

DEPARTMENT OF AUDIT & CONTROL



**CITY OF BUFFALO
ANNUAL AUDIT PLAN**

FISCAL YEAR 2013-2014

JUNE 12, 2013

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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 Audit Division 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 Audit Division has limited resources to accomplish this mission. Therefore, the resources must be used prudently to maximize efficiency and effectiveness. In the coming year, processes and procedures will be revised to increase the efficiency and effectiveness of the Audit Division.

The method for selecting audits in the coming year will be revised to incorporate guidance issued by the Institute of Internal Auditors, as well as information gathered through a questionnaire completed by each department. The Audit Division 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. However, the audit selection process will be more objective and systematic. Additionally, the procedures for concluding an audit will be revamped. The audit report will not be the end of the audit process – a system of revisiting completed audits will be developed, whereby the progress of implementing recommendations from these audits will be documented and communicated to stakeholders.

Audit Process

Internal Auditing Standards have been developed by the Institute of Internal Auditors. These Standards have been adopted by the Division of Audit. They will serve as a guide for the audit process going forward. The following are noteworthy excerpts from the International Standards for the Professional Practice of Internal Auditing as written by The Institute of Internal Auditors:

Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls. The internal audit activity’s plan of engagements must be based on a documented risk assessment. Engagements selected should have the potential to improve management of risks, add value, and improve operations.

Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- *Promoting appropriate ethics and values within the organization;*
- *Ensuring effective organizational performance management and accountability;*
- *Communicating risk and control information to appropriate areas of the organization; and*
- *Coordinating the activities of and communicating information among stakeholders*

Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- *Significant risks are identified and assessed;*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite; and*
- *Relevant risk information is captured and communicated in a timely manner across the organization.*

Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- *Achievement of the organization's strategic objectives;*
- *Reliability and integrity of financial and operational information;*
- *Effectiveness and efficiency of operations and programs;*
- *Safeguarding of assets; and*
- *Compliance with laws, regulations, policies, procedures, and contracts.*

Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

Engagement Objectives

Objectives must be established for each engagement. Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives

must reflect the results of this assessment. Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

Communicating Results

Internal auditors must communicate the results of engagements. Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. The communication will identify:

- *The scope, including the time period to which the opinion pertains;*
- *Consideration of all related projects including the reliance on other assurance providers;*
- *The risk or control framework or other criteria used as a basis for the overall opinion; and*
- *The overall opinion, judgment, or conclusion reached.*

Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated. The chief audit executive must establish a follow-up process to monitor and ensure that actions have been effectively implemented.

The above standards from the Institute of Internal Auditors will form the framework of our audit process.

A key factor in determining future audits is the continued evaluation of information gathered through the internal control questionnaire completed by each department. Not only will this information help to determine future audits by identifying which departments are lacking proper financial controls, but it also provides a head start on the audit process, since the preliminary information needed to conduct an audit has already been obtained.

Other criteria, such as variance analysis, size of budget, compliance requirements, and evaluation of other risk factors will aid in the selection of audits. 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.

While the number of potential audits is numerous, this analysis of the potential risks and rewards will help to identify the areas where our limited resources would be most beneficial to the City's finances.

We also reserve the right to audit any entity or transaction as allowable under Chapter 7 the Charter of the City of Buffalo. Additionally there are 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 the attached chart.

Summary of Prior Year Audits

The 2012-2013 Annual Audit Plan, submitted to the Common Council on June 22, 2012, stated that the focus of audits would be on maximizing revenues and limiting expenditures. Large expenditures or sources of revenue would get more attention, as well as revenues or expenditures that are the most susceptible to waste, fraud, and theft.

Expenditure Related Audits

One of the largest cost centers for the City is fringe benefits for its employees and retirees, and the most expensive fringe benefit is health insurance, at a cost of more than \$65 million. An **Audit of the Prescription Drug Plan** was performed in order to determine whether the switch to a self-insured model for prescription drug coverage was a fiscally prudent decision. The audit determined that the change to a self-insured model resulted in savings of \$3.6 million in fiscal year 2012.

Another expenditure that was particularly susceptible to abuse, even resulting in a federal criminal conviction of a former Common Council member, is the more than \$1 million in Common Council Discretionary Funds. These Discretionary Funds are intended to benefit the community as deemed fit by Common Council. An **Audit of the Common Council Discretionary Funds** was conducted to examine whether these funds were being spent properly, and to determine ways to improve the process of awarding these grants that would prevent future abuse. The audit recommendations have resulted in changes to the processing of transactions which have created greater transparency and increased controls over use of the funds.

Any time cash is involved in a transaction, the risk for theft or abuse is increased. In order to assess and mitigate this risk, an **Audit of the Petty Cash Funds** was performed. It was recommended that several of the custodians of the petty cash turn in their funds due to lack of use.

The largest non-personnel cost for the City, at more than \$16 million, is electricity, most of which is for street lighting. At the request of the Common Council, an **Audit of the Street Lighting** system is underway. With the manpower and expertise that is needed for this audit, it is necessary to seek outside assistance. The Comptroller's Office is currently preparing a Request for Proposal (RFP) for an outside firm to assist our office in the completion of this audit. An audit completed in the 1990s was conducted in a similar manner.

Another significant non-personnel cost is fuel for the City's vehicle fleet. An **Audit of the Fuel Master System** is underway in order to evaluate the system of internal controls to ensure that fuel used only in City vehicles for appropriate purposes.

Revenue Related Audits

More than \$16 million in revenues is generated in relation to parking operations in the City. An **Audit of the Department of Parking, Towing and Storage Operation** was performed, focusing on two areas that were subject to abuse in the past – the towing process and the auto impound auction. Several recommendations were made, including compliance with NYS General Municipal Law 103 and the exploration of ways to use technology to increase accuracy and efficiency.

Another source of revenue is the City's operation of the Erie Basin Marina, a revenue source poised to increase with additional capital investment, both at the marina itself, and the waterfront in general. An **Audit of the Operator of Erie Basin Marina** is currently underway in order to verify the proper amount of rent has been paid to the City in accordance with the lease agreement.

Routine Audits

The following audits are performed on two programs conducted by the City on an annual basis.

An **Audit of the Gun Buy Back Program** held on August 18, 2012 was performed. It was recommended that the number of locations be evaluated to determine if the cost of providing the location is worth the benefit gained, as two of the seven locations accounted for only 4% of the total number of guns turned in.

An **Audit of the In Rem Auction** held on October 29, 30 and 31, 2012 was conducted, and offered recommendations on how to prevent bid scheming, as well as other ways to improve and streamline the auction process.

The recommendations from the prior year audits will be reviewed, and progress toward implementation of the recommendations will be documented and communicated as part of our revised audit process.

Audits 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

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	12/31/2013	Required Audit
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	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"> 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.	N/A	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.	N/A	Allowable Audits