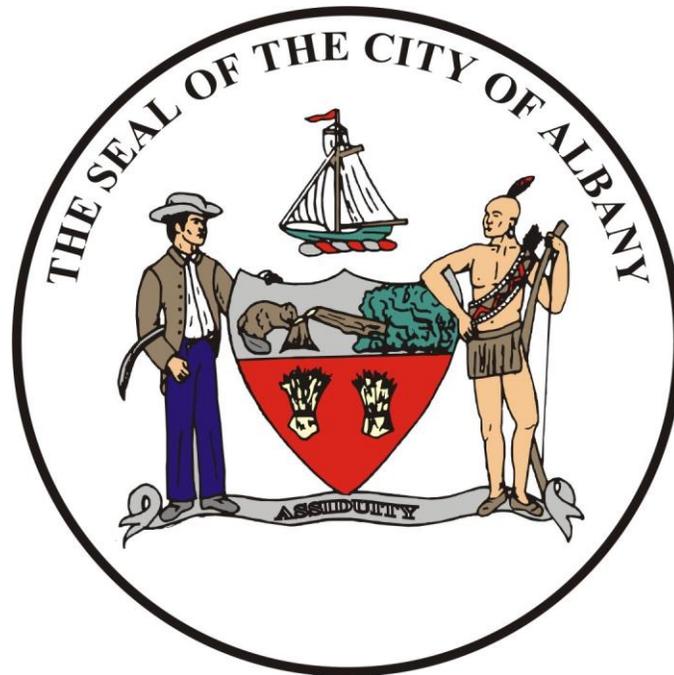


# CITY OF ALBANY

## OFFICE OF AUDIT AND CONTROL



## POLICIES AND PROCEDURES MANUAL

EFFECTIVE JANUARY 2012

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# SECTION 1

## OFFICE OF AUDIT AND CONTROL

### Introduction

The purpose of this manual is to provide a description of the duties and responsibilities of the Office of Audit and Control and to establish internal policies and procedures for the Office. The manual is a reference and guide for audit staff, and helps ensure that audit work is conducted in accordance with professional standards. It also provides the public, Common Council, and City management with information about the duties of the office and the audit process. This manual is applicable to projects on which work begins in January 2011 or later.

From time to time, the contents of the manual will be reviewed by the Audit Committee, Chief City Auditor, and staff to ensure that the manual is timely and complete. A copy of this manual is available on the Office website and on the Office G-drive Policies & Procedures folder.

The revision of this manual reflects the requirements of the 2011 Revision of Government Auditing Standards (GAGAS) published by the Comptroller General of the United States.

### Mission and Objectives

The mission of the Office of Audit and Control is to effectively communicate useful information about the City's operations so that the public, the Common Council, and the City Administration can better exercise their respective powers to improve the City's quality of life.

To achieve this mission we audit and evaluate the effectiveness and efficiency of the City's departments, programs, services, and external relationships. Our primary objectives are:

- To identify high priority areas of City government for evaluation and audit;
- To conduct independent, objective, and accurate evaluations and audits of those areas;
- And to communicate useful information derived from the Office's work in ways that encourage transparency, honesty, efficiency, and effectiveness in the City's departments, programs, services, and external relationships.

The credibility of our work depends on the core principles of independence, objectivity, and accuracy as outlined below.

- **Independence:** Ensures that our findings, opinions, conclusions, judgments, and recommendations are reliable and objective and that they are viewed as such by others. Both the organization and the individual staff must be free in fact and in appearance, from personal, external, or organizational conflicts of

interest. Any threat to independence must be acknowledged and documented.

- **Objectivity:** Our work must be carried out without preconceived conclusions in fact and appearance. The Office continually strives to maintain objectivity by basing our findings, opinions, conclusions, judgments, and recommendations on documented facts rather than impressions or hear-say.
- **Accuracy:** Our work must be scrupulously factual and each statement of fact in our audits must be documented and known to be true. All findings, opinions, conclusions, judgments, and recommendations must be based on evidence sufficient to support them.

## Authority and Responsibilities

The Office of Audit and Control was established in 2010 by a charter amendment that was approved by a majority vote of Albany citizens in 1998.

