

City of Buffalo Annual Audit Plan

For the Year July 1, 2020 to June 30, 2021



Department of Audit and Control

Barbara Miller-Williams

Comptroller

Kevin J. Kaufman, CPA

City Auditor

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.

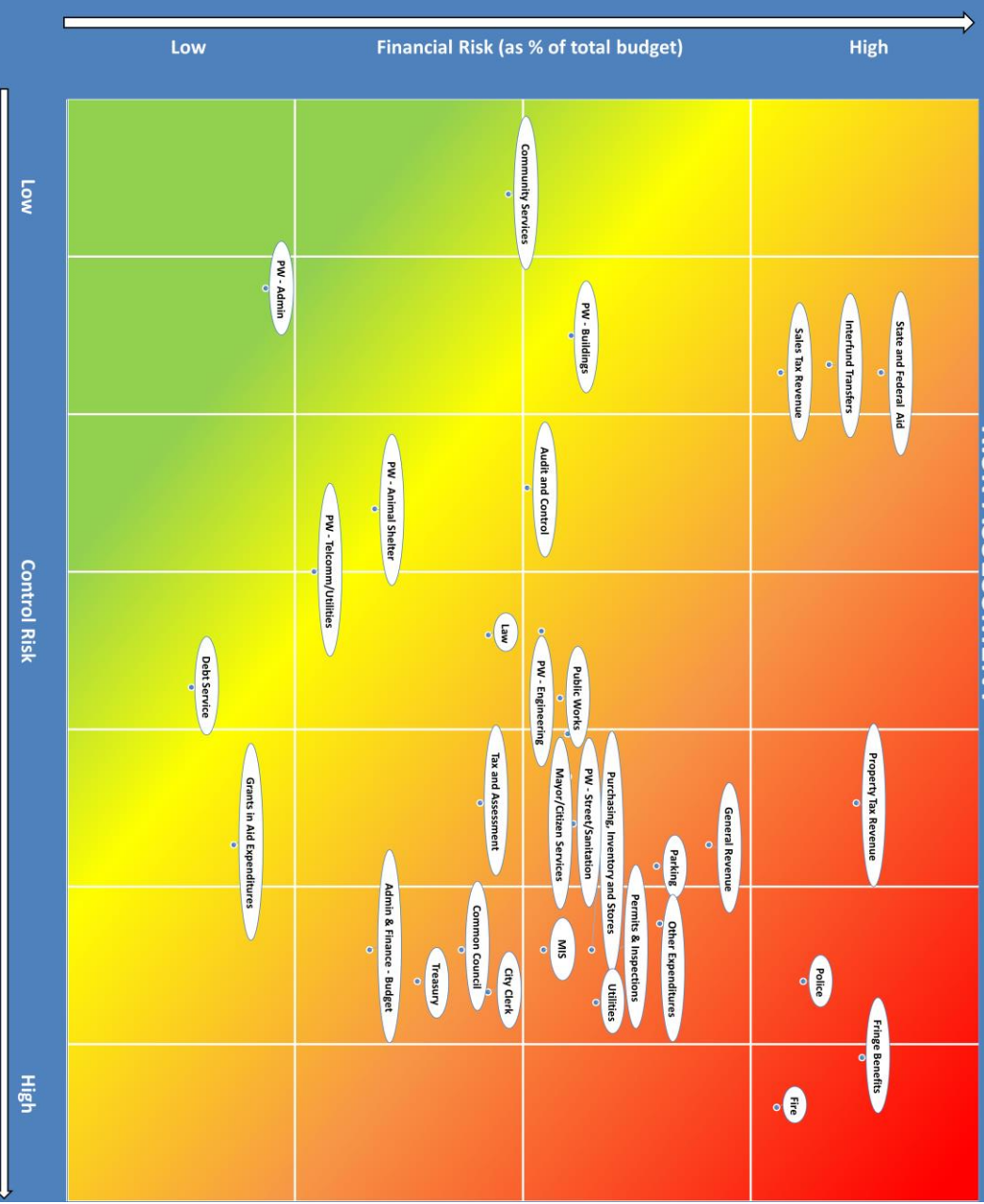
Control Risk – The risk that a material error will not be prevented, or detected and corrected timely by the City's internal control systems. The three categories used to evaluate control risk are as follows:

