

City of Buffalo Annual Audit Plan

For the Year July 1, 2021 to June 30, 2022



Department of Audit and Control

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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.

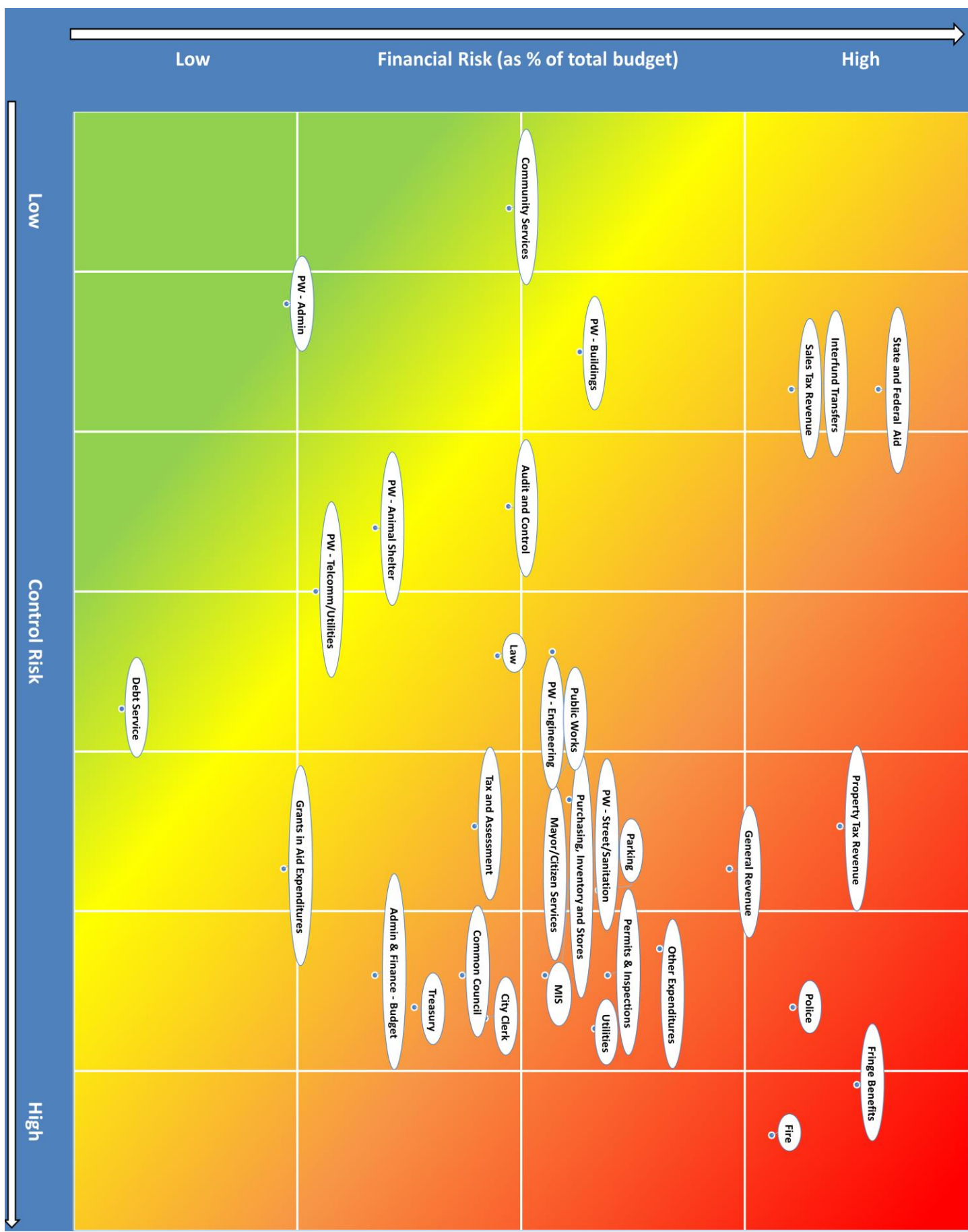
Control Risk – The risk that a material error will not be prevented, or detected and corrected timely by the City’s internal control systems. The three categories used to evaluate control risk are as follows:

- 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.

RISK ASSESSMENT



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.

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 during the audit planning phase. Audit objectives and methodologies will be developed based on identified risks.

During the prior year and continuing into the next fiscal year we will concentrate 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 data/electronic records and take advantage of communication technology to limit risk of spreading COVID-19.

The number of audits performed is based on audit staff hours available. We expect to utilize our resources to perform the following:

Expected Use of Hours Available to Audit

	Number of Projects	Hours
Risk-based Audits	4	1,200
Follow-up to Prior Audits	3	750
Other Projects	1	200
Hours Available to Audit		<u>2,150</u>

Summary of Completed Audits

The following audits were completed during the fiscal year ending June 30, 2021:

Audit of Firstnet Cell Phone & Wireless Device Utilization

The audit recommended the number of wireless devices be reduced to align with usage as well as implementing a city wide system of internal controls to manage cell phones/devices. It was determined that nearly half of all devices went unused for the period under audit. This waste costs the City approximately \$4,000 per month. Additionally, there is no designated department/individual responsible for managing cell phones/devices, monitoring usage, maintaining device/user inventory or reviewing monthly bills.

Tri-annual Peer Review of the Division of Audit (Peer Review)

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 was performed by Allied CPA’s, PC. They determined *“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 July 1, 2017 through June 30, 2020.”*

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. This is accomplished by performing follow-up audits and issuing Follow-up Audit Reports. 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 Follow-up Audit Reports on:

2nd Follow-up to the Audit of Eligibility for Health Insurance Benefits

The main objective of the original audit was to verify if dependents receiving health insurance were eligible for the benefit. The original audit found no supporting documentation to verify eligibility for nearly 50% of the dependents selected for review. The City of Buffalo (COB) spends approximately \$80 million annually on health insurance. The City of Buffalo (COB) provides health insurance coverage to approximately 12,000 individuals, a cost of approximately \$6,600 per covered individual.

It was recommended that a Dependent Eligibility Audit be performed by a qualified independent vendor. Premier Consulting Associates, LLC (Premier) began a dependent eligibility audit in July 2019. This audit remains incomplete. The audit has identified 208 subscribers who have not provided supporting documentation to verify eligibility for their dependents. No action has been taken to either make a final request for supporting documentation or to remove these dependents from the COB coverage.

Follow-up Audit of Procurement of the Records Storage Facility at River Rock

The audit recommended that the City identify, evaluate and document alternatives to the current lease including; leasing, building, purchasing and using available City owned property for records storage. If this process was followed and documented the procurement process would comply with NYS and City of Buffalo procurement regulations and policies.

No action has been taken to implement these recommendations cited in the June 2019 audit.

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 City Overtime

The DAC is performing an analytical review of City overtime expense. Testing and analysis will include budget vs. actual, overtime by department, overtime concentrations, civilian vs sworn officer overtime (Police and Fire) and benchmarking compared to other municipalities. The objective is to provide management with useful information 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 2020	Required Audit/ Next planned for Fall 2023
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