

DEPARTMENT OF AUDIT & CONTROL



**CITY OF BUFFALO
ANNUAL AUDIT PLAN**

FISCAL YEAR 2018-2019

JUNE 20, 2018

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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 Department of Audit and Control is to protect, report and strengthen the City’s finances to help ensure an efficient, effective, and transparent government that will better serve the citizens and taxpayers of Buffalo. The Division of Audit has set goals to achieve the mission of the Department, one of the goals 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 and goal, thus resources must be used prudently to maximize effectiveness. Processes and procedures within the Division of Audit are continuously evaluated to increase the efficiency and effectiveness of our audits.

Our audits are planned and performed to comply with the International Standards for the Professional Practice of Internal Auditing, issued by Institute of Internal Auditors (the “IIA”).

<https://na.theiia.org/standards-guidance/Public%20Documents/IPPF-Standards-2017.pdf>

These standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions. Compliance with these standards is reviewed every three years through an external examination, conducted by an independent professional.

Audit Plan

The Division of Audit will continue to focus its efforts on maximizing revenues and minimize expenditures by presenting management with audit findings and recommendations that can increase the effectiveness of internal controls and reduce inefficiencies, waste, fraud, and mismanagement.

Audits will be selected based on the results of the 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 economic impact for the City.

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 of Audit utilizes the following risk factors:

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

Control Risk – 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 as follows:

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.

