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April 17, 2002

Carol Aichele
County of Chester
Office of the Controller
2 N. High Street, Suite 540
P.O. Box 2748
West Chester, PA 19380

Dear Ms. Aichele,

We have completed an external quality control review of the Chester County Internal Audit Department for audits issued during the period January 1, 2001 through December 31, 2001. We have issued a report stating our opinion that the Chester County Internal Audit Department was in compliance with *Government Auditing Standards*. We are issuing this companion letter offering additional observations and some suggestions, which, in our opinion, will further increase the value of the Chester County Internal Audit Department. This letter should be read in conjunction with our opinion report.

First, the following are some areas, where in our opinion, your office excelled:

- The Chester County Internal Audit Department has attracted and retained a very professional and competent staff with complementary skills.
- The Chester County Internal Audit Department has done a commendable job in preparing Annual Reports for 2000 and 2001 which convey the activities, work products, and status of active projects in a clear, concise and understandable manner.
- Documentation prepared related to risk assessment and understanding the internal control system are valuable tools for the current year audit process as well as audits performed in subsequent years.
- Additionally, the County of Chester is to be commended for recognizing the value of having and supporting an independent audit office. The above are only some of the many qualities and activities of the Chester County Internal Audit Department that impressed us during the review. We offer the following comments and suggestions to support your efforts to continuously improve your operations.

Policies and Procedures

In order to strengthen and maintain compliance with *Government Auditing Standards*, the Chester County Internal Audit Department Policies and Procedures should be amended to include specific elements contained in the Standards. We believe such revisions will prove beneficial to your operations and County management. Office policies and procedures should be updated to include specific requirements in the following areas:

- Independence
- Follow-up on known material findings from previous audits
- Compliance with provisions of contracts and grants
- Pursuing irregularities and non-interference with legal proceedings or investigations
- GAGAS Reporting requirements

Current policies and procedures should provide more specific direction and guidance to audit staff in the areas noted above. In updating Policies and Procedures you may wish to revisit the overall format in which they are presented.

Auditor Communication

Government Auditing Standards Amendment #2, Auditor Communication, establishes a new fieldwork standard effective for financial statement audits for periods ending after January 1, 2000. The first additional planning standard, 4.6.3, requires auditors to communicate to the auditee the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Auditors are required to document this communication in the working papers. An engagement letter (written documentation is preferred) may be used to communicate and document compliance with the standards.

Auditor Independence Statement

Government Audit Standards, 3.16, states that the audit organization is responsible for having policies and procedures in place to help determine if auditors have any personal impairments. We suggest compliance with this standard be documented by requesting each auditor to submit a signed Independence Statement annually.

Audit Coverage

Consideration should be given to expanding the number of operational audits to address major areas of exposure. It appears that the entire focus of the Chester County Internal Audit Department is on the performance of annually recurring financial audits. While these are valuable to the organization, the inclusion of operational audits of major operating areas should be of greater assistance to the Chester County Organization in

formulating policy and budgetary decisions as well as strengthen overall efficiency and effectiveness.

Administration of Continuing Professional Education (CPE) Files

In general, overall compliance with GAS related to Continuing Professional Education is maintained. However, during our review we noted instances where certificates of attendance/completion were not included in CPE files. In some instances, other supporting documentation was included in lieu of an authorized certificate of completion (conference agenda). We suggest that, when possible, CPE certificates of completion be obtained which will help strengthen employee files. Consideration should also be given to maintaining a summary report of the current status of CPE credits in relation to credits required for compliance with GAGAS.

Administration

The portion of the audit process related to the final review of audit workpapers could be enhanced with the use of a final review checklist. At a minimum, the checklist should include procedures to insure the auditor's statement of independence is signed/dated and included in workpapers, all workpapers are referenced and cross referenced appropriately, permanent file index and Auditee Satisfaction Survey are included.

The inclusion of the N.A.L.G.A. Review of Audit Engagement checklist in the quality control system is a good mechanism for ensuring compliance with GAGAS. This will ensure that all of the specific GAGAS requirements are complied with and also assist in the peer review process.

Greater emphasis should be placed on referencing and cross-referencing information from the audit workpapers to the draft audit report and the draft management letter. This should assist in the review of draft reports and ensure all findings are presented in the reports.

During the planning phase an estimate of projected hours required to complete the audit process should be developed. At the completion of the audit, the actual hours required to complete the audit should also be documented. The use of an audit assignment and planning form may be helpful in tracking budgeted versus actual hours and provide a mechanism for recording revisions to completion dates based on changes to audit scope determined during the course of the audit.

During the course of our review we noted that many of the audit workpapers were manually prepared. We believe that consideration should be given to automating as much of the audit workpaper process as possible. Automating the workpaper process should strengthen the efficiency of the audit process in subsequent years.

You are to be commended for your efforts in developing and implementing a system of quality control that complies with *Generally Accepted Government Auditing Standards*,

producing both audit and non-audit work providing value to the citizens, County Commissioners and County Management.

We hope that the suggestions contained in this report assist you in continuing the professional work we observed during the review.

We extend our thanks to you, your staff and County government for the hospitality and cooperation extended to us during our short visit to Chester County.

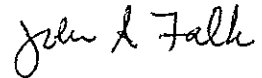
Sincerely,



Alan D. Ash,
CIA, CGFM, CFE
City Auditor
Gainesville, FL



Paul L. Albert
CIA
Lead Auditor
Northampton Co., PA



John A. Falk
CPA, CIA, CGFM, CFE
Deputy Controller
Lehigh County, PA



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Dear Ms. Aichele,


We have completed an external quality control review of the Chester County Internal Audit Department for audits issued during the period January 1, 2001 through December 31, 2001. In conducting our review, we followed the standards and guidelines contained in the N.A.L.G.A. Quality Control Review Guide published in May 1995 by the National Association of Local Government Auditors.

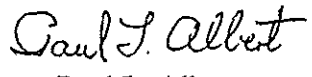
As prescribed by the N.A.L.G.A. Guide, we reviewed the internal quality control system of the Chester County Internal Audit Department and tested a sample of audits conducted by your office for compliance with *Generally Accepted Government Auditing Standards, 1999 Revision*, issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

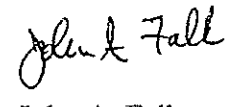
We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards have been adopted and were followed in your audit work. We have also concluded from the sample of audits tested that established quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the Chester County Internal Audit Department was in compliance with *Generally Accepted Government Auditing Standards* during the period January 1, 2001 through December 31, 2001. We have prepared and enclosed herewith a separate letter offering suggestions for further strengthening your internal quality controls.

Sincerely,


Alan D. Ash,
CIA, CGFM, CFE
City Auditor
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Northampton Co., PA


John A. Falk
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