National Association of Local Government Auditors

July 21, 2005

Drew Harmon, CPA, CIA
Municipal Auditor
City of Roanoke
215 Church Avenue
Roanoke, VA 24011-1517

Dear Mr. Harmon:

We have completed a peer review of the City of Roanoke for the period May 18, 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 Roanoke'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 May 18, 2002 through June 30, 2005.

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

Carol Bibb, CIA, CFE	Jay Poole, CPA, CIA, CFE	Tina Adams, CPA
City of Lynchburg, VA	City of Chesapeake, VA	City of Charlotte, NC

Member Services, 2401 Regency Road, Suite 302, Lexington, KY 40503
Phone: 859/276-0686 Fax: 859/278-0507 email: jnorris@nasact.org website: www.nalga.org

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July 21, 2005

Drew Harmon
Municipal Auditor
City of Roanoke
215 W. Church Ave, Room 502
Roanoke, Virginia 24011-1517

Dear Mr. Harmon:

We have completed a peer review of the City of Roanoke for the period May 18, 2002 through June 30, 2005 and issued our report thereon dated July 21, 2005. 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:

- Roanoke Municipal Auditing did an excellent job of preparing their policy and procedures to comply with Government Auditing Standards (GAS).
- Compliance with GAS was well documented in the work papers.
- Municipal Auditing emphasizes and supports continuing education and training for the staff.

We offer the following observation and suggestion to enhance your organization's demonstrated adherence to government auditing standards:

Roanoke addresses non-audit services in section 6 of its Operations Manual. In addition, section 3.17(a) of GAS requires that the audit organization document its consideration of non-audit services. According to the operations manual, the standard planning memorandum was supposed to be modified to provide such documentation.

In reviewing a significant non-audit services project, we observed that the required planning document had not been filled out or adapted for the project. We also noted that the Roanoke staff provided assistance in other areas such as coordinated project testing and authoring test scripts. This assistance appeared to have been associated with a lack of sufficient resources within the City for project implementation.

We suggest that Roanoke develop the necessary adaptation to its planning memorandum or develop a separate document that addresses the appropriate standards, including documentation of the scope of work and the relationship of the project to the overarching

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principles. In addition, Roanoke should exercise care in considering any future audit work to be performed in this area.

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,

Carol Bibb, CIA, CFE
City of Lynchburg, VA

Jay Poole, CPA, CIA, CFE
City of Chesapeake, VA

Tina Adams, CPA
City of Charlotte, NC

ROANOKE

Municipal Auditing
215 W. Church Avenue, Room 502
Roanoke, VA 24011-1517
(540) 853-2644
FAX (540) 853-6395
E-mail: auditor@roanokeva.gov

July 21, 2005

Carol Bibb, CIA, CFE
Tina Adams, CPA
Jay Poole, CPA, CIA, CFE

Ladies and Gentlemen:

I want to thank you for your time and dedication in conducting the review of our department's policies, procedures, and performance. Your review of approximately one third of our audits from the period under review and your detailed evaluation of our policies and procedures manual provides a sound basis for your conclusions. I am very pleased to know that on the basis of your review work, you have found that our department conducts quality audit work through substantial and consistent adherence to Generally Accepted Government Auditing Standards. The constructive feedback that you have provided through your oral comments and your written management letter will help us to improve our work and better serve our elected representatives, city and school employees, and the citizens of the City of Roanoke.

In your management letter, you have noted our need to improve our department's processes for evaluating requests for non-audit services. As you have rightfully noted, the standards require that we document in detail the objectives and scope of non-audit services we are to provide and our compliance with the safeguards set out in the standards. The standards cite two overarching principals in regards to non-audit services and independence:

1. Audit organizations should not provide non-audit services that involve performing management functions or making management decisions.

2. Audit organizations should not audit their own work or provide non-audit services in situations where the non-audit services are significant / material to the subject matter of audits.

The project that gave rise to your concerns was the implementation of the City's new accounting system. Three of our auditors were used to supplement project staffing in order to meet project deadlines to bring the system on-line on July 5th, the beginning of the new fiscal year. Our auditors' roles were limited to data entry, documenting scripts for testing and training, and reporting to project management the progress of project team members in completing their assigned testing. We have agreed that this was not a violation of the overarching principals since the work performed is not

significant or material to what has typically been the subject of our audit work. However, we have also agreed that we must consider our work on this project going forward as we plan future audit objectives. Our plans to address your observations are as follows:

- Our department plans to add additional documentation to the work papers for this project. This documentation will provide additional detail about the nature of our work on this project and our basis for evaluating the work as having no impact on our independence in other audit areas.

- Our department will develop a new form that lists the overarching principals and each safeguard that must be applied. By each safeguard we will document the steps we are taking to comply with the safeguard.

- As you noted, we have already incorporated into our policy and procedures manual a step to document the objectives, scope and deliverables of the non-audit services we undertake. This will be documented in a planning memo which we will have signed by management. The planning memo will include the statements recommended by the standards that specify management's responsibility for the oversight of the project and project outcomes. We will require that management sign this memo to document that they understand and will abide by the terms of the agreement. The planning memo will be signed before work is initiated.

I again want to thank each of you for taking time away from your families and work to provide us with this valuable service. We believe in the value of the peer review process for everyone involved and hope that in the course of reviewing our work and procedures, that you found the experience both rewarding and positive.

Sincerely,

Drew Harmon, CPA, CIA
Municipal Auditor
City of Roanoke, Virginia