



External Quality Control Review

of the

**Metropolitan Government of
Nashville and Davidson County's
Office of Internal Audit**

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

for the period January 1, 2008, through December
31, 2010.



Association of Local Government Auditors

April 8, 2011

Mark Swann, Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North Suite 401
Nashville, TN 37201

Dear Mr. Swann:

We have completed a peer review of the Metropolitan Government of Nashville and Davidson County's Office of Internal Audit for the period January 1, 2008, through December 31, 2010. 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 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. Our procedures included:

- Reviewing the Department's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation engagement reports 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 regulations limiting access to certain confidential information in the ITS Department Information Security Audit, issued November 11, 2008, this audit was excluded from our review.

Based on the results of our review, it is our opinion that the Metro Nashville Office of Internal Audit'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 January 1, 2008, through December 31, 2010. 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.

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

Drew Harmon
City of Roanoke, VA

Richard Walls
Knox County, TN

David Schroeder
City of Houston, TX



Association of Local Government Auditors

April 8, 2011

Mark Swann, Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North Suite 401
Nashville, TN 37201

Dear Mr. Swann:

We have completed a peer review of the Metropolitan Government of Nashville and Davidson County's Office of Internal Audit for the period January 1, 2008, through December 31, 2010, and issued our report thereon dated April 8, 2011. This companion letter offers suggestions for your consideration that have the potential to further strengthen your internal quality control systems.

First, we would like to take this opportunity to commend you and your staff for undergoing your first peer review and achieving full compliance with the standards. Our team felt that the following aspects of your quality control systems were deserving of special recognition:

- The policies and procedures for staff development are comprehensive and appear to have been very effective in developing a highly competent and qualified complement of auditors. We noted eight (8) of nine (9) auditors have at least one professional certification, providing the department with a breadth of expertise in accounting, internal auditing, fraud investigation, and information systems auditing.
- The Annual Audit Performance Report is well constructed, providing the reader with a comprehensive understanding of the purpose of the function, the credentials of department staff, and the body of work completed. The report provides both the public and elected officials more meaningful insight into the operations of both the Office of Internal Audit and the Metropolitan Government.
- Audit working papers have been automated, fostering consistent communication with auditing staff regarding the steps to be completed, the purpose of each step, and the related audit standards. These electronic working papers help ensure the audit work is properly documented, reviewed, and reported. The electronic working papers also facilitate follow up on management's implementation of actions to address audit observations.

The following observations and suggestions are offered by our team as opportunities to enhance your department's demonstrated adherence to *Government Auditing Standards*:

1. *Standard 3.54, "System of Quality Control,"* states that audit organizations should analyze and summarize the results of their monitoring procedures at least annually, with identification of any systematic issues needing improvement, along with recommendations for corrective action. We observed that the quality control procedures in chapter 2 of the department's audit procedures guide did not adequately

describe the process for performing the analysis and corrective actions specified in *Standard 3.54*. While there was an annual review of audit procedures performed, it did not consider the results of your monitoring procedures.

Suggestion: Develop an annual process for evaluating the effectiveness of the department's monitoring procedures that includes documenting the results of the review and the corrective actions taken. The process should be incorporated into chapter 2 of the audit procedures guide.

2. *Standard 7.77, "Audit Documentation,"* states that documentation should provide evidence that supports the auditors' significant judgments and conclusions. In two (2) of the engagements we reviewed, the reasons for withdrawing observations from the final report were not adequately documented in the working papers.

Suggestion: Use the "State" field within the "Issues" function of your electronic working papers to ensure the final disposition of each observation is documented, including the reasons for withdrawing an observation, when applicable.

We would like to thank the auditors for their cooperation and openness in discussing their work with our team. We also appreciate the time and input given to us by Mr. Brannon, Audit Committee Chair, as well as Mr. Riebeling, Director of Finance and Audit Committee Member. Finally, we thank you and your staff for compiling the requested documentation, diligently responding to our inquiries, and openly discussing the various aspects of your operations.



Drew Harmon
City of Roanoke, VA



Richard Walls
Knox County, TN



David Schroeder
City of Houston, TX

MARK S. SWANN
METROPOLITAN AUDITOR



**METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON
COUNTY**

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April 8, 2011

Mr. Drew Harmon
City Auditor
City of Roanoke, Virginia

Mr. Richard Walls
County Auditor
Knox County, Tennessee

Mr. David Schroder
City Auditor
City of Houston, Texas

Dear Peer Review Team:

Subject: Metropolitan Nashville Office of Internal Audit External Quality Control Review

Thank you for performing the Metropolitan Nashville Office of Internal Audit external quality control review for the period January 1, 2008, through December 31, 2010. We appreciate your opinion that our audit quality control system complied with Government Auditing Standards. We also value the observations and "lessons learned" that you provided to help us excel and improve the quality of our audit process.

We have reviewed the observations and recommendations included in the report and concur that these are areas that we need to improve. Specifically, we plan to update chapter two of our auditing procedures manual to clearly indicate the specific steps required to conduct the annual in-house quality monitoring process to be consistent with the intent of Government Auditing Standards 3.54, "System of Quality Control". Also, we will use the "State" field within the issue form of our automated working papers software to ensure final disposition of each observation is documented. This will help demonstrate significant judgments and conclusions made during the audit reporting phase consistent with the intent of Government Auditing Standards 7.77, "Audit Documentation".

It was a pleasure working with such a knowledgeable and skilled review team during our initial external quality control review.

Sincerely,

Mark S. Swann

cc: Metropolitan Nashville Audit Committee