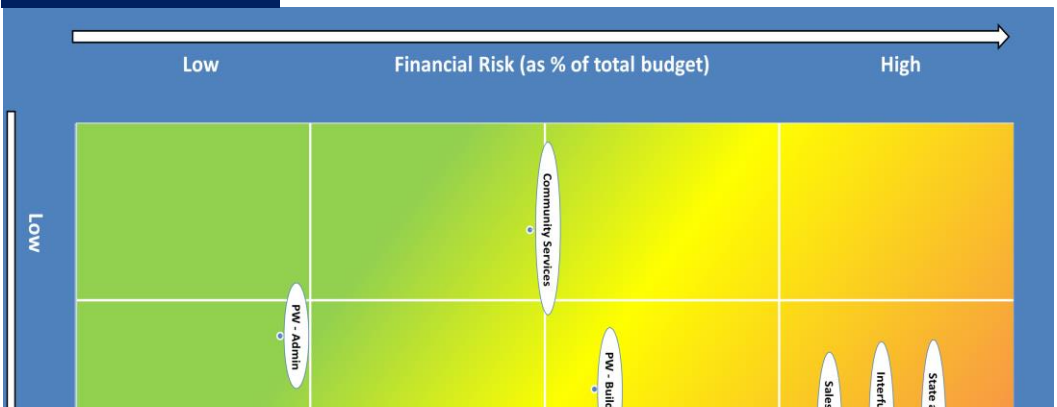
- Revenue Controls – This measure assesses risk based on the nature of revenue/cash transactions and the controls/procedures in place to safeguard assets while ensuring the City receives all revenue, which it is entitled to.
- Expenditure Controls – This measure assesses risk based on the nature of expenditures 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.

RISK ASSESSMENT





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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		<u>3,650</u>

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.

Due to the Covid-19 pandemic an emphasis will be placed on performing audits that can be completed with minimal physical interaction. The Division of Audit

will focus on performing audits that can be completed with available data/electronic records and take advantage of communication technology to limit risk of spreading the virus.

Summary of Completed Audits

The following audits were completed during the fiscal year ending June 30, 2020:

Revenue Related Audits

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 recommended that the City issue an invoice for \$799 for underpaid rent due to errors in recording sales in the point of sale system resulting in \$6,223 being omitted from the rental calculation. None of the monthly rental payments were remitted by the due dates stated within the contract. Both sales and rent received in 2018 decreased 23% from the prior year. Recommendations were made that the Operator provide supporting documentation each month to aid in reconciliation and monitoring as well as remitting payments timely as required by the contract.

Expenditure Related Audit

Audit of Procurement of the Records Storage Facility at River Rock

The audit recommended that the City identify alternative locations and evaluate if leasing, buying, outsourcing or another alternative for a storage facility creates the best value. The audit also recommended that documentation of the transaction should be sufficient to assure compliance with applicable laws and policies. Findings included the rent increasing 70% from 2017 to 2019, a lack of any documentation why the agreement was not subject to competitive bidding as well as no documented cost analysis demonstrating the City obtained the best value.

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

The audit recommended an evaluation be performed to determine if wireless air cards are necessary to meet department needs, to reduce the number of air cards and evaluate available mobile internet plans. Findings included there being a \$40 monthly charge per device regardless of use with approximately \$27,000 spent on unused air cards from fiscal year 2015 to fiscal year 2019 (\$5,400 annually). On average less than 1 of the 14 air cards were used during each month of fiscal year 2019.

Audit of Wireless Device Expense and Utilization by the Buffalo Fire Department

The audit recommended the number of wireless devices be reduced to align with usage, review bills to prevent payment for services not being utilized and evaluate available mobile internet plans. Findings included there being a \$40 monthly charge per device regardless of use with approximately \$11,200 spent on unused devices from fiscal year 2017 to fiscal year 2019 (\$3,700 annually). Prior to completion of the audit, the BFD disconnected 5 devices, or nearly 40% of the total devices, to align the number of devices ~~available~~ with usage.

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 the Audit of Eligibility for Health Insurance Benefits

The follow-up determined that management implemented some of the recommendations from the October 2018 audit. The main recommendation from the original audit was to have a dependent eligibility audit performed by a qualified independent vendor. An audit is being performed, but it does not appear the vendor is independent.

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 Internal Controls over Seized Funds (Police Department)

The audit will document the process and internal controls over seized funds. The account balance has averaged approximately \$1.4M over the past few years. The audit will determine if proper internal controls are in place to safeguard City assets.

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

The follow-up will assess whether recommendations from the original audit and follow-up 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. The Division of Audit requested the audit report prepared by the vendor and we will perform our own analysis of the report when it is made available.

Audit of City Overtime

The audit will take an analytical review of City overtime expense. Testing and analysis will include budget vs. actual, OT by department, OT concentrations, civilian vs sworn officer OT (Police and Fire) and benchmarking compared to other municipalities. The objective is to provide management useful data to aid in identifying potential cost savings.

Audit of City Cell Phone and Wireless Device Expenses

The audit will examine expense and utilization of cell phones and wireless devices throughout the City. The audit will also document internal controls over cell phones/wireless devices and their related expense.

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