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# External Quality Control Review

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of the  
City of Baltimore  
Department of Audits

Conducted in accordance with guidelines of the  
**Association of Local Government  
Auditors**  
for the period January 1, 2019 to December 31, 2021

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## **Association of Local Government Auditors**

June 16, 2022

Josh Pasch, City Auditor  
Department of Audits  
100 Holliday St # 321  
Baltimore, MD 21202

Dear Mr. Pasch,

We have completed a peer review of the City of Baltimore's Department of Audits for the period January 1, 2019 through December 31, 2021. In accordance with generally accepted government auditing standards peer review requirements, we followed the standards and guidelines contained in the *Peer Review Guide* by the Association of Local Government Auditors (ALGA). Organizations can receive a rating of pass, pass with deficiency, or fail. The Department of Audits has received a rating of pass with a deficiency.

We reviewed the internal quality control system of your audit organization and conducted tests to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. 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.

We noted the following deficiency in your internal quality control system that resulted in recurring nonconformance with aspects of the *Government Auditing Standards* and make the following recommendations to help your organization achieve full compliance with *Government Auditing Standards*:

- Standards 5.60 and 5.84 state:

Each audit organization conducting engagements in accordance with GAGAS must obtain an external peer review conducted by reviewers independent of the audit organization being reviewed. (5.60)

An audit organization not already subject to a peer review requirement should obtain an external peer review at least once every three years. [...] (5.84)

We observed that the last independent peer review was dated January 26, 2012 and covered the quality control system in effect for the period from January 1, 2009 to December 31, 2011.

We recommend the Department of Audits ensure these reviews are conducted at least once every three years as required by the GAGAS Standards.

Based on the results of our review, it is our opinion that, except for the deficiency noted above, the Department of Audit's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for performance audits, financial audits, and attestation engagements during January 1, 2019 through December 31, 2021. 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 providing other useful, less significant observations and suggestions for strengthening your internal quality control system.

Sincerely,



Kelsey Thompson, CIA, CGAP  
Supervising Senior Auditor  
City of Austin, TX



Tamara Thompson, CIA, CGAP  
Assistant City Auditor  
City of Wilmington, DE



Hadiza Buhari, CPA  
Director of Internal Audit  
Port Authority of Allegheny  
County, PA



## **Association of Local Government Auditors**

June 16, 2022

Josh Pasch, City Auditor  
Department of Audits  
100 Holliday St # 321  
Baltimore, MD 21202

Dear Mr. Pasch,

We have completed a peer review of the City of Baltimore's Department of Audits for the period January 1, 2019 through December 31, 2021 and issued our report thereon dated June 16, 2022. 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:

- The Department of Audits' newly created procedure templates for performance engagement management are excellent and provide a well-organized location to document the audit team's steps to meet standards. These templates are a great tool for new auditors and have allowed the Department of Audits to create more consistency across their audit engagements.
- The Department of Audits has a strong commitment to assessing how to improve and embracing changes to increase audit quality and impact, including prioritizing supervisory reviews and being receptive to feedback.
- The Department of Audits also has a strong commitment to continuing professional education and training to maintain and enhance the skills and abilities of the office and its experienced and dedicated auditors.

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

1. Standards 3.18, 3.30 and 3.31 state:

In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity. (3.18)

Auditors should evaluate the following broad categories of threats to independence when applying the GAGAS conceptual framework [including a] structural threat: the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will affect the audit organization's ability to perform work and report results objectively (3.30)

In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level. (3.33)

In reviewing the organization structure of the City of Baltimore, we observed that the City Charter establishes that the Department of Audits reports to the City Comptroller. The position of City Comptroller has the authority to hire the City Auditor and also has the sole authority to terminate the services of the City Auditor. Although we did not find any instance suggesting occurrence of any impairment to independence during our review of engagements, we are of the opinion that the City Auditor's ability is potentially impaired to independently review the divisions headed by the City Comptroller and the Boards and Commissions of which the City Comptroller is a member.

We recommend that the City Auditor's reporting be free of the impairments to independence discussed above. If that is not possible, we recommend that the City Auditor develop policies and procedures to document these independence impairments and apply safeguards to reduce the threat to an acceptable level.

2. Standards 5.02 and 5.03 state:

An audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. (5.02)

An audit organization's system of quality control encompasses the organization's leadership, emphasis on performing high-quality work, and policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. [...] (5.03)

We observed that the Department of Audits' policies and procedures have not been updated since 2011. As part of maintaining a system of quality control, we recommend that the Department of Audits update their policies and procedures to reflect their current practices to comply with *Government Auditing Standards*.

