

**DEPARTMENT OF AUDIT & CONTROL**



**CITY OF BUFFALO  
ANNUAL AUDIT PLAN**

**FISCAL YEAR 2014-2015**

**JUNE 18, 2014**

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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. These resources must be used prudently to maximize results. Processes and procedures are continuously evaluated to increase the efficiency and effectiveness of our audits. Additionally, compliance with Internal Auditing Standards issued by Institute of Internal Auditors (the “IIA”) will continue to be evaluated to assure stakeholders that the Audit Reports issued are of the highest quality.

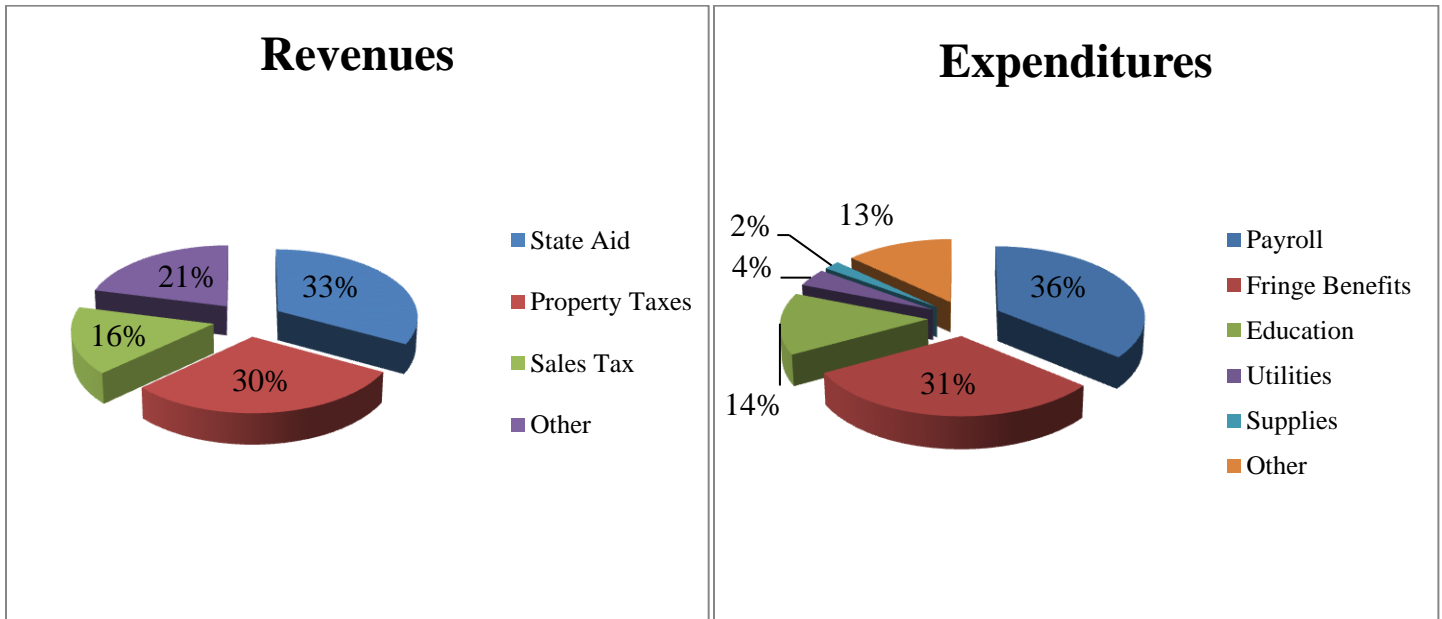
### **Audit Plan**

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 a risk analysis, departments 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, variance analysis, prior audit results and results of internal control questionnaires. This risk-based plan, with a focus on maximizing revenues and reducing expenditures, will assist in achieving our goal of conducting audits that will have a positive fiscal impact for the City.

The risk analysis used to determine audits to be performed will include a review of the Budget. Revenues and Expenditures that represent large percentages of our budgeted resources will be assigned a higher risk and will be subject to more frequent audits. The charts below document the budgeted revenues and expenditures for the City for the Fiscal Year beginning July 1, 2014.