### Albany City Charter

The Albany City Charter specifies that the Office of Audit and Control shall be headed by an elected Chief City Auditor and that it shall be the office's duty to:

- Conduct performance audits of all City offices;
- Audit the City's investments;
- Affirm the validity of accounts payable; and
- At the direction of the Common Council, prepare and present reports that are consistent with the duties of the Office.

Section 602 of the City Charter provides the specific instructions for the Office:

- (a) There shall be an Office of Audit and Control to be headed by a Chief City Auditor. The principal duties of this office shall be to conduct internal performance audits of all City departments and offices; to audit all investments made by the City Treasurer on behalf of the City; and to warrant as valid all accounts payable and claims prior to payment of same by the City Treasurer. The Chief City Auditor shall prepare and present such reports that are consistent with the duties enumerated herein as required by resolution, ordinance or local law duly enacted by the Common Council.
- (b) The Chief City Auditor shall be elected by the qualified electors of the City as set forth in Article 2 of the Charter.
- (c) Within 30 days after first taking office, the Chief City Auditor shall designate a deputy to perform any of the Chief City Auditor's duties, subject to any exceptions found in state law, during a limited period of absence or inability to perform, by filing a written notice with the City Clerk. The Chief City Auditor shall from time to time review and, as necessary, promptly revise the designation to ensure that there is at least one duly authorized deputy to serve in this capacity.

Section 201 of the City Charter specifies the elective term for the Chief City Auditor:

Except where otherwise stated in this Charter, there shall be elected by the qualified voters of the City: a Mayor, Comptroller, Treasurer, and President of the Common Council. There shall also be elected by the qualified voters of each ward in the City: one Common Council member to represent each ward. The term of office of the Mayor, Comptroller, Treasurer,

President of the Common Council and each "Council member" shall be four years commencing on the first day of January next succeeding his or her election. Effective January 1, 2010, the office of Comptroller shall be eliminated, and a new office of Audit and Control, headed by a Chief City Auditor, shall be established as set forth in Article 6 of this Charter. The term of office of the Chief City Auditor shall be four years commencing on the first day of January next succeeding his or her election. The first election of Chief City Auditor shall be at the general election held in November, 2009.

**Section 606** of the City Charter appoints the Chief City Auditor to the Board of Estimate and Apportionment:

There shall continue to be a Board of Estimate and Apportionment which shall consist of the Mayor, Comptroller (Chief City Auditor commencing January 1, 2010), President of the Common Council, Treasurer and the Corporation Counsel. Except to the extent inconsistent with the Charter, the Board shall exercise the functions as presently set forth in the Code of the City of Albany or as subsequently created, modified or repealed by a duly enacted local law and the functions otherwise authorized by state law.

## **Types of Work Performed by the Office**

All work is considered either audit services, or non-audit services. The City Charter identifies four categories of work for the Office as follows:

- Conduct performance audits of all City offices;
- Audit the City's investments;
- Affirm the validity of accounts payable;
- At the direction of the Common Council, Prepare and present reports that are consistent with the duties of the Office.

A Staff assignment sheet for non-audit services should be filled out and added to the job file (Appendix A-3.)

Performance audits and audits of the City's investments are audit services and require compliance with Government Auditing Standards (GAGAS). Report writing may be an audit or a non-audit service. Non-audit services are subject to compliance with GAGAS's Framework for Independence. Other non-audit work may include responses to requests from management, informal inquiries based on conditions that come to the Office's attention, and special projects or procedural reviews. All non-audit work must be assessed for its impact on the Office's independence as outlined in Section 2's segment on independence.

- **Performance Audits** – Performance audits assess the economy, efficiency and effectiveness of specific programs and activities. This may include determining whether a program is operating in the most economical and efficient manner possible; assessing whether the program is meeting its stated goals and objectives; assessing internal controls; and testing for compliance with laws and regulations. Performance audits vary dramatically in both size and scope.

The Office follows the GAGAS definition of Performance Audits. Performance audit objectives vary widely and may include assessments of the following:

- Effectiveness, economy, and efficiency;
- Internal control;
- Compliance; and
- Prospective analyses.

These objectives are not mutually exclusive and a performance audit may have more than one overall objective.

