

DEPARTMENT OF AUDIT & CONTROL



**CITY OF BUFFALO
ANNUAL AUDIT PLAN**

FISCAL YEAR 2015-2016

JUNE 18, 2015

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Section 7-5 of the Charter of the City of Buffalo - Annual Audit Plan

“By the beginning of each fiscal year, the comptroller shall submit to the council for review and comment an annual plan designating the offices, departments, boards, commissions, activities, programs, functions, agencies and other entities scheduled for audit in the fiscal year and listing the same completed in the prior fiscal year. The plan may be amended during the year as deemed necessary by the comptroller. Notwithstanding the audit plan submitted to the council, the comptroller may at any time initiate and conduct any other audit the comptroller deems appropriate. The authority for selection of audit areas shall reside solely with the comptroller; provided that the comptroller shall perform the audits required by paragraphs 4 and 5 of Section 7-4 of this charter.”

Introduction

The mission of the Division of Audit is to advance open and accountable government through accurate, independent, and objective audits that seek to improve the economy, efficiency and effectiveness of the government of the City of Buffalo (the “City”). The Division of Audit has limited resources to accomplish this mission, which must be used prudently to maximize results. Processes and procedures are continuously evaluated to increase the efficiency and effectiveness of our audits. Additionally, audits comply with Internal Auditing Standards issued by Institute of Internal Auditors (the “IIA”) to assure stakeholders that the Audit Reports issued are of the highest quality.

Audit Plan

The Division of Audit will continue to focus its efforts on revenues, and how to maximize them, and expenditures, and how to limit or reduce them by eliminating waste, fraud, and mismanagement.

Audits will be selected based on the results of a risk assessment. Departments, revenues and expenditures determined to have a higher risk will be subject to more frequent audits. Factors included in determining risk are size of budget, compliance requirements, prior audit results and results of internal control questionnaires. This risk-based plan will assist in achieving our goal of conducting audits that will have a positive fiscal impact for the City. The risk assessment will help to identify the areas where our resources would be most beneficial to the City’s finances, increasing the efficiency and effectiveness of the Division of Audit.

As noted, the objective of utilizing a risk-based audit plan is to identify and prioritize various operational and other issues posing the greatest potential risk and liability to the City. The Division utilizes the following risk factors based on their relevance to the nature and objectives of our audit approach and the political and reporting environment in which we operate:

Financial Risk - This measure assesses risk based on revenues and expenditures as a percentage of the total budget. The larger the combined revenue and expense the larger potential impact to the City and thus a greater overall financial risk.

Control Risk – Is the risk that a material error will not be prevented, or detected and corrected timely by the City’s internal control systems.

The three categories used to evaluate control risk are revenue controls, expenditure controls and asset controls. These risk factors assess the potential exposure to loss, misappropriation of assets and mitigating factors from effective internal controls.

Revenue Controls – This measure assesses risk based on the nature of revenue/cash transactions and the controls/procedures in place to safeguard assets while ensuring the City receives all revenue which it is entitled to.

Expenditure Controls – This measure assesses risk based on the nature of expenditures and purchasing as well as risk associated with operating under any contracts or external reporting requirements.

