

City of Buffalo Annual Audit Plan

For the Year July 1, 2019 to June 30, 2020



Department of Audit and Control

Barbara Miller-Williams
Comptroller

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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 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. 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 the 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 continuously internally and every three years through an external examination conducted by an independent professional.

Audit Plan

The Division of Audit will continue focusing its efforts to maximize revenues and minimize expenditures of the City by presenting management with audit findings and recommendations that can improve 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:

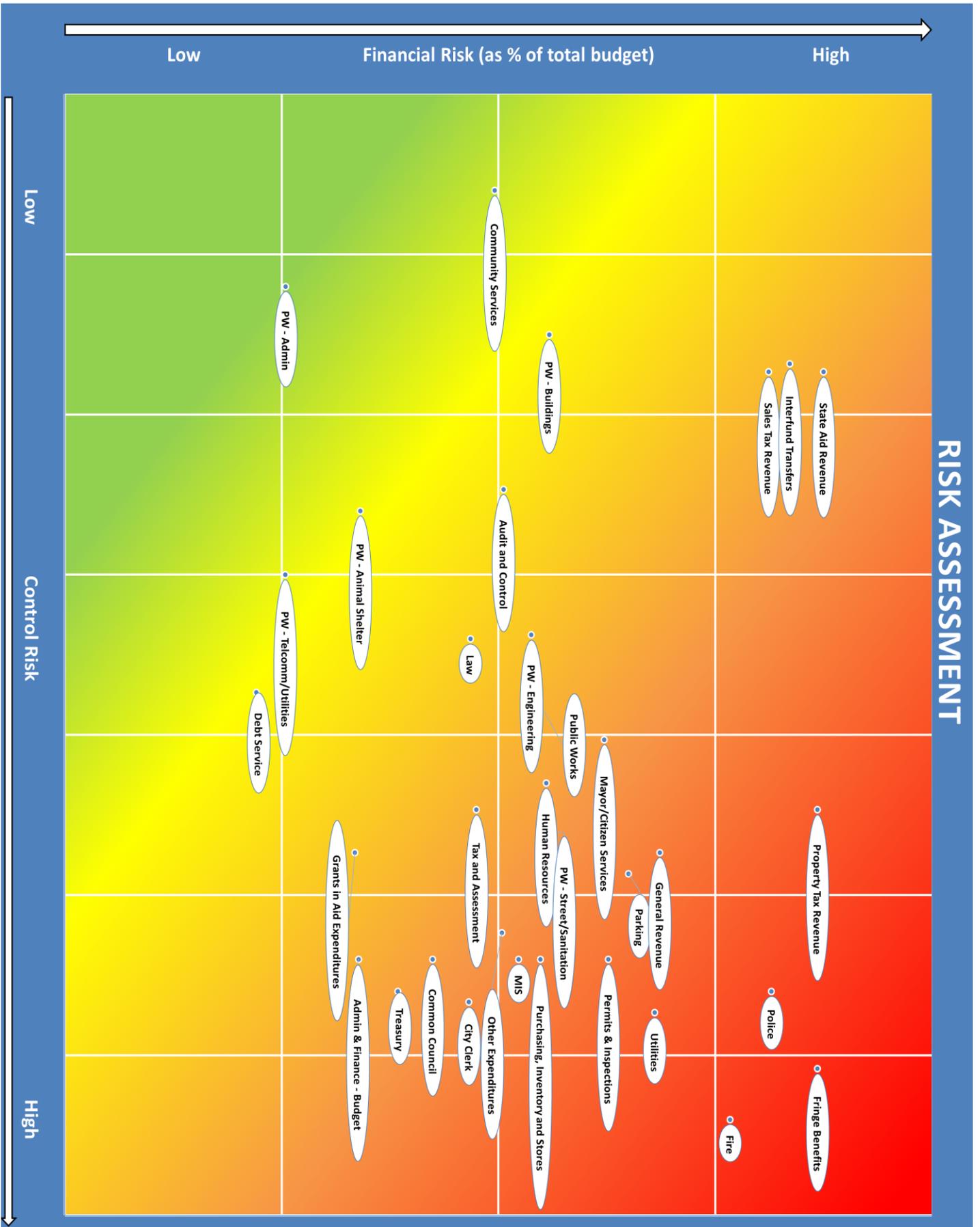
Financial Risk - This measure assesses risk based on revenues and expenditures as a percentage of the total City budget. The larger the combined revenue and expense the larger potential impact to the City and thus a greater overall financial risk.

