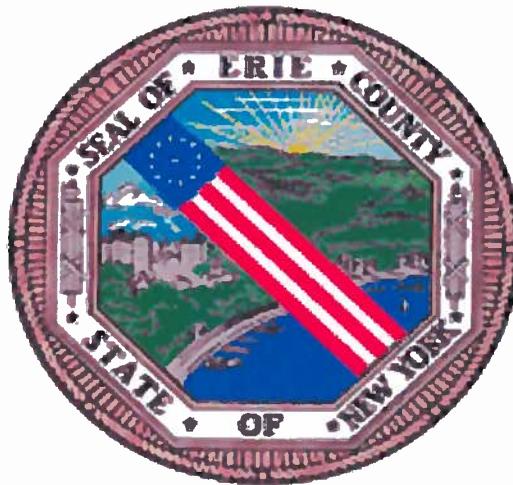


January 2013

**QUALITY ASSURANCE REVIEW
DIVISION OF AUDIT AND CONTROL**



**TERESA M. FRAAS
ERIE COUNTY DEPUTY - COMPTROLLER
AUDIT AND CONTROL**

January 18, 2013

Hon. Stefan I Mychajliw
Erie County Comptroller's Office
92 Franklin Street, 11th Floor
Buffalo, New York 14202



Dear Hon. Mychajliw,

At your request, I have completed a quality assurance review of the Erie County Division of Audit and Control to evaluate the overall effectiveness of the operations and compliance with relevant policies and standards.

Following is a brief outline of my key findings.

Sincerely,

A handwritten signature in blue ink, reading "Teresa M. Fraas", is written over a horizontal line.

Teresa M. Fraas
Erie County Deputy Comptroller – Division of Audit and Control

cc: Erie County Legislature

BACKGROUND

Because Erie County continues to face fiscal challenges and the Erie County Comptroller's desire to return Erie County to a path of fiscal stability, the Comptroller's priorities will include identifying and eliminating fraud, waste, and abuse by those entrusted with public responsibilities, reforming ineffective and wasteful programs, and taking every opportunity to achieve cost savings. If taxpayers are to obtain the returns they deserve on their tax dollars, programs must be driven by performance and focused on results. All of these actions and more are essential to restoring Erie County to good financial health. To this end, the Division of Audit and Control is responsible with conducting audits and reviews to provide the Executive and Legislative branches, as well as the public, with an independent and objective view of how county government can operate more efficiently and effectively. Audits and reviews also increase transparency and accountability for taxpayer-funded operations and services. To ensure that audits are completed efficiently and are effective, the Comptroller requested the Deputy Comptroller - Audit and Control perform a quality assurance review of the department operations.

EXECUTIVE SUMMARY

I completed a quality assurance review of the Division of Audit and Control department operations to determine the overall effectiveness of the operations and to ensure that we are following the standards set by the Institute of Internal Auditors and the Generally Accepted Government Auditing Standards. My information was obtained through discussions with current audit staff and other employees of the County familiar with past audit activities. I reviewed prior year workpapers and audit reports issued by this department. I collected and reviewed all department policies, procedures and manuals. I also considered the recommendations for improvements contained in a peer review report dated December 19th, 2012 issued by Bonadio & Co., LLP and the management letter comments issued June 27th, 2012 by the external auditors Drescher and Malecki. I followed the Administrative Review Checklist included in the Government Auditing Standards. Below is a listing of the key findings. It is not all-inclusive.

KEY FINDINGS

1. Organizational Responsibilities, Planning and Quality Control

- a. The current Audit Manual has not been updated since 2009. It is not comprehensive and does not include key topics such as mission statement, administrative policies and procedures, personnel policies and procedures, all audit policies and procedures and quality control policies and procedures.
- b. There is no system in place for planning and controlling individual assignments.
- c. There is a lack of internal review or periodic internal quality control review to identify ways of achieving more effective, efficient and economical performance or to test audit reports and workpapers to ensure compliance with accepted audit standards.

2. Independence

- a. Past practices did not allow for audits to be conducted and/or results reported free from interference, control or influence from the entity under audit or other departments of the County.
- b. The audit department did not pursue legal or administrative means to obtain records and documents needed to do an audit.
- c. Current audit organizational practices do not promote the exercise of professional judgment by audit team members.

3. Qualifications

- a. We will continue to work collaboratively with the Commissioner of Personnel to determine whether or not current audit staff has the education, experience, ability and skills required to perform professional audits.
- b. The continuing education program does not comply with industry standards.

4. Performance Evaluations

- a. Performance and proficiency criteria in the job description are not sufficient to select the best-qualified individuals.
- b. There is no formalized employee performance evaluation process and no requirement for periodic evaluation.

5. Supervision

- a. There are no written policies and procedures regarding the supervision of audit work
- b. Current staffing levels include one senior auditor who has not been assigned any supervisory responsibilities.
- c. Audit status reports do not exist and time budgets were not established for audit projects.

6. Evidence and Workpapers

- a. There is no written guidance on obtaining and documenting evidence.
- b. No written instructions for preparing workpapers.

7. Internal Controls

- a. Audit steps have not been designed to assess the presence, effectiveness or adequacy of internal control procedures or practices.

8. Legal Compliance

- a. There is no requirement that auditors design program steps and procedures that will provide reasonable assurance that an audited entity adhered to the requirements of law and regulation.
- b. Current procedures do not require auditors to assess the risk that abuse and/or illegal acts could occur or require that audit procedures be extended when abuse and/or illegal acts are suspected.