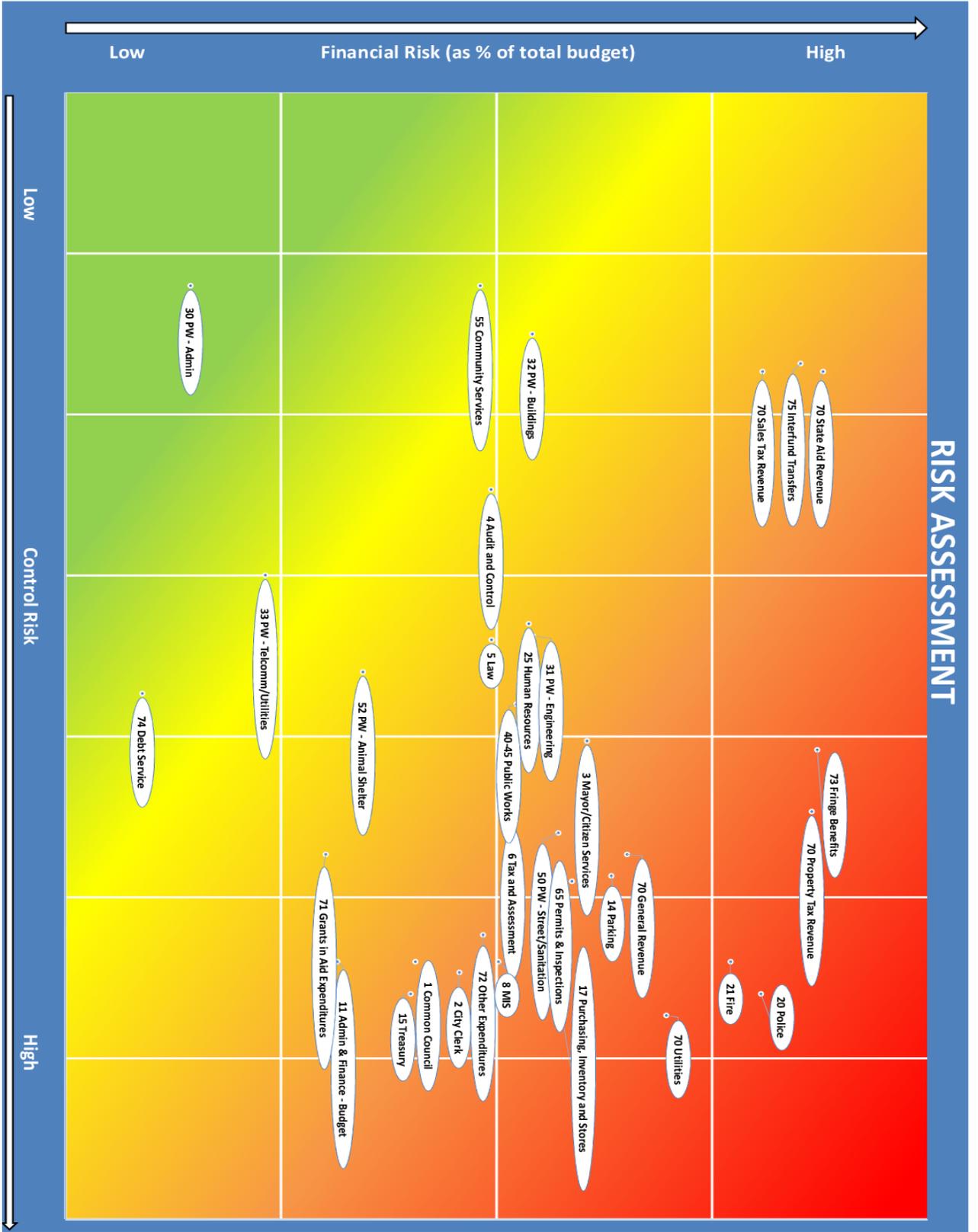
Asset Controls – This measure assesses risk based on the nature of assets handled/utilized by a department, potential misappropriation and ease of converting assets into cash.

Risk Assessment

In order to conduct a city-wide risk assessment, the Division of Audit sent out over 25 internal control questionnaires to City leaders and management which spanned over 20 Departments/agencies. With the responses from City personnel, the Division of Audit created the risk profile using identified control risks. The control risks identified were weighted and mapped against financial risk to create the audit risk assessment on page 3.

The audit risk assessment on page 3 maps the financial risk against the control risk to identify areas that pose the greatest risk. The audit risk assessment is broken down by the budgetary division number. Financial risk runs vertically with departments having higher amounts of combined revenues and expenditures having a higher financial risk. Control risk runs horizontally with departments having a higher control risk on the right of the audit risk assessment. A larger financial risk coupled with high control risk puts a department in the upper right hand corner or red area of the assessment which represents the highest risk area.

A high risk score does **not** mean that the Division/Department is being managed ineffectively or that internal controls are not adequate. A high risk score indicates that if something were to go wrong, it could have a greater impact on the City.



The selection of and number of audits performed will be based on the amount of audit staff hours available.

Expected Use of Hours Available to Audit

	Number of Projects	Hours
Risk-based Audits	8	2,400
Follow-up to Prior Audits	4	300
Other Projects	4	800
Hours Available to Audit		<u>3,500</u>

We are determined to choose audits using our objective risk assessment, but reserve the right to audit any entity or transaction as allowable under Chapter 7 the Charter of the City of Buffalo (the “Charter”). Additionally there are several audits required to be performed in accordance with Chapter 7 of the Charter, a description and estimated schedule for the required audits is detailed in on page 7.

While general audit objectives and risk assessment are included in the Plan, specific audit objectives will be determined once the staff has completed audit planning procedures related to each audit. During the audit planning phase, staff will gain an understanding of the department and/or function by conducting interviews and research. Potential issues and risks will be identified and audit methodology will be developed.

Summary of Prior Year Audits

The following audits were completed during the year ending June 30, 2015:

Revenue Related Audits

Broadway Market Rental Revenue

The audit recommended improvements to internal controls, including using the City’s financial accounting software to track accounts receivable and recommending that all payments be remitted to the Treasury. A written collection policy should be adopted requiring action to be taken if a vendor falls behind on its rental payments.