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 for 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 risks to create the audit risk assessment on page 4.



The audit risk assessment on page 4 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 budgetary division. 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.

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

Expected Use of Hours Available to Audit

	Number of Projects	Hours
Risk-based Audits	5	2,000
Follow-up to Prior Audits	5	1,250
Other Projects	2	400
Hours Available to Audit		3,650

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 9. 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 and Fire) 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 Division of Audit 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 Completed Audits

The following audits were completed during the fiscal year ending June 30, 2019:

Revenue Related Audits

Audit of Cable Franchise Tax Revenue

The purpose of the audit was to determine if the City of Buffalo was paid the proper amount in accordance with the Cable Franchise Tax Agreement (the agreement) between the City of Buffalo and Cable Operator. This audit was performed by an outside firm that specializes in performing these audits. The agreement requires the cable operator to pay the City a 5% franchise tax on revenue it generates within the City of Buffalo. The period audited was from January 1, 2009 through June 30, 2015. The audit revealed that the cable operator underpaid its cable franchise tax by \$101,417 during the period under audit. The amount has been collected, completing the audit.

Audit of Internal Controls over Inventory and Revenue at the Division of Parking Enforcement

The audit assessed the internal control over inventory and revenue. We found that the completeness and accuracy of revenue cannot be determined, the computer software is out of date, there are inadequate segregation of duties and a lack of supervisory review. As a result, we recommended obtaining new software and improving the system of internal controls by segregating duties and performing regular reconciliations of transactions.

Expenditure Related Audit

Audit of Dependent Eligibility for Health Insurance Benefits

The audit objectives were to determine employee and dependent eligibility for health insurance benefits. We found that marriage and birth certificates are not consistently obtained and retained when enrolling employees and dependents in the health insurance plan. We found that the annual certification for eligibility forms are not consistently returned. Additionally, we found that there is no written documentation of the process to enroll employees and dependents in the health insurance plan. We recommended performing a dependent eligibility audit to verify individuals insured are eligible for benefits. Additionally, we recommended a review of the processes used for the annual certification of eligibility to determine the cost and benefit of the process. We also recommended that processes and procedures for enrollment in the health insurance plan be documented and standardized.

Audit of Petty Cash

The objectives of the audit were to verify existence and accuracy of the petty cash funds. We found that petty cash balances are accurate and being used appropriately. We also found that a few petty cash funds had minimal activity. We recommended that we close petty cash funds that are not being used.

Follow-up Audit 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 procedures include 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. The Audit Follow-up Report is a vital step of the audit process.

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

Follow-up to Audit of Dependent Eligibility at BMHA

This follow-up audit was performed to determine if recommendations from the original audit were implemented. All audit recommendations were implemented. The original audit recommended, obtaining documentation to verify dependent eligibility and consider a third party dependent eligibility audit. Documents verifying eligibility for all dependents were obtained.

Review of Audit Reports

Audit Reports, Follow-up Audit Reports 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:

<http://buffalocomptroller.com/165/Audit-Reports>

Summary of Audits in Progress

Audit of Electric Service Accounts including Street Lighting

This audit will determine if National Grid is billing the City of Buffalo accurately for electrical service. To date this audit has discovered over \$1 million in over-billings that have been refunded to the City.

Audit of the Gross Receipts Tax Collections

This audit will determine if the utilities subject to the Gross Receipts Tax are remitting the correct amount in accordance with applicable local and state laws and regulations.

Audit of Procurement of the Records Storage Facility at River Rock

This audit will determine if the procurement procedures performed complied with applicable local and state laws and regulations.

Audit of Procurement for the Senior Pig Roast

This audit will determine if the procurement procedures performed complied with applicable local and state laws and regulations.

Audit of the Contract for Operation of the Hatch and William K's Restaurants at the Erie Basin Marina for the 2018 Season

The audit will determine if the proper amount of rent was paid to the City of Buffalo by the operator of the restaurants.

Audit of Wireless Air Card Expense and Utilization by the Department of Tax and Assessment

The audit will document the expense and utilization of the wireless air cards used by the Department of Tax and Assessment.

Follow-up to the Audit of Eligibility for Health Insurance Benefits

The follow-up will assess whether recommendations from the original audit have been implemented. The original recommendations included: Perform a dependent eligibility audit and perform an analysis of the annual certification of dependent eligibility process.

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/ 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