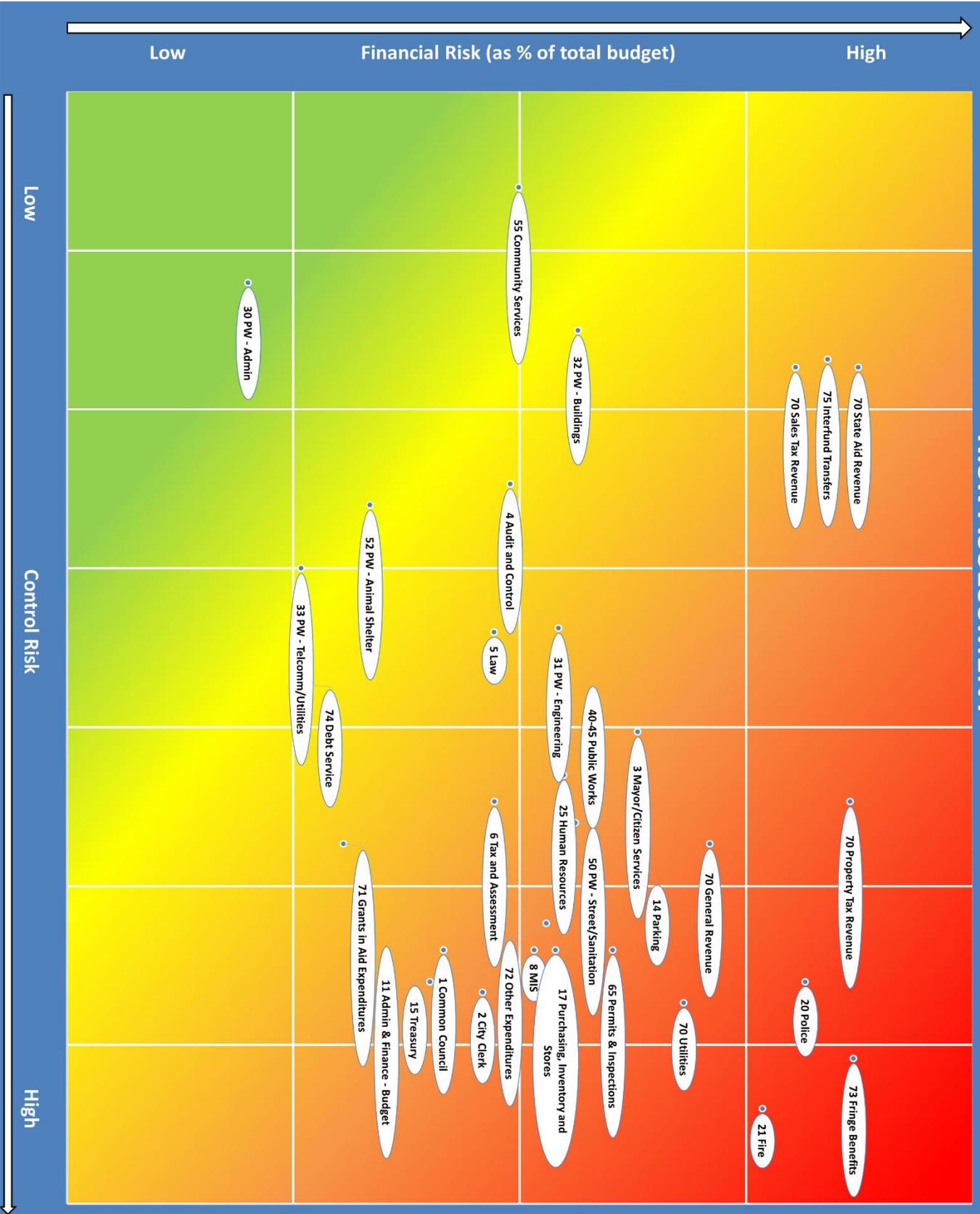
Risk Assessment

In order to conduct a city-wide risk assessment, the Division of Audit sent out more than 25 internal control questionnaires to management from every City department and agency. 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 and the control risk to identify areas that pose the greatest total 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 (red area) of the assessment.

A high risk score indicates a greater susceptibility to an issue occurring which potentially could have a greater adverse impact on the City.

RISK ASSESSMENT



The number of audits performed will be based on audit staff hours available.

Expected Use of Hours Available to Audit

	Number of Projects	Hours
Risk-based Audits	6	2,400
Follow-up to Prior Audits	4	800
Other Projects	1	200
Hours Available to Audit		3,400

We will choose audits using our objective risk assessment, but reserve the right to audit any entity or transaction as allowable under Chapter 7 of 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 on page 7. We plan to allocate our audit resources based on the risk assessment, therefore it can be expected that the areas in the top right of the risk assessment (Fringe Benefits, Police, Fire and Utilities) will be our highest priority areas to audit. This does not guarantee we will audit each of these areas this year, but they are the City’s highest risk areas and will be given the highest priority to audit.

While the risk assessment identifies the highest risk areas, it does not identify specific risks within each area. Specific audit objectives will be determined once the staff has completed audit planning procedures. During the audit planning phase, staff will gain an understanding of the department and/or function by conducting interviews and research. Specific issues and risks will be identified and audit objectives and methodologies will be developed during the audit planning phase.

Summary of Prior Year Audits

The following audits were completed during the fiscal year ending June 30, 2018:

Revenue Related Audits

Audit of Contract for Operation of the Hatch Restaurant and William K’s Restaurants at Erie Basin Marina

The audit recommended that the City issue an invoice for \$7,957 for underpaid rent due to a mathematical error. The payment was received from the Operator subsequent to the audit. The Department of Audit and Control prepared a new rental calculation template which was provided to the Operator which should prevent mathematical errors in the rent calculation in the future. The audit also recommended that the Operator deliver the rental calculation and rent payment to

the City by the 15th day of each month. It was noted that restaurant sales and rent paid to the City has increased with the new operator, since taking over in 2014. The operator added a second restaurant in 2016.

Audit of the Internal Controls over Revenue at the Division of Licenses

A prior audit recommended that cash should not be accepted as a form of payment. This was the biggest control risk, and this recommendation has been implemented. The audit recommended several improvements to internal controls to assure that revenue recorded is complete and accurate. Specifically, the audit recommended having all payments handled at Treasury and using a single computer system to record licensing transactions. The audit also recommended changes to the way transactions are recorded, including using pre-numbered documents and reconciling to verify completeness of revenue. Additional recommendations included making deposits daily, improving the segregation of duties so that one person is not responsible for the entire revenue process, establishing written policies and procedures, and the installation of security cameras.

Expenditure Related Audits

Audit of Dependent Eligibility for Health Insurance Benefits at BMHA

The audit recommended several improvements to the internal controls over the procedures for enrolling employees and their dependents into the health insurance plan at the BMHA. The procedures should be updated to obtain supporting documentation for all dependents enrolled in the health insurance plan. The process of removing deceased members from coverage should be reviewed and improved to prevent deceased members from remaining on the health insurance plan. Formal written policies and procedures for enrolling new hires and their dependents should be developed. In addition to the internal recommendations, the audit also recommended a dependent eligibility audit be performed by a qualified third party vendor. The audit would be a thorough review of eligibility of all dependents. Results of these audits have yielded positive results for many entities.