Audit follow-ups are essential to ensuring that audit findings are adequately addressed. The Office conducts audit follow-ups on many of its completed audits. Follow-up policies and procedures are discussed in Section 3.

- **City Investment Audits** – In New York State, municipal investing is very prescribed, making audits of the City’s investments fairly narrow in scope. The objectives of the investment audits are to determine whether investments are made according to State regulations and City policies while earning the highest possible return.
- **Warranting as Valid Accounts Payable** – This is a continuation of the former City Comptroller’s historic duty of “auditing” and approving accounts payable, although the practice did not adhere to the GAGAS definition of auditing. As conducted by the Office of Audit and Control, this function is to be conducted as an audit that complies with GAGAS. The procedures for this audit are outlined in Appendix H and a capstone audit report is to be issued at least annually.
- **Charter Mandated Reports** – The City Charter obligates the Office to prepare and present reports when the Common Council passes a resolution or ordinance instructing us to do so as long as the reports are consistent with the Office’s duties. In these cases, the Office reviews the Council’s instructions for impacts on independence, staff competency, and consistency with the Office’s mission. Assuming there is no conflict; the Office will assess the resources required and make room in the Office’s audit plan to respond in a timely fashion. If there is a conflict, the Chief City Auditor will respond in writing to the Council explaining the conflict and requesting a meeting with Council leadership to discuss alternative means of meeting the Council’s objectives.
- **Other Reports and Special Projects** – On a less formal and more frequent basis, the Office is requested to provide independent data collection, analysis, and reporting, or to review procedures and controls. Special studies are intended to provide timely and objective information to the Common Council, City management, and the public. The office considers these requests from the Mayor’s office, the Treasurer’s office, and committees of the Common Council.

These services are undertaken at the discretion of the Chief City Auditor with consideration for the city-wide risk assessment, new conditions, timeliness, and the resources required. These services must be evaluated to determine

whether they will be performed as an audit (and therefore subject to the same rigorous audit methodology) or as a non-audit service. If the project is considered a non-audit service, it must be assessed for its impact on the Office's independence.

- **Informal Inquiries** – Frequently the Office will become aware of documents or conditions that necessitate inquiry. Often the inquiry amounts to a simple request for clarification, which will be documented at the discretion of the staff conducting the inquiry. Other occasions will necessitate the collection and analysis of information, the results of which will be documented and saved to the Inquiry file on the G drive. The results may trigger three different responses: an audit; a non-audit report to the Common Council, management and/or public; or inclusion in the next year's citywide risk assessment.
- **External Financial Audit** – In accordance with State law, an external certified public accounting firm conducts the annual audit of the City's financial statements. The external auditor's report on the financial statements provides their opinion on whether the financial statements fairly present the financial position in conformity with generally accepted accounting principles. The City Treasurer accepts the audit and writes the Management Discussion and Analysis. The Office of Audit and Control oversees the work of the external accounting firm, being careful not to engage in management activities or impair the Office's independence.
- **Board of Estimate And Apportionment** – The Chief City Auditor is named by the City Charter as a member of the Board of Estimate and Apportionment (E&A). The Board approves all budget transfers. This is an unavoidable management function and it threatens the independence of the Office. To address that threat, OAC will not audit E&A's decisions or the budget transfer process. Additionally, OAC will consider and mitigate any further potential threats from this activity as they are identified.

Traditionally, the Comptroller's Office prepared the Board's agendas upon receiving a list of transfers from the Budget Director. The Office has continued this ministerial function.

## Code of Ethics

The Office of Audit and Control conducts its audits in accordance with Government Auditing Standards (GAGAS) and is subject to its Ethical Principles (GAGAS 1.10 – 1.24). This Office also adheres to the American Society for Public Administration (ASPA) Code of Ethics to provide supplemental guidance because it provides more specific direction on issues that commonly confront city governments. Any conflicts between the two codes defer to the GAGAS Ethical Principles.

In addition, all City employees are subject to the City of Albany Personnel Policy and Procedures Manual and the Standards of Conduct that it includes.

### Government Auditing Standards Ethical Principles in Government Auditing

#### Ethical Principles

**1.10** The ethical principles presented in this section provide the foundation, discipline, and structure, as well as the climate that influence the application of GAGAS. This section sets forth fundamental principles rather than establishing specific standards or requirements.