3. Standards 3.20 and 3.30 state:

[...] auditors and audit organizations should be independent from an audited entity during a. any period of time that falls within the period covered by the financial statements or subject matter of the engagement and b. the period of professional engagement. (3.20)

Auditors should evaluate the following broad categories of threats to independence when applying the GAGAS conceptual framework: a. Self-interest threat [...] b. Self-review threat [...] c. Bias threat [...] d. Familiarity threat [...] e. Undue influence threat [...] f. Management participation threat [...] g. Structural threat [...] (3.30)

We observed that the forms the Department of Audits uses to document their independence does not include specific mention of the types of threats listed in the GAGAS conceptual framework. We also observed that one engagement we reviewed did not have a completed independence form. We did not observe any impairments to independence because of the items noted above.

We recommend including a list of the threats to independence from the GAGAS conceptual framework in the project independence form and ensure that audit teams document independence for each audit engagement conducted.

4. Standard 3.64 states that before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct. (3.64)

We reviewed one nonaudit service. We observed a memo created by the Department of Audits to evaluate the independence of the auditors performing the work. However, we did not see an evaluation of whether the service would create a threat to independence with respect to any GAGAS engagements they conduct. We recommend performing and documenting a specific evaluation of whether providing a nonaudit service would create a threat to independence with respect to any GAGAS engagement conducted.

5. Standard 5.44 states the audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to the relevant engagement partner or director, and other appropriate personnel, any deficiencies noted during the monitoring process and recommend appropriate remedial action. This communication should be sufficient to enable the audit organization and appropriate personnel to take prompt corrective action related to deficiencies, when necessary, in accordance with their defined roles and responsibilities.

We observed that the Department of Audits does not have a formalized process to perform annual monitoring procedures and summarize the results. It is our recommendation that the Department of Audits create a formalized monitoring process that includes an annual report summarizing completed reviews. The report should identify any systemic or repetitive issues needing improvement along with recommendations for corrective action.

We extend our thanks to you, your staff, and the other officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Kelsey Thompson, CIA, CGAP  
Supervising Senior Auditor  
City of Austin, TX



Tamara Thompson, CIA, CGAP  
Assistant City Auditor  
City of Wilmington, DE



Hadiza Buhari, CPA  
Director of Internal Audit  
Port Authority of Allegheny  
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## Office of the Comptroller

**Josh Pasch, City Auditor**

100 N. Holliday St., Room 321  
Baltimore, Maryland 21202

June 24, 2022

Kelsey Thompson, CIA, CGAP  
Peer Review Team Leader  
Supervising Senior Auditor  
City of Austin, TX

Tamara Thompson, CIA, CGAP  
Peer Review Team Member  
Assistant City Auditor  
City of Wilmington, DE

Hadiza Buhari, CPA  
Peer Review Team Member  
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County, PA

Colleagues:

On behalf of the Office of the Comptroller, Department of Audits, I would like to express our appreciation for organizing and conducting our peer review. We greatly appreciate your professionalism, knowledge, and effort on this engagement. We are pleased that, with the exception of the deficiency noted, the independent peer review team concluded that the Department of Audits' internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the period January 1, 2019 through December 31, 2021.

We agree with the deficiency noted. The City Auditor and the Deputy City auditor identified the lack of peer review when joining the department in 2019. The peer review was delayed further from that time due to COVID-19. We recognize the

Kelsey Thompson, CIA, CGAP  
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June 24, 2022  
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importance of the peer review and are committed to have the peer review every three years.

We agree with each of the observations and suggestions noted in the companion letter to the peer report. Specifically,

1. We agree with the structural independence finding. We will discuss with the Comptroller and ALGA Advisory Committee possible and best approaches to address the structural independence issue.
2. We agree with the recommendation to update our policies and procedures. We have been working on updating the P&P and will continue to update them. We appreciate the peer review team identifying areas that should be included.
3. We agree with the recommendation and will modify the independence form to include the types of threat that can impair auditor independence.
4. We agreed with the recommendation and will implement a procedure in non-audit services to assess and document whether the non-audit service will create a threat to independence with respect to any other engagement that conduct under GAGS.
5. We agree with the recommendation and will formalize the annual quality control monitoring procedures.

We are committed to continuously improving and strengthening our audit processes. Again, thank you for taking time to evaluated our operations and share ideas that we can apply to our department. Our team has greatly benefited from this peer review process.

Warm regards,



Josh Pasch, City Auditor  
Department of Audits  
Baltimore, MD 21202