

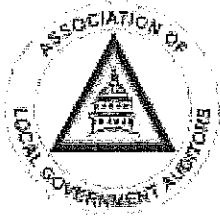


External
Quality
Control Review

of the
City Of Charlotte, North Carolina

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

for the period of January 1, 2014 through
December 31, 2016



Association of Local Government Auditors

April 6, 2017

Mr. Greg McDowell, CPA, CIA, CFE
City Auditor, City of Charlotte
600 E. Fourth St. Suite
Charlotte, NC 28202

Dear Mr. McDowell,

We have completed a peer review of the City of Charlotte for the period of January 1, 2014 through December 31, 2016. 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, and management 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, except for the deficiency noted below, the City of Charlotte'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 of January 1, 2014 through December 31, 2016.


A deficiency in independence was found in your reporting structure. This deficiency resulted in nonconformance with Standards 3.03 (b) and 3.31 (c).


We offer the following observation and suggestion to help your organization achieve full compliance with *Government Auditing Standards*:


- Standards 3.03 (b) and 3.31 (c) require independence in appearance. Independence in appearance requires auditors to not only act with integrity and exercise objectivity and professional skepticism but also to appear independent to a reasonable and informed third party. In reviewing your office's quality control system, we observed during the period of September 2014 through August 2016 you reported to the Director of Management and Financial Services/Chief Financial Officer. This reporting structure created the appearance that your office was not "located organizationally outside the staff or line-management function of the unit under audit". However, in September 2016, the reporting structure reverted back to the City Auditor, once again reporting to the City Manager.

Recommendation: to ensure the continued independence of the Internal Audit function, we recommend that the City Auditor work with the City Manager to request City Council consider a resolution that would provide proper safeguards for independence.

We have prepared a separate letter providing other useful, less significant observations and suggestions for strengthening your internal quality control system.


Amarilis Hernandez, CPA
City of Richmond, VA


Claire Mufalo MBA, CFE
City Of Durham, NC


Rachel Castignoli, CGAP
City of Austin, TX



Association of Local Government Auditors

April 6, 2017

Mr. Greg McDowell, CPA, CIA, CFE
City Auditor, City of Charlotte
600 E. Fourth St. Suite 100
Charlotte, NC 28202

Dear Mr. McDowell,

We have completed a peer review of the City Auditor's Office for the period of January 1, 2014 through December 31, 2016 and issued our report thereon dated April 6, 2017. 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:

- Your office conducts a quality assurance, which is performed by a third party. This process provides an opportunity to improve and train your staff as well as ensures the quality of the audits.
- The test work was extremely well designed, utilized persuasive criteria, and was comprehensive and thoroughly documented.
- The independence form is well designed and provides guidance to staff and management by grading independence at the onset of the audit.
- Commitment to staff development and continuous improvement through training and education.

We offer the following observations and suggestions to help your organization achieve full compliance with *Government Auditing Standards*:


- Standard 7.13 requires that when sampling significantly supports the auditors' findings, conclusions or recommendations, auditors need to describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

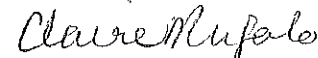
In reviewing your Quality Control System, we observed your policy and procedures do not address how to handle findings and conclusions when they are based on sampling.

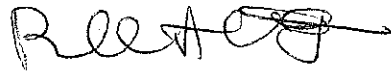
We suggest that the City Auditor update the Policy to ensure Standard 7.13 is addressed within the Policy.

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,


Amarilis Hernandez, CPA
City of Richmond


Claire Mufalo, MBA, CFE
City of Durham, NC


Rachel Castignoli, CGAP
City of Austin, TX



April 27, 2017

Lily Hernandez, City of Richmond, Virginia
Rachel Castignoli, City of Austin, Texas
Claire Mufalo, City of Durham, North Carolina

Thank you all for conducting this Office's external peer review for the period January 1, 2014 through December 31, 2016. I have reviewed your report dated April 7, 2017 containing the results of your review and the accompanying management letter. My staff and I appreciate your recognition of the areas in which you felt our office excels. I submit the following response to the deficiency noted in the peer review letter and the suggested improvement to our organization's demonstrated adherence to Government Auditing Standards.

- 1. Report Finding:** A deficiency in independence was found in your reporting structure. This deficiency resulted in nonconformance with Standards 3.03(b) and 3.31(c), regarding "independence in appearance."

Report Recommendation: To ensure the continued independence of the Internal Audit function, we recommend that the City Auditor work with the City Manager to request City Council consider a resolution that would provide proper safeguards for independence.

Response: We understand that the peer review team would like to see the threat to our organizational independence reduced – either by state statute, or City Council resolution. We will discuss these options with City Management; however, we would like to note that the 23 month structural issue was a true anomaly when considered over the past 20 years.

Charlotte Internal Audit acknowledges that a deficiency in our reporting structure began in September 2014 with a reorganization requiring Audit to report to the newly formed Management and Financial Services Department. The City Auditor immediately informed management of the potential impact resulting from this violation of Government Auditing Standards. In August 2016, the reporting structure was corrected by directing Internal Audit once again report directly to the City Manager's Office. This directive was further ratified in December 2016 with the execution of a proper Audit Charter.

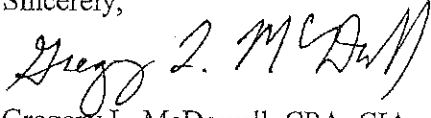
- 2. Management Letter Suggestion:** We suggest that the City Auditor update the Policy to ensure Standard 7.13 is addressed.

Response:

We agree. We will update the policy and procedures manual to properly address Standard 7.13.

Again, we appreciate your efforts on our behalf. Thank you all for your professionalism and cooperation during the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory L. McDowell". The signature is written in a cursive style with a large, stylized "G" and "M".

Gregory L. McDowell, CPA, CIA

City Auditor

City of Charlotte, NC