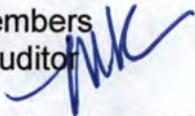




CITY AUDITOR'S OFFICE

TO: Mayor and Council Members
FROM: Margaret Krym, City Auditor 
DATE: January 23, 2014
SUBJECT: Peer Review Report for the period June 1, 2010 to September 30, 2013

Government Auditing Standards, promulgated by the U.S. Government Accountability Office (GAO), establishes professional standards for conducting audits in government. Those standards require audit organizations to receive a review, conducted by independent external peers, at least once every three years. Our office successfully participated in our first review in 2010 and during the week of January 13, 2014 we again hosted a peer review team who reviewed our activities and provide the attached External Quality Control Review Report.

This report contains a "pass" or "full compliance" opinion for the Audit Office. Along with the report they have provided a Management letter that includes suggestions offered to strengthen our internal quality control system. We have attached a grid with our response and our action plan to implement these suggestions.

The peer review team was comprised of two members of the Association of Local Government Auditors (ALGA) organization who have received training on conducting peer reviews and who volunteer their time to perform them. The only cost to the City for this service is their travel expenses and our commitment to attend training and participate as a reviewer in the future.

The objective of a peer review is to determine whether an audit organization's quality control system is suitably designed and is in place and operating effectively. A peer review also provides assurance that an audit organization is following its established policies and procedures and applicable auditing standards.

Not all audit organizations have demonstrated this commitment to quality. The ALGA website lists us as one of eleven government organizations in the State of Florida and the only organization in Southwest Florida to have received their peer review certification.

I am very proud of the audit staff whose work has earned our office the right to state in our reports that the audits from this office are conducted in accordance with the Government Auditing Standards. To have gained this clean opinion (as opposed to a "pass with deficiencies" or a "fail") requires persistent dedication to quality and I commend my staff for this achievement.

Peer Review Report for the period June 1, 2010 to September 30, 2013
January 23, 2014
Page 2 of 2

I will be happy to respond to any questions or concerns you may have about the information contained in these documents.

Attachments

C: John Szerlag, City Manager
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Connie Barron, Public Information Director
Audit Committee
Audit Staff



External Quality Control Review

of the

City of Cape Coral
City Auditor's Office

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

for the period
June 1, 2010 through September 30, 2013



Association of Local Government Auditors

January 16, 2014

Margaret L. Krym, CIA, CGAP
City Auditor
City of Cape Coral Auditor's Office
P. O. Box 150027
Cape Coral, Florida 33915-0027

Dear Ms. Krym,

We have completed a peer review of the City of Cape Coral City Auditor's Office for the period June 1, 2010, through September 30, 2013. In conducting our review, 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 operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation 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.

Based on the results of our review, it is our opinion that the City of Cape Coral's City Auditor's Office's 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 period from June 1, 2010, through September 30, 2013.

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

Vivian N. Walker
Team Leader
City of Tampa

Mark E. Thompson
Team Member
Orlando Utilities Commission



Association of Local Government Auditors

January 16, 2014

Margaret L. Krym, CIA, CGAP
City Auditor
City of Cape Coral City Auditor's Office
P. O. Box 150027
Cape Coral, Florida 33915-0027

Dear Ms. Krym,

We have completed a peer review of the City of Cape Coral City Auditor's Office for the period June 1, 2010, through September 30, 2013, and issued our report thereon dated January 16, 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:

- Those charged with governance indicated wide spread confidence in the operations of the City Auditor's Office. Discussions were held with the Mayor, Vice Chair of the Audit Committee, and a Council Member who all expressed a high regard for both the City Auditor and the audit results generated by the staff.
- The prior peer review noted enhancements required to the source book. Management has revised and created a new policy and procedures manual, which permitted easy review for compliance with the standards.
- As noted in the prior peer review, Management has a strong commitment to ensuring staff has the opportunity to enhance their professional knowledge and competence.

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

- Standards 3.33 through 3.59 address elements needed when Nonaudit Services (Service) are provided. These requirements include ensuring there are no impairments to independence, that Management understands and accepts the responsibilities for results obtained from the Service, as well as documenting in future audits that there was consideration of any previous Service performed.