**City of Buffalo Budget for the Fiscal Year beginning July 1, 2014**



While the number of potential audits is numerous, the risk analysis 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.

We are determined to choose audits using our objective risk analysis, 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 5.

**Potential Audits based on Risk Analysis**

***Revenues***

**Property Taxes** – represents 30% of total revenue to the City, an audit of this revenue source would be an effective use of the Division of Audit’s resources.

**Utility Taxes** – Included in “Other” Revenue, the size of the budget does not make it high risk, but other risk factors including difficulty in evaluating completeness of revenues received make an audit appropriate.

**Licenses and Permits** –Budget size does not make this a high risk, but other risk factors such as a large number of transactions involving cash make an audit appropriate.

### ***Expenditures***

**Payroll** – This is the City’s largest expenditure, therefore an audit is always appropriate.

**Benefits** – This is the City’s second largest expenditure, making it a high risk, and an expenditure that may be audited.

**Education** – The City provides \$70 million, 14% of the City’s total expenditures to the Buffalo Public Schools annually. An evaluation of how these funds are spent would be an appropriate use of the Division of Audit’s resources.

### **Summary of Prior Year Audits**

The prior year Annual Audit Plan stated that the focus of audits would be on maximizing revenues and limiting expenditures, an approach that will be continued. Large expenditures and large sources of revenue were selected for audit, as well as revenues or expenditures that were most susceptible to waste, fraud, and theft.

### ***Revenue Related Audits***

#### **Erie Basin Marina Audit (2008 – 2012 Seasons)**

The audit discovered that the operator of the Marina underpaid the City by \$343,245 over the five year period under audit. The contract with the operator was not renewed at the end of the 2013 Season as a result.

#### **Erie Basin Marina Audit (2013 Season)**

The audit revealed that the operator of the Marina underpaid the City by \$45,808 for the 2013 Season. The audit calculated rent due for the 2013 Season of \$156,451, but the operator paid only \$110,643.

### ***Expenditure Related Audits***

#### **Fuel Consumption Audit**

The audit evaluated the City’s use of fuel and recommended that the new system of internal controls safeguarding fuel consumption continue to be implemented and that fuel consumption be reviewed more frequently by management.

#### **Community Service Payroll Audit**

The audit recommended that an automated time entry system be evaluated, until that occurs a standardized time sheet should be implemented, timesheets should be reviewed and approved by management, timesheets should be required for all employees and all hours worked, and use of paid time off should be documented for each department employee.

### **Common Council Payroll Procedures**

This audit was required by Charter Section 7-4(5) requiring the comptroller to engage an independent consultant to conduct an audit of the performance of the council staff every two years. It was determined an audit of the payroll process would be appropriate to meet this requirement. The recommendations were to evaluate the cost/benefit of a standard automated time entry system, formalize policies regarding paid time off, hours worked and approval of timesheets.

### **Petty Cash Audit**

The audit recommended that petty cash funds be kept in a secure location, petty cash be used only for city business, that several of the petty cash funds be closed or reduced due to lack of use, custodians of petty cash be updated to align with person performing the duties of petty cash custodian and stricter adherence to petty cash guidelines.

### ***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 established a follow-up process to monitor and ensure that actions have been effectively implemented. 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 three Audit Follow-up Reports during the prior year:

#### **Follow-up to Parking Department Audit**

#### **Follow-up to Prescription Drug Plan Audit**

#### **Follow-up to Common Council Discretionary Fund Audit**

The reports show the progress being made on implementing the audit recommendations. The majority of the recommendations have been implemented or are in the process of being implemented.

Audits and Audit Follow-up Reports 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](http://www.city-buffalo.com/Home/Leadership/City_Comptroller/Audits)

## 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	Completed January 2014	Required Audit / Next Audit in 2016
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)	12/31/2014	Required Audit
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"> <li>1. Audit of Information in Accordance with Single Audit Act For City the Buffalo.</li> <li>2. Audit of Information in Accordance with Single Audit Act For Buffalo Urban Renewal Agency</li> </ol>	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