**1.11** Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.

**1.12** Conducting audit work in accordance with ethical principles is a matter of personal and organizational responsibility. Ethical principles apply in preserving auditor independence,<sup>6</sup> taking on only work that the audit organization is competent<sup>7</sup> to perform, performing high-quality work, and following the applicable standards cited in the auditors' report. Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the auditors' report, including the public.

**1.13** Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct audits in accordance with GAGAS. For example, individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors employed by government entities may also be subject to government ethics laws and regulations.

**1.14** The ethical principles that guide the work of auditors who conduct audits in accordance with GAGAS are

- a. the public interest;
- b. integrity;
- c. objectivity;
- d. proper use of government information, resources, and positions; and
- e. professional behavior.

#### The Public Interest

**1.15** The public interest is defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public

trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the government environment.

**1.16** A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAGAS embodies the concept of accountability for public resources, which is fundamental to serving the public interest.

#### Integrity

**1.17** Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.

**1.18** Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users.

Auditors may also encounter pressures to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.

#### Objectivity

**1.19** The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes independence of mind and appearance when providing audits, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity.

#### Proper Use of Government Information, Resources, and Positions

**1.20** Government information, resources, and positions are to be used for official purposes and not inappropriately for the auditor's personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.

**1.21** In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

**1.22** Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public's expectations for auditors.

**1.23** Misusing the position of an auditor for financial gain or other benefits violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the auditor serves as an officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.

#### Professional Behavior

**1.24** High expectations for the auditing profession include compliance with all relevant legal, regulatory, and professional obligations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to

conclude that the auditors' work was professionally deficient. Professional behavior includes auditors putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.

## **American Society for Public Administration Code of Ethics**

### **I. Serve the Public Interest**

Serve the public, beyond serving oneself. The Chief City Auditor and staff members are committed to:

1. Exercise discretionary authority to promote the public interest.
2. Oppose all forms of discrimination and harassment, and promote affirmative action.
3. Recognize and support the public's right to know the public's business.
4. Involve citizens in policy decision-making.
5. Exercise compassion, benevolence, fairness and optimism.
6. Respond to the public in ways that are complete, clear, and easy to understand.
7. Assist citizens in their dealings with government.
8. Be prepared to make decisions that may not be popular.

### **II. Respect the Constitution and the Law**

Respect, support, and study government constitutions and laws that define responsibilities of public agencies, employees, and all citizens. The Chief City Auditor and staff members are committed to:

1. Understand and apply legislation and regulations relevant to their professional role.
2. Work to improve and change laws and policies that are counterproductive or obsolete.
3. Eliminate unlawful discrimination.
4. Prevent all forms of mismanagement of public funds by establishing and maintaining strong fiscal and management controls, and by supporting audits and investigative activities.
5. Respect and protect privileged information.
6. Encourage and facilitate legitimate dissent activities in government and protect the whistle-blowing rights of public employees.
7. Promote constitutional principles of equality, fairness, representativeness, responsiveness and due process in protecting citizens' rights.

### **III. Demonstrate Personal Integrity**

Demonstrate the highest standards in all activities to inspire public confidence and trust in public service. The Chief City Auditor and staff members are committed to:

1. Maintain truthfulness and honesty and to not compromise them for advancement, honor, or personal gain.
2. Ensure that others receive credit for their work and contributions.
3. Zealously guard against conflict of interest or its appearance: e.g., nepotism, improper outside employment, misuse of public resources or the acceptance of gifts.
4. Respect superiors, subordinates, colleagues and the public.
5. Take responsibility for their own errors.
6. Conduct official acts without partisanship.

### **IV. Promote Ethical Organizations**

Strengthen organizational capabilities to apply ethics, efficiency and effectiveness in serving the public. The Chief City Auditor and staff members are committed to:

1. Enhance organizational capacity for open communication, creativity, and dedication.
2. Subordinate institutional loyalties to the public good.
3. Establish procedures that promote ethical behavior and hold individuals and organizations accountable for their conduct.
4. Provide organization members with an administrative means for dissent, assurance of due process and safeguards against reprisal.
5. Promote merit principles that protect against arbitrary and capricious actions.
6. Promote organizational accountability through appropriate controls and procedures.
7. Encourage organizations to adopt, distribute, and periodically review a code of ethics as a living document.

