

**CITY OF BUFFALO
DEPARTMENT OF AUDIT AND CONTROL**

**FOLLOW UP TO THE AUDIT REPORT ON THE
INTERNAL CONTROLS OVER REVENUE AT THE
BUREAU OF FIRE PREVENTION**

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Preface

In accordance with the goals set forth in the Annual Audit Plan, the Department of Audit and Control (DAC) conducted a follow-up to the September 2015 Audit Report on the Internal Controls Over Revenue at the Bureau of Fire Prevention (the Bureau). The audit documented and evaluated the internal controls over revenues received from customers obtaining permits for propane and tent use, fire reports, and inspections of foster homes.

The objective of the follow-up procedures was to determine if recommendations cited in the audit have been implemented. This follow-up report was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The following terms will be used throughout the follow-up report:

Audit Recommendation – recommendation from the original audit.

Testing Performed – follow-up testing completed to assess if the audit recommendation has been implemented.

Department Commentary – commentary provided by Fire Commissioner Whitfield on the implementation of the audit recommendation.

Status per DAC – commentary provided by DAC on the progress made towards implementing the audit recommendation.

Summary

Based on testing performed, only one of the recommendations cited in the Audit Report on the Internal Controls over Revenue at the Bureau of Fire Prevention has been implemented.

As the system currently operates, there is no way to verify if all revenue received by the Bureau 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 permits, which are not adequately secured. This lack of internal controls creates an environment where fraud could occur and go undetected.

The original audit report including a full narrative of the revenue cycle can be found at:
http://www.city-buffalo.com/files/1_2_1/Comptroller/BureauofFirePrevention.pdf

Status of Significant Audit Recommendations

Move all payment processing to the Division of Treasury

Audit Recommendation: The most effective internal control for the Bureau would be to move all payment processing to the Division of Treasury. This would eliminate the Bureau's direct involvement in the collection process, which would enhance the internal controls over the revenue process.

Testing Performed: DAC visited the Bureau's office on 12/8/16 and noted that collections are received at the Bureau and at events.

Department Commentary – This has not yet been accomplished.

Status per DAC: The recommendation has not been implemented.

Improve Safeguards over Assets

Audit Recommendation: Cash and checks should be stored in a secure location at all times. Checks should be restrictively endorsed immediately. Access to cash and checks should be limited to necessary personnel.

Testing Performed: DAC visited the Bureau's office on 12/8/16 and noted that cash is no longer accepted. All checks and money orders received at the Bureau are stored in a lockbox until they are delivered to Fire Headquarters, but they are not restrictively endorsed. One Bureau employee has the key for the lockbox.

Department Commentary – We have stopped accepting cash payments in the office and have purchased a safe to secure all payments received.

Status per DAC: The recommendation has been nearly fully implemented.

Use Pre-Numbered Documents

Audit Recommendation: - The Bureau of Fire Prevention should obtain permit stock that is pre-numbered. The use of separate tent and propane permits should be eliminated. Foster home inspections letters and fire reports should be pre-numbered or sequentially numbered for tracking purposes. This would decrease the ability to have unrecorded transactions.

Testing Performed: DAC visited the Bureau's office on 12/8/16 and noted that permits are not pre-numbered and that there is no record of the total number of permits issued. The City Clerk purchases pre-numbered security paper for their operations and also sells this paper to other municipalities. The Bureau should purchase security paper from the City Clerk for use as permit stock, and track the security numbers issued so that the completeness of revenue can be verified.

Department Commentary – This has not yet been accomplished.

Status per DAC: The recommendation has not been implemented.

Establish Written Policies and Procedures

Audit Recommendation: Documented policies, procedures, and a fee schedule should be established. It should define what revenue the Bureau of Fire Prevention is responsible for, which revenue accounts contain Bureau of Fire Prevention Revenue, what information is to be

provided to the Superintendent of Fire Records, what information is entered into MUNIS, a document retention policy and how all permits, foster home inspections and fire reports are tracked. There should be no instances where Bureau of Fire Prevention records do not agree with MUNIS. All permit copies, applications and batch deposit detail should be filed by batch within the Bureau office. Supporting documentation should be retained for each transaction. For tent and propane permits, the permit application and a copy of the permit should be retained. A policy should be adopted to retain supporting documentation for all foster home inspection letters and fire reports on a shared network drive. A documented process for handling fire report requests should be developed, and reports should be handled at one location. Fee rates for these services should be filed with the Common Council and should be listed in the City Charter.

Testing Performed: DAC visited the Bureau's office on 12/8/16 and noted that no policies and procedures have been documented or established to improve the revenue collection process.

Department Commentary – This process has begun but is not yet completed.

Status per DAC: The recommendation has not been implemented.

Eliminate Hand Written Ledger

Audit Recommendation: The ledger book should be eliminated and converted to an electronic spreadsheet containing fields for permit number, transaction date, vendor name, event name, event date, etc. Each weekly envelope of cash and checks delivered to the Superintendent of Fire Records should be accompanied by the corresponding transaction detail from the spreadsheet to ensure MUNIS records match.

Testing Performed: DAC visited the Bureau's office on 12/8/16 and noted that the ledger book is still in use.

Department Commentary – This has not yet been accomplished.

Status per DAC: The recommendation has not been implemented.

Perform Review and Reconciliation of Revenue

Audit Recommendation: **The Superintendent of Fire Records should enter Bureau revenue as a separate batch or into a separate account.** After input into MUNIS and deposit with Treasury, the Superintendent of Fire Records should bring the batch deposit report to the Bureau. The Bureau should verify that the batch deposit report agrees to the Bureau's records for funds delivered to Fire Headquarters. This reconciliation should be performed after each deposit.

Testing Performed: DAC obtained the Bureau's ledger book and compared the fiscal year 2017 ledger book records to the MUNIS records. There are significantly more transactions recorded in MUNIS by the Superintendent of Fire Records than recorded in the ledger book maintained by the Bureau. Payments are received daily by the Bureau, but only recorded in MUNIS and deposited with Treasury quarterly. It cannot be determined if all revenue received by the Bureau is recorded in the ledger book, entered in MUNIS or deposited with Treasury.

Department Commentary – While this has not been completely accomplished, we have begun to implement a reconciliation process and expect to accomplish this in the very near future.

Status per DAC: The recommendation has not been implemented, therefore the process in place cannot verify the accuracy or completeness of revenue recorded.

Add Bureau Information to the City Website

Audit Recommendation: The City website should contain information and payment instructions related to tent permits, propane permits, foster home inspections and fire reports. Applications and other forms should be available on the website.

Testing Performed: DAC reviewed the City’s website on 12/8/16, noting no information or payment instructions for the Bureau.

Department Commentary – We have met with the website administrators and will add content as we finalize payment schedules, etc.

Status per DAC: The recommendation has not been implemented.

Conclusion

The Fire Commissioner should increase efforts to implement the audit recommendations. Not taking cash at the Bureau and storing checks in a safe is a small first step. Additional steps should immediately be taken to eliminate the potential for fraud to go undetected and ensure that completeness of revenue can be verified. A revenue process that does not allow for the verification of completeness of revenue leaves the City vulnerable to misappropriation of assets.

