



External Quality Control Review

of the
City of Dallas
City Auditor's Office

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

for the period June 1, 2004, through
May 31, 2007



Association of Local Government Auditors

May 24, 2007

Craig D. Kinton, City Auditor
City Auditor's Office
1500 Marilla, Room 2FN
Dallas, TX 75201

Dear Mr. Kinton,

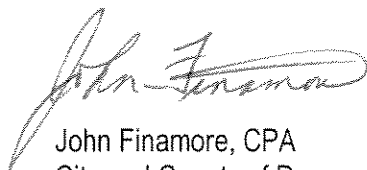
We have completed a peer review of the Dallas Office of the City Auditor for the period June 1, 2004 through May 31, 2007. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May, 2004, by the Association of Local Government Auditors (A.L.G.A.).

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 *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

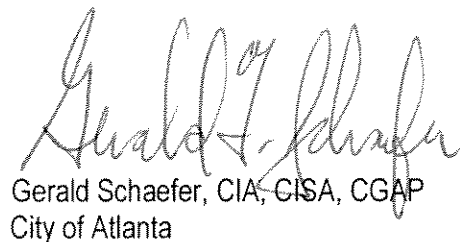
Based on the results of our review, it is our opinion that the Dallas Office of the City Auditor internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the June 1, 2004 through May 31, 2007.

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


Sincerely,



John Finamore, CPA
City and County of Denver



Gerald Schaefer, CIA, CISA, CGAP
City of Atlanta



Erin Kenney, CIA, CGAP
Los Angeles Police Department

Association of Local Government Auditors



May 24, 2007

Craig D. Kinton, City Auditor
City Auditor's Office
1500 Marilla, Room 2FN
Dallas, TX 75201

Dear Mr. Kinton,

We have completed a peer review of the Dallas Office of the City Auditor for the period June 1, 2004 through May 31, 2007. We issued our report dated May 24, 2007. We are issuing this companion letter to offer our observations as a result of our peer review.

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

- Supervision is well documented in the audit files.
- The documentation contained in the audit file is thorough and fully supports the report's findings and recommendations.
- Reports are well written, concise, and persuasive.
- Your office is commended for making excellent use of the quality control questionnaire, and the project initiation and certification of qualifications and independence.
- The risk assessment completed on each audit is a creative and useful tool for documenting your risk analysis.
- Your working papers are very well organized and easy to follow.

We offer the following observations and suggestions below that in our opinion may enhance your organization's adherence to government auditing standards.

Independence

GAS 3.13 identified two overarching principles that govern the auditor's role: 1) audit organizations should not provide nonaudit services that involve performing management functions or making management decisions, and 2) audit organizations should not audit their own work or provide nonaudit services that are significant to the subject matter of audits. GAS 3.17 identified specific safeguards that must be documented prior to providing nonaudit services. Your office is providing grant compliance monitoring services and the City Auditor is a voting member of the Employee Retirement Fund Board of Trustees, which are both management functions.

These issues were noted in the June 2004 peer review. The June 2004 peer review team recommended that the grant monitoring function be returned to management or conduct grant monitoring work as narrowly scoped audits and follow GAS, or disclose your lack of independence. Despite repeated attempts, your office has not been able to transfer the grant monitoring function to management.

Moreover, your office has not been able to remove the City Auditor from the Employee Retirement Fund Board of Trustees or change the status of the City Auditor to a non-voting member.

Consequently, we recommend that if your office has to audit either one of these areas you should either:

1. Disclose your lack of independence or
2. Consider outsourcing the audit to an independent third party

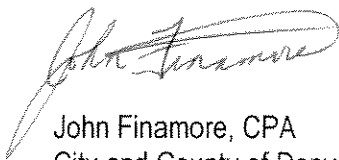
Furthermore, you should disclose in your annual audit plan that your office is not independent in these areas.

Nonaudit Services

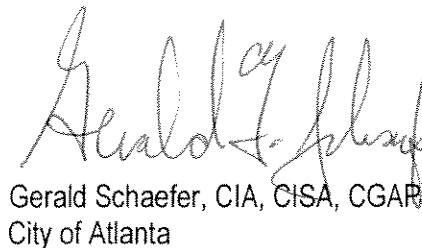
The 2004 peer review recommended that your policies and procedures manual be updated to include consideration of nonaudit work. Since then, your office has created a draft policy concerning nonaudit work. During our review we found evidence that your office has been following this policy. This policy should be finalized and incorporated into your policies and procedures manual. Doing so would enforce the importance of the policy to staff.

We hope that the observations and suggestions offered in this report help your office continue the professional work that we observed during our stay in Dallas. We wish to thank you and your staff for the hospitality and cooperation extended to us during our visit.

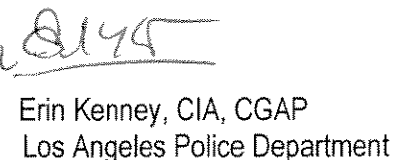
Sincerely,



John Finamore, CPA
City and County of Denver



Gerald Schaefer, CIA, CISA, CGAR
City of Atlanta



Erin Kenney, CIA, CGAP
Los Angeles Police Department



City of Dallas

May 24, 2007

John Finamore
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, CO 80202

Dear Mr. Finamore:

We are in receipt of the results of your peer review of the City of Dallas Office of the City Auditor for the period of June 1, 2004 through May 31, 2007, including your opinion that our internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestations conducted during this review period. Likewise, we are in receipt of the companion letter of observations noting both areas where you believe the office excels and where there are opportunities to improve our control systems.

We appreciate the professionalism, organization, and courtesy exhibited by you and your team during this engagement. It was evident that you and your team were experienced and well prepared to conduct this review. We also appreciate the opportunity to share and exchange ideas with you and your team during the course of this engagement.

We agree with your recommendations and offer the following responses:

Independence

We concur. For potential future audits of grant monitoring functions or the Employee Retirement Fund, we will either disclose our lack of independence or outsource the audits to an independent third party. We also agree with the recommendation to include disclosure of the independence concerns in these areas in our annual audit plan. Such disclosure will be included in future audit plans.

Non-Audit Services

We concur. The draft policy concerning consideration of independence regarding non-audit services will be finalized, incorporated into the policies and procedures manual, and communicated to all staff.

Again, we appreciate your assistance in this review.

Sincerely,

A handwritten signature in black ink that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

C: Gerald Shaefer, City of Atlanta – Office of City Internal Auditor
Erin Kenney, Los Angeles Police Department – Audit Division