#### **V. Strive for Professional Excellence**

Strengthen individual capabilities and encourage the professional development of others. The Chief City Auditor and staff members are committed to:

1. Provide support and encouragement to upgrade competence.
2. Accept as a personal duty the responsibility to keep up to date on emerging issues and potential problems.
3. Encourage others, throughout their careers, to participate in professional activities and associations.
4. Allocate time to meet with students and provide a bridge between classroom studies and the realities of public service.

## Audit Selection

The Chief City Auditor has sole authority to select audit topics and schedule audit work by the Office of Audit and Control. With that in mind, it is essential for the Office's credibility that the audit selection process be deliberative and fair in reality and appearance. The Office uses a number of evaluation techniques to develop its audit plan including:

- Solicitation of public input;
- Meetings with the Mayor, Common Council members, Corporation Counsel, managers, and city staff to identify potential areas for audit;
- A citywide risk assessment program;
- Meetings with audit staff to analyze the information and consider what we can realistically accomplish during the year.

### Public Input

The public input program is conducted through a series of neighborhood and public input meetings. It introduces the public to the basic concept of risk evaluation or heat-mapping in which we compare the likelihood that there is a problem with a City function and the impact the problem would have if it exists. Those functions that have the highest likelihood and the largest impact become the highest priority for audit.

Using the concept of risk evaluation and a detailed chart of City functions and departments, attendees are asked to write a short list of high risk functions. The lists are then compiled into a numbered master list, which is used by the participants to create individual risk assessment charts:

HIGH			HIGHEST PRIORITY
LIKELIHOOD OF A PROBLEM (ROOM FOR IMPROVEMENT)			
LOWEST PRIORITY			
LOW			
	LOW	IMPACT IF THERE IS A PROBLEM	HIGH
		(IMPACT OF POSSIBLE IMPROVEMENTS)	

The participants are asked to provide basic demographic information on their maps including neighborhood, age category, sex, and housing status. The data collected is then compiled, analyzed and presented as one factor in audit selection.

In addition to the formal public input process, this Office requests, accepts and tracks audit suggestions from the public on an ongoing basis.

### **Meetings with City Officials and Staff**

The Chief City Auditor and staff holds meetings with Mayor, the Common Council, Corporation Counsel, selected managers, and selected city staff to gauge their objectives, observations, and concerns. A uniform set of questions are prepared for the meetings to allow the Office to accurately compare the responses. To allow for the free flow of information, the individual meetings may engage in additional exercises and cover topics well beyond the uniform set of questions.

### **City-wide Risk Assessment**

The office uses a risk assessment model as the primary tool in preparing its audit plan. In addition to the information gathered from the public, officials, and staff, the Office collects and reviews other information such as: the operating and capital budgets; financial statements; public input from the Planning Department's initiatives; the results of the State Comptroller's recent audits of other municipalities; and other information sources regarding the City. The purpose of the risk assessment model is to help prioritize audit work.

The model compares the following factors for each budgeted City program or revenue source:

- Public interest (gathered as outlined above);
- Management and staff interest (gathered as outlined above);
- Audit staff interest (via staff meetings- includes observations and complaints received);
- Proposed expenditures (from the Oct. 1 proposed budget);
- Three-year expenditure trend (from financial records);
- Capital expenditures (from financial records);
- Estimated Revenues (from the Oct. 1 proposed budget);
- Three year revenue trend (from financial records);
- Number of staff (from payroll records);
- Value of fixed assets (from financial records);
- Strategic Risk (includes management objectives and upcoming issues);
- Quality of life risk (includes but not limited to health, safety, aesthetics, and convenience);
- Reputation risk (conditions that could reflect poorly on the city as a whole);
- Compliance risk (exposure to local, state and federal requirements);

For each specific budgeted program or revenue source, the model scores each of the above factors from 0 through 10. In addition, the model weights each of the above factors from 1 to 10 according to their relative importance to produce a weighted score for each budgeted program or revenue source. The model then sorts these weighted scores from highest to lowest. The programs or revenue sources with the highest weighted scores are considered high-priority for inclusion in the Audit Plan. Because we apply this scoring system evenly across the entire City government, it promotes a sense of fairness to auditees and helps ensure that audit resources will be focused on those areas with the highest audit potential.