It was noted that there were no written guidelines in the policy and procedures manual or documentation in the work papers to support that:

- a) Independence was evaluated to ensure there were no impairments. (3.34, 3.38, 3.43, 3.44, 3.59)
- b) Management, which requested the Service, had been notified of the scope of the review or that a determination was made of Management's ability to effectively oversee the activity. (3.34, 3.37, 3.38)
- c) Future audits considered any previous Service performed of the audit subject. This was noted for the performance reviews conducted prior to implementation of a different checklist. Subsequent performance reviews documented this standard. (3.42)

We recommend the current policy and procedure related to performing a Nonaudit Service (Service) be updated to reflect consideration of the elements identified in the standards referenced. The policy should include a requirement to document the evaluation for any impairment to the Auditor's independence, consideration of Management's ability to oversee the activity, and consideration of the impact the Service during future audit projects for the same subject area.

- Standards 6.11e and 6.35 require Auditors to consider ongoing investigations or legal proceedings when developing objectives. The policy and procedures manual does not document when to consider ongoing investigations or legal proceedings during the audit process. The sampled work papers also did not document compliance with this standard.

We recommend the policy and procedures manual be updated to ensure the work papers document the consideration of investigations and / or legal proceedings during the planning phase of the project.

- Standards 7.19 and 7.27 related to reporting were not being met. In reviewing both the policy and procedures manual and the work papers, the following deficiencies were identified:
 - There is no policy relating to documenting the work, if any, performed on internal controls and deficiencies which may be noted. (7.19)
 - Recent reports examined did not include conclusions based on audit objectives and the audit findings. (7.27)

We recommend the policy and procedures manual be updated to ensure that audit reports document any work performed on internal controls and deficiencies which may be noted. We also recommend that a system be developed to ensure all elements required to be included in the report (i.e., conclusions on the objectives) are documented prior to report issuance.

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,



Vivian N. Walker
Team Leader
City of Tampa



Mark E. Thompson
Team Member
Orlando Utilities Commission



City of Cape Coral

January 23, 2014

Vivian N. Walker CGAP, CICA
Review Team Leader
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City of Tampa
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Mark Thompson CPA, CIA, CISA,
Review Team Member
Manager, Internal Audit
Orlando Utilities Commission
3800 Gardenia Avenue
Orlando, Florida 32839
mthompson@ouc.com

Dear Vivian and Mark,

We very much appreciate your time and work in performing a peer review for our Office for the period of June 1, 2010 through September 30, 2013, and especially for the suggestions provided to enhance our demonstrated adherence to Government Auditing Standards (GAS). In order to receive the full benefit of these suggestions, we plan to address each recommendation made and complete the detailed related actions articulated on the attached grid. In summary, these actions include the following:

- We will revise our Policy and Procedures Manual to expand on the processes for performing Nonaudit services. More specifically, we will require compliance to standards, 3.34, 3.37, 3.38, 3.42, 3.43, 3.44, and 3.59.
- We will amend our Policy and Procedures Manual to require that the Auditor in Charge gain an understanding of any on-going legal proceedings or investigations during the background phase of an engagement and document that understanding to ensure compliance to standards 6.11e and 6.35.
- We will amend our Policy and Procedures Manual to require that the following information be included in our audit reports to ensure compliance to standard 7.19:
 - The scope of work done relating to an internal control review and
 - Any deficiencies found in internal control that are significant within the context of the audit objectives and based upon the audit work performed.
- We will add a line to our Independent Reviewer Checklist to verify that each audit report articulates a conclusion for each engagement objective to ensure compliance to standard 7.27.

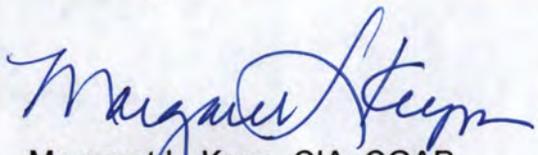
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(239) 242-3380 • (239) 242-3383 • FAX (239) 242-3384 • WWW.CAPECORAL.NET

Co-County Seat—Lee County, Florida

We are grateful for the support provided by the Association of Local Government Auditors in making these peer reviews available and contributing to the overall improvement of government auditing. Our office has benefited greatly through the process of preparation for the review and in the raised awareness of the standards and the affect they have on the product that we provide to our City.

Should you have any questions, my direct line is (239) 242-3380 or email mkrym@capecoral.net.

