

December 19, 2012

David J. Shenk
Comptroller
County of Erie, New York
Erie County Office Building
95 Franklin Street
Buffalo, NY 14202

Dear Mr. Shenk:

We have completed a peer review of the Erie County Comptroller's Division of Audit (the Division) for the period January 1, 2009 - December 31, 2011. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide*, published in June 2011, 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 organizations 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 deficiencies noted below, the Division'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 January 1, 2009 - December 31, 2011.

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Deficiencies found in your internal quality control system include:

1. The Division was unable to provide complete Continuing Professional Education (CPE) records for the staff during the period under review. Management indicated that some of the records were kept manually; however, there was no evidence that the required training had occurred for all auditors during the review period, or if the training would qualify under *Government Auditing Standards*. (GAS 3.46 – 3.49)
2. It is not evident that the Division considered the Risk Assessment Standards (SAS 104-111), which were effective December 2007, when planning and performing its audits. (GAS 7.05)

These control deficiencies resulted in recurring nonconformance with *Government Auditing Standards*.

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

1. Effective with the 2007 Yellow Book *Government Auditing Standards*, Sections 3.46 – 3.49, it states that auditors performing work under Generally Accepted Government Auditing Standards must maintain appropriate continuing professional education. Staff must complete 80 hours of Continuing Professional Education (CPE) over a two-year period, with no less than 20 hours of study completed each year. At least 24 of the 80 hours must be related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors involved in planning, directing or reporting, and spend 20% or more of their time on these engagements should obtain an additional 56 hours to enhance their professional proficiency.

During our review, we noted that the Division was able to supply limited CPE records. Other than the online tools utilized by the Division, individuals are required to maintain their own CPE records. There is nobody formally responsible for monitoring the Division's compliance with CPE requirements. The Division's ability to cover the cost of CPE is highly dependent on the budgetary appropriations for the given year. This can greatly impact the auditors' ability to be fully compliant.

We encourage the Division to establish a policy that requires the Deputy Comptroller – Audit & Control to be responsible for the tracking of all CPE completed by the Audit Staff. Additionally, we encourage this appointed individual to take responsibility for ensuring his or her staff remains compliant at all times.

2. Section 1.27 of the 2007 Yellow Book *Government Auditing Standards* states that an ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions.

We recommend that the Division consider the auditing standards relating to Risk Assessment (SAS 104-111), which were effective December 2007, and Communicating Internal Control Related Matters in an Audit (SAS 115), which was effective September 2008. Appropriate risk assessments will better link the audit testing to procedures performed. The definitions of findings (deficiency in internal control, significant deficiency, and material weakness) defined in SAS 115 flow into *Government Auditing Standards* reporting and should be incorporated into the reporting by the Division.

In addition, the Division should consider updating the existing policies and procedures manual. Reference is made to outdated Audit Standards and Yellow Book Standards. The current format is not conducive to updates and exists in only one hard copy. In order to strengthen and maintain compliance with *Government Auditing Standards*, the Division's policies and procedures should be revised to reflect the 2003 and 2007 revisions to *Government Auditing Standards* and include specific elements not currently contained in the Division's quality control system.

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

Bonadio & Co., LLP