### **Audit Staff Meetings**

The Audit staff will meet to discuss the results of the risk assessment model and consider some of the qualitative factors that can be obscured in a quantitative process like the risk assessment. The following topics will be covered:

- Staff capacity- to determine a realistic volume of work.
- Staff competence- to determine which high priority programs require expert consultants and the attached budgetary impacts.
- City conditions or relationships that may not have been captured in the risk assessment.
- Pressing issues or concerns that could favor one high-priority program over another for audit selection.

Changes to the risk assessment priority list will be documented in the Audit Plan with the reasons for the additions and reprioritizations.

### **Special Projects**

On occasion, at the Chief City Auditor's discretion, the Office will deviate from its Audit Plan to work on special projects that require immediate attention such as Common Council requests, reports of fraud, or areas of special interest to management.

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## SECTION 2 ACHIEVING AUDIT QUALITY

### Government Auditing Standards

Professional standards for conducting audits in government have been issued by the Comptroller General of the United States in Government Auditing Standards (GAGAS). These standards, also referred to as the Yellow Book, are intended for use by government auditors at all levels to ensure they maintain competence, integrity, objectivity, and independence in planning, conducting, and reporting their work. Users of audit reports that are performed in accordance with GAGAS should have confidence that the work is objective and credible.

The Office follows Government Auditing Standards (December 2011 revision) and we strive to follow Government Auditing Standards in all our audit work. Each staff member receives a copy of the Yellow Book and is responsible for becoming familiar with and adhering to its requirements. Periodic classroom and on-the-job training reinforce existing and revised requirements of the standards.

Government Auditing Standards are available at:

<http://www.gao.gov/govaud/ybk01.htm>

### Internal Quality Controls

Internal quality controls are the procedures established the Office to ensure that the evidence provides a sufficient basis for audit findings and conclusions, that the report communicates the results of the audit work, and that the work is done in accordance with professional standards. The Office has adopted guidance and procedures to help ensure audit quality including:

- *Policies and Procedures Manual* – This manual details the specific procedures of the Office that are intended to ensure compliance with professional standards and provide guidance in audit decision-making. Each staff person is issued a copy of the manual and is responsible for becoming familiar with and following its procedures.
- *Audit Plans for Individual Audits* – The Office has established an audit program template with the forms and procedures for each phase of a typical performance audit including preliminary survey, risk assessment, fieldwork, and report writing. If an audit program's forms or procedures deviate from the template, the plan identifies and explains the deviation.
- *Supervisory Review* – The Chief City Auditor and/or the Auditor-in-Charge reviews significant working papers, holds periodic meetings and briefings on audit progress and results, and edits draft reports. These reviews are documented by electronically initialing significant working papers.
- *Independent Review* – This review is done by staff not assigned to the audit (if the entire staff has not participated in the project). Otherwise it is done by

the staff member with the least involvement. The independent reviewer traces all facts and statements in the report to supporting working papers to ensure that the information is accurate and factual. This process is documented using a process outlined in Section 3.

In addition to the independent staff review, Audit Committee members are often asked to review and comment on draft audit programs and early draft reports.

- *The ALGA Peer Review Guide's Review of Audit/Engagement Documentation* (Appendix C) is completed by the auditor-in-charge following issuance of the audit report and reviewed by the Chief City Auditor. Working papers are cited in the "comments" column to demonstrate how compliance was achieved for each auditing standard. The completion of the Review of Audit Engagement after each audit also helps the Division continually monitor the application and design of procedures intended to ensure professional standards are met.

## External Quality Controls

Government Auditing Standards (section 3.96) and the City of Albany Code require that audit organizations have an external quality control review, at least every three years. An external quality control review, or peer review, is conducted by a team of outside professionals that assesses the adequacy of an audit organization's internal quality control system and its overall level of compliance with Government Auditing Standards.

The Chief City Auditor schedules and arranges the reviews and communicates the results to the public and formulates actions to address any deficiencies noted. Results of prior external reviews are kept on file in the central administrative files of the Office. Additionally, results of recent reviews are located on the Office web site.

