accuracy of our audit work and reports.

The Association of Local Government Auditors recently completed our peer review for the period July 1, 2019 through June 30, 2022, and their report and management letter are enclosed. I am very pleased that the independent peer review team again gave the Office of the City Auditor (OCA) the highest pass rating, and found that OCA has conducted work in full compliance with GAGAS. Reaching full compliance reflects my staff's dedication to audit excellence and our collective commitment to ensuring OCA continues to be a leader in local government performance auditing.

I have reviewed the management letter provided by the peer review team. I have also attached my response to their comments regarding the areas OCA excels and their recommendation to further demonstrate our adherence to GAGAS.

Respectfully submitted,

Andy Hanau  
City Auditor

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cc: Honorable Mayor Todd Gloria  
Honorable City Council Members  
Eric Dargan, Chief Operating Officer  
Charles Modica, Independent Budget Analyst

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# External Quality Control Review

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of the  
City of San Diego  
Office of the City Auditor

Conducted in accordance with guidelines of the  
**Association of Local Government  
Auditors**  
for the period July 1, 2019–June 30, 2022

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## Association of Local Government Auditors

December 12, 2022

Andy Hanau, City Auditor  
Office of the City Auditor  
City of San Diego  
600 B Street, Suite 1350, MS 605 B  
San Diego, CA 92101

Dear Mr. Hanau,

We have completed a peer review of the San Diego Office of the City Auditor for the period July 1, 2019, through June 30, 2022. In accordance with generally accepted government auditing standards peer review requirements, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. Our procedures included:

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

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case but does imply adherence in most situations. Organizations can receive a rating of pass, pass with deficiencies, or fail. The San Diego Office of the City Auditor has received a rating of pass.

Further, based on the results of our review, it is our opinion that the San Diego Office of the City Auditor's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for audits during the period July 1, 2019, through June 30, 2022.

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

Sincerely,

*Owen Clark*  
Owen Clark, CPA  
Deputy County Auditor  
Howard County, MD

*Jeff Connor*  
Jeff Connor  
Senior Auditor  
City of Chattanooga, TN

*Daniel Williams*  
Daniel Williams  
Senior Performance Auditor  
Oakland, CA



## **Association of Local Government Auditors**

December 12, 2022

Andy Hanau, City Auditor  
Office of the City Auditor  
City of San Diego  
600 B Street, Suite 1350 MS 605 B  
San Diego, CA 92101

Dear Mr. Hanau,

We have completed a peer review of the City of San Diego Office of the City Auditor for the period July 1, 2019, through June 30, 2022, and issued our report thereon dated December 8, 2022. 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:

- Your office has done exceptionally well at conducting thorough citywide risk assessments in each year of the review period. These risk assessments are an invaluable tool that allow the office to identify and prioritize audit topics that will greatly benefit the City of San Diego.
- Your office has designed an Audit Standards Plan that thoroughly monitors each performance audit's adherence to the Government Auditing Standards. This plan, which is reviewed at all levels of the organization, has proven to be an effective tool to ensure compliance with the auditing standards.
- The Office of the City Auditor is well regarded nationally for its outstanding audits. It received the Association of Local Government Auditors 2021 Distinguished Knighton Award for an extra-large sized shop for the Performance Audit of the City's Major Building Acquisition Process.

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

While we found your organization consistently identifies, documents, and mitigates any threats to audit independence, in one case we reviewed the documentation was not clear on roles of the assigned audit staff and the independence safeguards that had been employed. Therefore, in addition to the documentation that is already maintained, we suggest more clearly specifying each auditor's roles and responsibilities, and any independence safeguards employed in each audit file.

