



External Quality Control Review

of the
City of Colorado Springs,
Colorado
Office of the City Auditor

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period July 1, 2008 – June 30, 2013



Association of Local Government Auditors

January 10, 2014

Mr. Denny Nester
City Auditor
Office of the City Auditor
City Hall
107 North Nevada Avenue, Suite 200
Colorado Springs, Colorado 80901

Dear Mr. Nester,

We have completed a peer review of the Office of the City Auditor - Colorado Springs for the period July 1, 2008 through June 30, 2013. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing* 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 conformance 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*. Our procedures included:

- Reviewing the audit organization's written policies and procedures;
- Reviewing organization risk assessment processes and development of the annual audit plan;
- Reviewing internal monitoring procedures;
- Reviewing a sample of assurance and consulting engagements working papers;
- Reviewing documents related to independence, training, and development of auditing staff; and
- 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, conformance 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 Office of the City Auditor - Colorado Springs' internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the period July 1, 2008 through June 30, 2013.

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

Sincerely,

David A. Schroeder
Office of the City Controller
Audit Division
Houston, Texas

Joanne Whitmore
Mecklenburg County
Department of Internal Audit
Charlotte, North Carolina

Miguel Montiel
City of El Paso
Internal Audit Office
El Paso, Texas



Association of Local Government Auditors

January 10, 2014

Mr. Denny Nester
City Auditor
Office of the City Auditor
City Hall
107 North Nevada Avenue, Suite 200
Colorado Springs, Colorado 80901

Dear Mr. Nester,

We have completed a peer review of the Office of the City Auditor - Colorado Springs for the period July 1, 2008 through June 30, 2013 and issued our report dated January 10, 2014. 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:

- Since 2011, the audit organization has implemented and continued to enhance their use of automated working papers, which helps increase audit efficiency and structurally embed procedures that ensure conformance with professional standards
- Leadership within the audit organization demonstrates a strong commitment to adding value to all stakeholders.
- Has a culture and performance metrics that promote staff input and involvement in the annual audit planning process.
- Scopes of work include highly complex and challenging technical business processes requiring a dynamic and creative project management approach

We offer the following observations and suggestions to enhance your organization's demonstrated conformance to *International Standards for the Professional Practice of Internal Auditing*:

Observation

Attribute Standard 1311 requires internal assessments of the Quality Assurance and Improvement Program (QAIP) to be performed and states:

"Internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices."*

Further, Standard 1320 requires the results be communicated to the governing body, and states: *"To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually."*

The audit organization has developed and is formalizing the implementation of consistent internal self-assessments. However, to date, the results generated from the assessments are not formally compiled, nor provided to City Council and/or the recently formed Audit Committee.

Suggestion

Consider creating an annual process that includes aggregating results of internal quality monitoring procedures to underscore areas for improvement and communicate them annually as part of other regular communications with City Council and the Audit Committee.

Observation

Attribute Standard 1312 requires external assessments of the QAIP be performed "at least once every five years." The audit organization had its' last external assessment performed in 2006.

Suggestion

Continue to have external assessments at least every five years to provide assurance to stakeholders of compliance to professional standards and demonstrate a validated process for accountability and reliability.

Observation

Standard 2500.A1 and 2500.C1 requires the internal audit activity "*.. establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*" and "*must monitor the disposition of results of consulting engagements...*",

While the Audit Organization has established a monitoring process, the population of observations/recommendations being addressed does not include those made by external auditors and others.

Suggestion

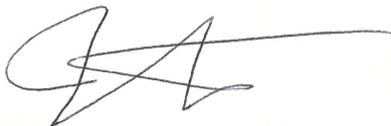
The follow up process can be further enhanced by expanding the universe to include tracking management disposition of findings from work of other internal auditing or control monitoring functions within the organization, external auditors, and other professional services firms/consultants. This expands and supports the dialogue and alignment of Enterprise Risk Management, Risk Assessment, and audit efficiency.