9. Reporting

- a. Prior audit report findings may not be based on sufficient objective evidence.
- b. No written guidance covering how to develop a finding nor on report preparation.
- c. No requirement for an independent reviews of the workpapers to verify that the report facts and conclusions are supported by the workpapers.

CORRECTIVE ACTION PLAN

Because of this thorough review I am developing a corrective action plan to address each of the deficiencies identified above. The plan will include specific tasks and expected results. I will review the status of the completion of each of the items with the Comptroller on a monthly basis. All action plan items will be completed by December 31st, 2013.

**Erie County Comptroller's Office
Audit and Control Division
Proposed 2013 Audit Plan
January 1, 2013 – December 31, 2013**

INTRODUCTION

The Division of Audit and Control is responsible to develop an overall audit strategy and plan to assist the Comptroller in executing his/her responsibility to conduct expanded scope audits of all Erie County divisions, departments, boards, activities and agencies, and the Erie County Water Authority. The objectives of our audits and/or reviews are to determine whether:

- 1) Activities and programs being implemented have been authorized by management, county law, state law or applicable federal law or regulations;
- 2) Activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by management, county law, state law or applicable federal law or regulations;
- 3) Activities or programs efficiently and effectively serve the purpose intended by management, county law, state law or applicable federal law or regulations;
- 4) Activities and programs are being conducted and funds expended are in compliance with applicable laws;
- 5) Revenues are being properly collected, deposited and accounted for;
- 6) Resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
- 7) Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;
- 8) During the course of audit work, there are indications of fraud, abuse or illegal acts; and
- 9) There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management.

REGULATORY COMPLIANCE

We agree with, and follow professional standards promulgated by the Institute of Internal Auditing (IIA) and Generally Accepted Government Auditing Standards (GAGAS).

ANNUAL PLAN CONSIDERATIONS

To ensure compliance with IIA and GAGAS standards and to assist the Comptroller in executing his/her responsibilities, we will develop an annual audit plan that we believe benefits Erie County by:

- Providing an identifiable basis for the role of the Division of Audit and Control and justification for obtaining budgetary funds and approvals;
- Establishing what departments, agencies, contracts or other areas will be prioritized for audits;
- Permitting an efficient allocation of limited resources;
- Providing a flexible basis for managing audit personnel;
- Projecting an estimated timetable for initiating and completing audits; and
- Eliminating the potential for overlapping audits within the Division and with other audit entities.

To develop the 2013 annual plan, consideration was given to areas of possible financial exposure and potential for loss, opportunities to achieve positive operating benefits, and the potential for adverse publicity. Sources include the audit plans and reports of the external auditors and other outside consultants, per peer review and external auditor management letters, audits conducted by Onondaga, Monroe and Albany Counties, prior year audits and the concerns and of Erie County's Comptroller.

PROPOSED 2013 ANNUAL AUDIT PLAN

The Division of Audit and Control recognizes that an overall audit strategy and plan is important to meet the goals and objectives of the Division as they contribute to the mission of the Erie County Comptroller's Office.

As of January 1, 2013 our staffing level consists of the Deputy Controller – Audit and four (4) staff auditors. Two staff auditor positions are currently vacant, but we expect to have both of these filled by March 1, 2013. We have included estimated hours for each project in our 2013 Fiscal Year Plan based on the following assumptions:

	Estimated project time available
(4) Staff Auditors	5750
(2) New Auditors	2450
Total	8200

Our proposed 2013 annual audit plan is attached. The plan may have to be adjusted due to fewer available hours if the new staff auditors are not on board by March 1. Also, projects included in the current plan may be delayed or replaced due to the occurrence of higher risk subsequent events (i.e. special requests of the Erie County Executive, Erie County Legislature and/or the Comptroller, compliance incident reports or new regulatory guidelines.)

Audit Department Time Summary 2013

	Jan 12/31 - 1/25	Feb 1/26 - 3/1	Mar 3/2 - 3/29	Apr 4/1 - 4/7/6	May 4/29 - 5/31	Jun 6/3 - 6/28	Jul 7/1 - 7/26	Aug 7/29 - 8/30	Sep 9/2 - 9/27	Oct 9/30 - 11/1	Nov 11/4 - 11/29	Dec 12/2 - 12/27	Total
Project Time Available:													
Auditor #1	109	144	69	122	145	74	107	89	108	148	45	115	1275
Auditor #2	109	144	69	122	145	74	107	129	108	148	45	115	1315
Auditor #3	109	144	69	122	145	74	107	129	108	148	45	115	1315
Auditor #4	0	144	69	122	145	74	107	129	108	148	45	115	1315
New Auditor #1	0	0	109	122	145	114	107	129	88	128	65	115	1122
New Auditor #2	0	0	109	122	145	114	107	129	88	128	65	115	1122
Total project time available	436	576	494	732	870	524	642	734	608	848	310	690	7464
Non Productive Time	204	224	466	228	330	436	318	466	352	352	650	270	4296
Total	640	800	960	960	1200	960	960	1200	960	1200	960	960	11760
2013 Audit Time Summary as of January 31, 2103													
	Budget			Month Actual			Year to Date Budget			Year to Date Actual			
Project Time													
Project #1													
Project #2													
Project #3													
Project #4													
Project #5													
Project #6													
Non Productive time :													
Holidays													
Lunch/breaks													
Personal/comp													
Vacation													
Meetings													
Training													
Admin													