Specifically, Standard 3.33 states that in cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level. In our review of a performance audit, it was noted by the review team that an assigned auditor to the performance audit had declared a potential independence threat in their annual independence evaluation that may have been applicable to the performance audit. While this potential impairment was disclosed and a safeguard to eliminate or reduce the threat was documented in the employee's annual independence evaluation, no record of the potential threat to independence or a safeguard was noted in the performance audit's documentation. Based on a discussion with the organization, this potential conflict was in fact reviewed during the planning

stage of the audit, at which point a safeguard was confirmed. Specifically, the auditor was only assigned to the audit for administrative and quality control purposes and did not perform any audit functions. The review team noted that the auditor that had declared the potential independence threat did not sign off on any work papers as either preparer or reviewer in the performance audit. While the threat to independence was documented in the auditor's annual independence review and adequate safeguards were employed, the lack of documentation in the audit file itself made it unclear what the safeguards were.

We do not believe this lack of documentation impacted the quality of the audit nor the organization's overall adherence to the independence framework set forth in *Government Auditing Standards*. However, we would recommend that documentation of safeguards applied to mitigate potential independence threats during a performance audit be maintained in the engagement's audit file in the future.

We extend our thanks to you for the hospitality and cooperation extended to us during our review.

Sincerely,



Owen Clark, CPA  
Deputy County Auditor  
Howard County, MD



Jeff Connor  
Senior Auditor  
City of Chattanooga, TN



Daniel Williams  
Senior Performance Auditor  
Oakland, CA



## THE CITY OF SAN DIEGO

December 29, 2022

Owen Clark, Deputy County Auditor, Howard County, MD  
Jeff Connor, Senior Auditor, City of Chattanooga, TN  
Daniel Williams, Senior Auditor, City of Oakland, CA

I am providing this response to the Association of Local Government Auditors (ALGA) External Quality Control Review of the City of San Diego Office of the City Auditor for the period July 1, 2019 through June 30, 2022. I am very pleased that your independent peer review team found that our office has conducted work in full compliance with Government Auditing Standards (the Yellow Book) during the review period.

As the Yellow Book states, the Standards "provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services." We have again been deemed to be in full compliance. I would like to note that this determination is a result of my staff's dedication to audit excellence and our collective commitment to ensuring that OCA continues to be a leader in local government performance auditing.

I have reviewed the management letter you provided, and I am pleased that your assessment highlights some of the many areas in which my Office excels. Specifically, 1) our comprehensive annual risk assessment, which identifies the most critical City programs and activities for audit; 2) our Audit Standards Plan checklist tool that helps ensure adherence to Standards on every audit; and 3) the outstanding quality and positive impact of our audits.

Utilizing our Annual Citywide Risk Assessment process and input from the City's Audit Committee and Councilmembers has helped to ensure we focus our audit resources on areas of high impact and results. In addition, OCA has used the Audit Standards Plan checklist tool for many years, and we continuously update the checklist as needed to ensure that each audit we issue complies with Standards. And, as always, our goal is to produce audits that add value to City operations, municipal decision-making and, most importantly, result in significant benefits for City residents and taxpayers. I appreciate your recognition of the positive impact we provide through reports, such as our award-winning Performance Audit of the City's Major Building Acquisitions Process and many others.



In addition to audit excellence, we are committed to continuous improvement. To that end, I very much appreciate the suggestion you have provided for my Office to further demonstrate our adherence to Standards. Specifically, I agree with your observation that, while we consistently identify, document, and mitigate threats to audit independence, we could improve the clarity of the documentation. I note that independence is a foundational core value for my office, and our commitment to preserving and enhancing this Office's independence is unambiguous. Accordingly, I agree with your recommendation to add to our existing, Standards-compliant annual process by specifying independence threats and safeguards employed and more clearly identifying staff roles in each audit file. The peer review report noted that the issue identified did not compromise adherence to the Standards but provided the suggestion for our office to document an existing practice to improve clarity. We plan to implement this enhancement in the next 30 days by updating our audit staff assignment form template and procedures to include these elements. This will help ensure that it is more easily apparent to observers whether and how any independence safeguards were employed on an audit.

I would like to sincerely thank the ALGA peer review team for their work. This peer review has reaffirmed our commitment to the Standards and has validated existing processes while providing important feedback to further enhance the quality of our audit process. I want to thank the peer review team members for their time, professionalism, and commitment to improving local government auditing.

Respectfully submitted,



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Andy Hanau  
City Auditor