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,



David A. Schroeder
Office of the City Controller
Audit Division
Houston, Texas



Joanne Whitmore
Mecklenburg County
Department of Internal Audit
Charlotte, North Carolina



Miguel Montiel
City of El Paso
Internal Audit Office
El Paso, Texas



Office of the City Auditor

Date: January 10, 2014

To: Kathy Knox, CIA, CRMA, CFE, CGFM
Deputy Executive Officer, Audit
Los Angeles, Metropolitan Authority
Los Angeles, CA 90014

Re: City Council's Office of the City Auditor, Colorado Springs

Dear Ms. Knox,

We have received the results from the Association of Local Government Auditors' (ALGA) peer review you performed for the period of July 1, 2008 through June 30, 2012. We acknowledge your opinion that *our internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with:*

- The International Standards for the Professional Practice Framework issued by the Institute of Internal Auditors.

We recognize this as **full conformance** and also appreciate the recommendations that your review provided as an opportunity for our office to improve. Thank you for your comments about the areas where you found our office excels and your observations and suggestions to further enhance our operations. Please see responses to your observations and recommendations for both reports on the following pages.

We would like to express our appreciation to you and the ALGA Peer Team :

David Schroeder, CPA, CISA
City Auditor
Office of the City Controller
Houston, TX

Joanne Whitmore, CPA/CFF, CIA, CFE
Internal Audit Director
Mecklenburg County Government
Charlotte, NC

Miguel Montiel, CIA, CGAP
Audit Supervisor
City of El Paso
El Paso, TX



Office of the City Auditor

We would like to extend our thanks to each of you for your valuable time, professionalism and skill exhibited during this peer review process. We appreciate the integrity and respect demonstrated to our staff in their approach and communications throughout this process. We found the process beneficial to our function and the overall profession of internal auditing.

Sincerely,

Denny Nester, CPA, CIA, CFE, CGFM, CGAP
City Auditor

Colorado Springs Office of the City Auditor Acknowledgement

Peer Review Observations with Responses:

Observation

Attribute Standard 1311 requires internal assessments of the Quality Assurance and Improvement Program (QAIP) to be performed and states:

"Internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices."*

Further, Standard 1320 requires the results be communicated to the governing body, and states: *"To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually."*

The audit organization has developed and is formalizing the implementation of consistent internal self-assessments. However, to date, the results generated from the assessments are not formally compiled, nor provided to City Council and/or the recently formed Audit Committee.

Suggestion

Consider creating an annual process that includes aggregating results of internal quality monitoring procedures to underscore areas for improvement and communicate them annually as part of other regular communications with City Council and the Audit Committee.

Response

We concur. We are currently developing an annual Audit Accomplishments report where we will communicate the results of our internal quality assurance process. We will distribute the report to the Audit Committee and City Council. It will be posted on our website.

Observation

Attribute Standard 1312 requires external assessments of the QAIP be performed "at least once every five years." The audit organization had its' last external assessment performed in 2006.

Suggestion

Continue to have external assessments at least every five years to provide assurance to stakeholders of compliance to professional standards and demonstrate a validated process for accountability and reliability.

Response

We concur. We plan to have an external assessment every five years.

Colorado Springs Office of the City Auditor Acknowledgement

Observation

Standard 2500.A1 and 2500.C1 requires the internal audit activity "*.. establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*" and "*must monitor the disposition of results of consulting engagements...*",

While the Audit Organization has established a monitoring process, the population of observations/recommendations being addressed does not include those made by external auditors and others.

Suggestion

The follow up process can be further enhanced by expanding the universe to include tracking management disposition of findings from work of other internal auditing or control monitoring functions within the organization, external auditors, and other professional services firms/consultants. This expands and supports the dialogue and alignment of Enterprise Risk Management, Risk Assessment, and audit efficiency.

Response

We concur. We will evaluate and expand our follow up universe to include the external auditors and others. We plan to consider how other audit organizations comply with this standard as we develop our processes.

I acknowledge the responses presented above as the commitments and representations of the City Auditor of Colorado Spring, Colorado relating to the observations and recommendations provided by the ALGA peer review team in assessing our compliance with the International Standards for the Professional Practice of Internal auditing as issued by the Institute of Internal Auditors for the period of July 1, 2008 through June 30, 2013.



Denny L. Nester, CPA, CIA, CFE, CGFM, CGAP
City Auditor
City of Colorado Springs