## Independence

Chapter Three of GAGAS puts forth a set of general standards for government auditing that will "establish a foundation for credibility of auditors' work." GAGAS (3.04) states:

*"Auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties."*

According to GAGAS section 3.03 independence is comprised of the following.

### a. Independence of Mind

The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

**b. Independence in Appearance**

The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

To ensure that audit staff is free from threats to independence, the Chief City Auditor and all auditors assigned to a project must sign an Auditor Assignment and Independence Statement (AAIS- Appendix A-7) If a threat to independence is identified, the Chief City Auditor will apply the 2011 GAGAS Conceptual Framework for Independence (GAGAS 3.07) by applying safeguards where appropriate and withdrawing from audits where appropriate.

*Note: The City Charter names the Chief City Auditor as a board member of the Board of Estimate and Apportionment, which approves all budget transfers and bond issuances. This unavoidable threat to independence must be disclosed and the potential impacts explained on all relevant audit reports. This threat will not cause the Chief City Auditor to withdraw from an audit.*

**Identification of Threats After an Audit Report is Released:**

In accordance with GAGAS section 3.26, if a threat is identified after the audit report has been released, the Office should assess the impact of the threat. If the Office concludes that the threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued, it will notify City management and persons known to be using the audit report about the threat and the impact on the audit. The audit will then be removed from the website and replaced with a notice that the report has been removed. The Office will then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.

## **Supervision**

Supervision provides assurance that audit staff perform responsibilities efficiently and effectively, and that internal policies and procedures are complied with. The Chief City Auditor supervises the work of the Office.

*Role of the Chief City Auditor* – The Chief City Auditor has significant involvement in audits conducted. For all audits, the Chief City Auditor:

- Assigns staff and works with the Auditor In-Charge to formalize the audit objectives;
- Makes sure that the staff understands audit objectives;
- Attends entrance, exit, and other major conferences with auditees;
- Meets with the auditor/team on a regular basis to ensure that the audit is progressing satisfactorily;
- Reviews and approves audit programs, selected working papers, report drafts, and the final report;
- Maintains contact with the department head of the audited department, the City Management, and Corporation Counsel; and

- Acts as the primary contact with the news media and the public.

There are times when the Chief City Auditor is also the In-Charge Auditor. In those cases, other staff members are assigned to conduct additional reviews of the audit programs, selected working papers, report drafts, and the final reports.

*Role of the In-Charge Auditor* – The In-Charge Auditor is responsible for coordinating all phases of the audit, and for ensuring audit objectives are achieved. The In-Charge Auditor:

- Prepares administrative documents, such as the job start letter, the auditor assignment and independence statement, and maintains the official project job file;
- Plans all phases of the audit and prepares corresponding audit program, prepares the survey memorandum (if applicable), clarifies objectives, scope and methodology when applicable;
- Conducts fieldwork;
- Documents team meetings and other supervisory activities by summarizing them in memorandums and/or tracking them in a supervisory log (attached as Appendix A-6);
- Reviews significant working papers prepared by other team members to ensure quality and consistency with audit objectives. Reviews are documented by initialing and dating working papers.
- Briefs the Director of Audit Services on audit progress, any problems encountered, and deviations from the work plan.
- Maintains contact with auditees, including departmental management.
- Assures the audit report is completely referenced and all notes by the Independent Reviewer are cleared.
- Works with the Chief City Auditor to complete the report processing steps, and to coordinate public release, printing and distribution both in print and electronically.
- Assures all post-audit closure work is performed including completing the Job File, check sheets, the ALGA Review of Audit/Engagement Documentation form, bundling and indexing working papers, and in accord with City document retention policy.

## **Competence and Professional Development**

GAGAS section 3.69 requires that the staff assigned to an audit collectively possess adequate professional competence for the tasks required. The Chief City Auditor is responsible for staffing the Office with competent personnel, and for ensuring that sufficient and qualified staff are assigned to each audit to ensure that audit work is conducted in a competent and timely manner.

When necessary and in accordance with GAGAS 6.42-6.44, the Office has the ability to engage specialists through the City's professional services purchasing process. The Office uses the Assignment Sheet in Appendix A-2 to document the specialist's qualifications and independence.