Internal Controls over the Office of Licenses Revenues

The audit recommended several improvements to the internal controls, including redesigning the controls so that licenses cannot be issued without recording the related revenue. Cash receipts should be printed for all transactions and provided to customers. Additionally improvements to the efficiency of the system should be addressed.

Expenditure Related Audits

Payroll Procedures of the Exempt Employees of the Buffalo Public School District

The audit recommended that the terms of employment contracts to be reviewed to determine if amount of paid time off is appropriate. Current contracts call for 40 days of PTO, which may be in excess of the market rate. Additionally the audit recommended the professional credentials be reviewed annually for compliance with contract terms. It was also recommended that timesheets document hours worked and be reviewed and approved by a supervisor.

Payroll Procedures of the Division of Water

The audit recommended that an automated time entry system be evaluated. An appropriate number of staff should be hired to reduce overtime costs. Timesheets should be reviewed and approved by management.

Audits Required by Charter

Peer Review of the Department of Audit and Control

A review of the Department of Audit and Control (DAC) was conducted by a public accounting firm to determine if the DAC conducts its audits in accordance with the International Standards for the Professional Practice of Internal Auditing (the Standards). The review determined that the DAC's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with the Standards.

Audit Follow-up Reports

The IIA's International Standards for the Professional Practice of Internal Auditing require that the Division of Audit establish and maintain a system to monitor the disposition of audit results communicated. The Division of Audit has created a process of reviewing audit recommendations from the prior year audits and documenting the progress toward implementation of the recommendations. The results of these reviews are documented in an Audit Follow-up Report. The Reports are filed with the Common Council in the same manner as the original audit. Verifying the implementation of the audit recommendations is the final step of the audit process, and the audit hasn't truly been completed until this occurs. Therefore the Audit Follow-up Report is of paramount importance in the audit process.

The Division of Audit completed a Follow-up Report on:

Erie Basin Marina, Hatch Restaurant – 2014 Season

The Hatch changed operators for the 2014 as a result of recommendations from prior audits. The current operator was late with several rental payments, but once informed of this delay, remedied the situation and is now in compliance with the terms of the agreement.

Audits and Audit Follow-up Reports are filed with the Common Council can be reviewed in their entirety on the Comptroller's website:

http://www.city-buffalo.com/Home/Leadership/City_Comptroller/Audits

List of Audits in Progress

Audit of Electric Service Accounts including Street Lighting

Audit of the Gross Receipts Tax Collections

Audit of Cable Franchise Tax Agreement

Audit of the Payroll Procedures of the Timekeepers

Audit of the Internal Controls over Revenue at the Animal Shelter

Follow-up to the Audit Report on Fuel Consumption

Audits Required and/or Allowed by the Charter

Charter Citation	Charter Requirements	Description of Audit to be Conducted	Estimated Completion Date	Remarks
7-4, 5	The comptroller shall engage an independent consultant to conduct an audit of the performance of the council staff every two years.	Review of Procedures	Complete by December 2015	Required Audit / Next Audit in 2017
7-10, 3	At least once every three years, the comptroller shall take such steps as are necessary to have the department of audit and control reviewed by a professional, non-partisan objective organization utilizing nationally recognized guidelines such as those adopted by the National Association of Local Government Auditors to evaluate the department's compliance with generally accepted government auditing standards.	Review Division of Audit Procedures and Adequacy of Audits Performed (Audit of Auditors)	Completed 12/10/2014	Required Audit/ Next Audit in 2017
7-4, 4	In addition to such audits as the comptroller may conduct with his or her own staff, the comptroller shall engage an independent consultant to conduct at least two such performance audits each year. The comptroller shall request, the mayor shall recommend, and the council shall appropriate sufficient funds for such audits.	<ol style="list-style-type: none"> 1. Audit of Information in Accordance with Single Audit Act For City the Buffalo. 2. Audit of Information in Accordance with Single Audit Act For Buffalo Urban Renewal Agency 	Completed Annually	Required Audit
7-4, 2	The comptroller shall have the power to conduct financial and performance audits of all agencies and other entities a majority of whose members are appointed by city officials or that derive at least fifty percent of their revenue, including the provision of goods, services, facilities or utilities, from the city or from allocations under the authority of the city.	Audits will be selected based on process documented above.	Continuously Performed	Allowable Audits
7-4, 4	The comptroller shall have the power to conduct performance audits of all bureaus, offices, departments, boards, commissions, activities, functions, programs, agencies and other entities or services of the city (including those mentioned in paragraph 2 of this Section) to determine whether their activities and programs are: (i) conducted in compliance with applicable law and regulation; and (ii) conducted efficiently and effectively to accomplish their intended objectives.	Audits will be selected based on process documented above.	Continuously Performed	Allowable Audits