Sincerely,



Margaret L. Krym, CIA, CGAP
City Auditor

Enclosure(s)

City of Cape Coral - City Auditor's Office
Peer Review – June 1, 2010 to September 30, 2013
Follow up action items
Report date: January 16, 2014

	Finding	Recommendation	City Auditor's Response	Contact Person	Target Date
1	<p>Standards 3.33 through 3.59 address elements needed when Nonaudit Services (Service) are provided. These requirements include ensuring there are no impairments to independence, that Management understands and accepts the responsibilities for results obtained from the Service, as well as documenting in future audits that there was consideration of any previous Service performed.</p> <p>It was noted that there were no written guidelines in the policy and procedures manual or documentation in the work papers to support that:</p> <p>a) Independence was evaluated to ensure there were no impairments. (3.34, 3.38, 3.43, 3.44, 3.59)</p> <p>b) Management, which requested the Service, had been notified of the scope of the review or that a determination was made of Management's ability to effectively oversee the activity. (3.34, 3.37, 3.38)</p> <p>c) Future audits considered any previous Service performed of the audit subject. This was noted for the performance reviews conducted prior to implementation of a different checklist. Subsequent performance reviews documented this standard. (3.42)</p>	<p>We recommend the current policy and procedure related to performing a Nonaudit Service (Service) be updated to reflect consideration of the elements identified in the standards referenced.</p> <p>The policy should include a requirement to document the evaluation for any impairment to the Auditor's independence, consideration of Management's ability to oversee the activity, and consideration of the impact the Service during future audit projects for the same subject area.</p>	<p><i>We will revise our Policy and Procedures Manual to expand on the processes for performing Nonaudit services. At a minimum, we will include the following:</i></p> <ul style="list-style-type: none"> • <i>A clear definition to distinguish the type of service provided as Nonaudit services 'vs' Other.</i> • <i>A requirement to notify Management in a written planning memorandum that the potential service to be provided will not be an audit but will be Nonaudit services.</i> • <i>This memorandum will also include the scope and objectives of the review, staff assigned and Management's responsibilities for the provided services.</i> • <i>We will enhance our assessment of independence policy to ensure that the effect of performing a Nonaudit service does not impact the independence of our office or our staff.</i> • <i>And we will add the requirement that Memorandums resulting from Nonaudit service engagements include language to clearly articulate that the service was a Nonaudit service and that Management is responsible for the results of the work.</i> <p><i>We will add language to our policy regarding background work for an audit engagement to ensure that the auditor in charge assesses any possible independence impairment because of involvement in a previous Nonaudit engagement. Our Audit Survey Checklist, completed at the end of Background work, currently includes this assessment however we will ensure that it is also articulated in the Policy and Procedures Manual.</i></p>	Margaret Kym	February 20, 2014

City of Cape Coral - City Auditor's Office
Peer Review – June 1, 2010 to September 30, 2013
Follow up action items
Report date: January 16, 2014

	Finding	Recommendation	City Auditor's Response	Contact Person	Target Date
2	Standards 6.11e and 6.35 require Auditors to consider ongoing investigations or legal proceedings when developing objectives. The policy and procedures manual does not document when to consider ongoing investigations or legal proceedings during the audit process. The sampled work papers also did not document compliance with this standard.	We recommend the policy and procedures manual be updated to ensure the work papers document the consideration of investigations and / or legal proceedings during the planning phase of the project.	<i>We will amend our Policy and Procedures Manual to require that the Auditor in Charge gain an understanding of any on-going legal proceedings or investigations during the background phase of the engagement and document that understanding. A primary purpose for gaining this understanding is to ensure that we will not interfere with any investigations or legal proceedings.</i>	Margaret Krym	February 20, 2014
3	Standards 7.19 and 7.27 related to reporting were not being met. In reviewing both the policy and procedures manual and the work papers, the following deficiencies were identified: <ul style="list-style-type: none"> • There is no policy relating to documenting the work, if any, performed on internal controls and deficiencies which may be noted. (7.19) • Recent reports examined did not include conclusions based on audit objectives and the audit findings. (7.27) 	We recommend the policy and procedures manual be updated to ensure that audit reports document any work performed on internal controls and deficiencies which may be noted. We also recommend that a system be developed to ensure all elements required to be included in the report (i.e., conclusions on the objectives) are documented prior to report issuance.	<i>We will amend our Policy and Procedures Manual to require that the following information be included in our audit reports.</i> <ul style="list-style-type: none"> • <i>The scope of work done on internal control review and</i> • <i>Any deficiencies found in internal control that are significant within the context of the audit objectives and based upon the audit work performed.</i> <i>We will add a line to our Independent Reviewer Checklist to verify that each report articulates a conclusion for each engagement objective.</i>	Margaret Krym	February 20, 2014