August 10, 2005

Mayor Tom Potter
Commissioner Sam Adams
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Erik Sten

Dear Mayor and Commissioners:

The City Auditor’s Office is proud to follow national standards for government auditing. The standards provide assurances to the public that the office conducts its work professionally. The attached letter and report contain the results of our most recent “external quality control review”, also known as a “peer review”. Last month, a team of government auditors from three other cities around the country visited our office for one week, reviewed our reports and working papers and interviewed our staff. This peer review was coordinated through the National Association of Local Government Auditors, which assigned government auditing professionals from the city governments of Kansas City, Palo Alto, and Honolulu. The peer review team found that our office complies with Generally Accepted Government Auditing Standards. Their review period was from July 1, 2002 through June 30, 2005.

Government audit offices nationwide – and at the federal, state, and local level – are required by these standards to maintain systems of internal quality control and to have an external quality review once every three years. Successful completion of reviews like this one allow our office to state in each of our reports that we conducted our work in accordance with generally accepted government auditing standards. Each report meets the requirements for issues like auditor independence, due care, professional education, fieldwork, and audit reporting.

Please contact me if you have any questions about the peer review process or our office. While we always look for ways to further improve, we are pleased to have our office’s professionalism confirmed by other auditors.

Gary Blackmer, City Auditor

GARY BLACKMER
City Auditor

Attachments
External Quality Control Review

of the
City of Portland
Audit Services Division
Office of the City Auditor

Conducted in accordance with guidelines of the
National Association of Local Government Auditors
for the period July 1, 2002 to June 30, 2005
July 28, 2005

Drummond Kahn, Audit Services Director
Office of the City Auditor
Portland, Oregon

Dear Mr. Kahn:

We have completed a peer review of the City of Portland’s Audit Services Division for the period July 1, 2002, through June 30, 2005. In conducting our review, we followed the standards and guidelines contained in the Peer Review Guide published in May, 2004, by the National Association of Local Government Auditors (N.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 City of Portland’s Audit Services Division’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 July 1 2002, through June 30, 2005.

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

Michael Friis
Kansas City, MO

Renata Falk
Palo Alto, CA

Leslie I. Tanaka
Honolulu, HI
July 28, 2005

Drummond Kahn, Audit Services Director
Office of the City Auditor
Portland, Oregon

Dear Mr. Kahn:

We have completed a peer review of the City of Portland’s Audit Services Division for the period July 1, 2002, through June 30, 2005, and issued our report thereon dated July 28, 2005. We are issuing this companion letter to offer observations and suggestions stemming from our peer review.

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

- **Audit documentation.** Your working papers are consistently well organized and reports are well documented.

- **Reports.** Your reports are well written and designed to be friendly for users.

- **Staff qualifications.** Your staff is well qualified and brings a wide range of skills and backgrounds to the organization.

- **Previous peer review suggestions.** You implemented the recommendations of the June 2002 peer review. This should improve your ability to adhere to Government Auditing Standards.

We offer the following observations and suggestions to enhance your organization’s demonstrated adherence to government auditing standards:

- We reviewed one engagement where relevant recommendations from a prior audit weren’t addressed as part of audit planning. While we do not feel this affected the quality of the audit, Government Auditing Standards require planning to include considering the results of previous audits that affect the current audit objectives (GAS 7.07).

- We reviewed one engagement that was terminated, but it was unclear from the working papers whether management was informed that the project was terminated or that the reason the project was terminated was adequately documented. Government Auditing Standards allow projects to be terminated, but require documenting the results of the work and the reason the project was terminated.
terminated, and informing management and appropriate officials, preferably in writing, that the audit was terminated (GAS 7.40 and 8.06).

We believe that your current Policies and Procedures for terminated audits, which were not in place at the time of the engagement we reviewed, are adequate.

- We noted that two staff had less than 20 hours of CPE recorded in fiscal year 2002-2003. While these staff had over 80 hours of training for the two year period, Government Auditing Standards require a minimum of 20 hours of the 80 should be completed in any given year (GAS 3.45). Both staff attended at least 12 hours of training and attended training within a month of the beginning of the next year.

We do not believe the failure to attend 20 hours of training in one year affected audit quality and we do not believe you need to change your office practices for monitoring CPE.

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,

Michael Eglinski
Kansas City, MO

Renata Falk
Palo Alto, CA

Leslie I. Tanaka
Honolulu, HI
July 28, 2005

Mike Eglinski
Peer Review Team Leader
Kansas City Auditor’s Office
21st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106-2705

Dear Mr. Eglinski:

I have reviewed your report of July 28, 2005 containing the results of your external quality control review of the City of Portland Audit Services Division, Office of the City Auditor. I am pleased that once again, an independent peer review team found that our office conducts our work in full compliance with generally accepted government auditing standards. I appreciate your thoughtful comments about the areas where you found our office to excel, including our audit documentation, our audit reports, our well-qualified staff, and our implementation of suggestions from prior peer reviews.

I also appreciate your additional observations and suggestions to further enhance our operations, including documentation of terminated audits, follow-up on prior recommendations in our financial trends work, and the timing of staff professional education within each two-year reporting period. We’re pleased that your suggestions in these areas also noted that no specific changes to our Policies and Procedures Manual are necessary. However, we will remain attentive to these issues as we conduct our audit work.

I extend my personal thanks to you and to Renata Falk, Senior Auditor, City of Palo Alto, and Leslie Tanaka, City Auditor, City of Honolulu. I appreciate your participation in the peer review process and taking the time to visit our office and to review our operations. I will share your report with City Auditor Gary Blackmer and our City Council, and make it available to the media and the public.

Sincerely,

[Signature]

Drummond E. Kahn
Director of Audit Services