Audit of Seasonal Employees Eligibility for Benefits

The audit recommended that Department of Human Resources (HR) obtain required documentation that seasonal employees were offered membership into the New York State & Local Retirement System (NYSLRS), as required by law. The audit also recommended that HR monitor the hours worked by seasonal employees and perform an annual analysis of the potential penalty under the Affordable Care Act as a result of not offering seasonal employees health insurance. Lastly, the audit recommended that HR should create formal written policies and procedures related to health insurance and retirement benefits for new hires (including seasonal employees) to ensure compliance with applicable federal and state laws, and City policies.

Tri-annual review of the Division of Audit

Section 7-10 of the City of Buffalo Charter states:

“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. A copy of the written report shall be provided to the council and mayor and filed with the city clerk.”

The Peer Review Audit, from Amato, Fox & Company, found that *“the City of Buffalo’s Department of Audit and Control’s internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with the Standards [for the Professional Practice of Internal Auditing by the Association of Local Government Auditors] for assurance and consulting engagements during the period November 1, 2014 through June 30, 2017.”*

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 to the audit process.

The Division of Audit completed Follow-up Reports on:

Follow-up to Audit of Buffalo Fire Department Payroll Procedures (June 2017)

Follow-up testing noted that management has not implemented most of the audit recommendations from the original and first follow-up (December 2016) audit reports. Measures to reduce civilian OT and improve documentation of OT approval have not been implemented. The Division of Audit performed another follow-up audit on this subject to monitor any progress on the situation.

Six Month Follow-up to Audit of Buffalo Fire Department Payroll Procedures (May 2018)

Follow-up testing noted that management has not adjusted staffing level to significantly reduce Civilian OT costs as recommended in the initial and follow-up audits. Each Full time equivalent within the Fire Department averages 7 hours of OT every week. Management should perform a cost-benefit analysis to determine proper staffing levels throughout the Fire Department, and

then staff the department accordingly. This would save taxpayers money and create a more efficient work environment for Fire Department employees.

Follow-up to Audit of the Internal Controls over Revenue at the City Clerk

The follow-up determined that none of the recommendations cited in the Audit Report on the Internal Controls over Revenue at the City Clerk had been implemented. No follow-up testing was deemed necessary as there were no procedural changes made at the City Clerk. As the system is operated, there is still no way to verify if all revenue received by the City Clerk is recorded in MUNIS (the City's financial accounting system) and deposited in a City bank account. There are inadequate safeguards over assets, specifically over cash receipts and blank security paper for birth, death and other certificates, which are not adequately secured. This lack of internal controls creates an environment where errors and fraud could occur and go undetected.

Informational Report

The Division of Audit completed an Informational Report on:

U.S. Department of Housing and Urban Development HOME Program Construction Costs

The informational report compiled detailed costing information for \$5 million in HOME projects, consisting of five single unit, five two-unit and one three-unit residences. Ten projects were rehabilitations, and one single family residence was a new build. The report compared the cost of the HOME Projects to the City's residential housing sales and also summarized specific costs of the HOME projects. It was noted that the average cost of a HOME project was \$436,803 or \$197 per square foot. Sale prices in the City for residential properties (both single and multi-family) averaged \$112,000 or \$80 per square foot. It is imperative that the City selects projects that can provide the greatest value to the taxpayers and the eligible residents. Management should determine methods to reduce costs to allow this program to help more residents than were served by the projects reviewed in this report.

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

<https://www.buffalony.gov/Archive.aspx?AMID=42>

As of June 30, 2018 the following Audits are 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 Dependent Eligibility for Benefits

Follow-up to Audit of Overtime Usage at the Buffalo Police Department

Audits Required and/or Allowed by the Charter

Charter Citation	Charter Requirements	Description of Audit to be Conducted	Estimated Completion Date	Remarks
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 November 2017	Required Audit/ Audit . Next planned for Fall 2020
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 risk assessment.	As deemed necessary, based on risk assessment	Allowable Audits
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.	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 prior to 12/31	Required Audit
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 risk assessment.	As deemed necessary, based on risk assessment	Allowable Audits
7-4, 5	The comptroller may engage an independent consultant to conduct an audit of the performance of the council staff every two years.	Audits will be selected based on risk assessment.	As deemed necessary, based on risk assessment	Allowable Audits