The Chief City Auditor conducts regular performance evaluations for all regular staff including an evaluation of past performance, areas for improvement, performance objectives for the coming year, opportunities for improving skills, and targeting appropriate training.

### **Professional Development**

The Office has implemented a program to ensure that its staff maintains professional proficiency through continuing education and training. GAGAS section 3.76 requires that auditors responsible for planning, directing, conducting, or reporting on government audits should complete, every 2 years, at least 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the 2-year period. At least 24 of the 80 hours of continuing education and training should be in subjects directly related to government. Auditors are encouraged to complete a minimum of 40 hours training per year.

Part-time auditors involved in planning, directing, or reporting on government audits should complete at least 24 hours of CPE every two years in subjects directly related to government. If their time charged to audits reaches 20%, then the CPE requirements increases to 80 hours every two years.

Auditors are encouraged to obtain certification including the Certified Government Auditing Professional (CGAP), Certified Internal Auditor (CIA) designation, a Certified Public Accountant (CPA) license, or CISA. To assist with meeting continuing education requirements and to encourage involvement in professional organizations, the Office will pay for or reimburse the following:

- Group membership with the Association of Local Government Auditors, and registration fees at the annual ALGA conference;
- Annual membership in the Institute of Internal Auditors; and
- Professional meetings where continuing education credit is obtained.

Each auditor is responsible for maintaining their certifications and meeting GAGAS training requirements. Auditors should submit a copy of the certificate of completion or agenda from each training session, to the Executive Assistant who is responsible for maintaining a file and spreadsheet log of training hours for each employee by calendar year. The two-year measurement period for purposes of complying with governmental auditing standards begins with calendar years 2011-12, 2013-14, etc.

### **Professional Judgment**

It is this office's expectation, and a requirement of the GAGAS, that all government auditors' use professional judgment in the planning and performing of audits and in reporting the results. Professional judgment should be used in all aspects of the audit process and is essential to performing and reporting on an audit. Aspects include but are not limited to:

- Following the independence standard
- Maintaining objectivity and credibility
- Assigning competent audit staff to the assignment
- Defining the scope of work
- Determining sufficiency and appropriateness of evidence
- Evaluating and reporting the results of work
- Maintaining appropriate quality control over the assignment process

Using professional judgment involves exercising reasonable care and maintaining a level of professional skepticism. Auditors must exercise reasonable care in order to maintain a high level of integrity, independence, and accountability. Because the Office of Audit and Control deals with the interest of the public, these are extremely important qualities to maintain. A mindset of professional skepticism must be kept when considering the program or department being audited. The auditor must assume neither that management is dishonest nor of unquestioned honesty.

**Auditors must document significant decisions about scope, objectives, methods, findings, conclusions, and recommendations resulting from professional judgment in the work papers.**

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## SECTION 3 MANAGING THE AUDIT PROCESS

The policies and procedures in this section have been prepared to guide audit staff in managing and conducting audit work. By studying and adhering to the following guidelines, audit staff can help ensure that our audits are conducted in a consistent and professional manner. The first section is an overview of the audit process and a discussion of comprehensive audit programs. The next three sections are discussions of the three major phases of the audit process (survey, field work, and report writing.)

### Overview of the Audit Process

The process followed in conducting audits consists of three major phases, as described below:

- Phase 1: **Survey** – The audit survey helps auditors clarify the objectives of the audit and develop the scope and methodology for audit work. Auditors familiarize themselves with the department, program, or function under review by conducting background interviews, reviewing prior audit work, and performing preliminary research. Auditors also may perform an initial risk assessment and internal control review that are significant to the audit objectives. The length of time needed to complete the survey varies depending on the complexity and nature of the audit objectives.
- Phase 2: **Fieldwork** - Fieldwork consists of data collection, analysis, and other activities designed to meet audit objectives and if applicable, complete the Comprehensive Audit Program. During fieldwork, auditors obtain sufficient and reliable evidence to provide a reasonable basis for the audit findings and conclusions.
- Phase 3: **Reporting** – Audit reports are prepared to communicate the audit results, conclusions, and recommendations to Common Council, department heads, and the public. Generally, audit reports are written, but may be in another form that is retrievable such as a PowerPoint presentation, or other electronic format that is accessible.

Each audit is conducted by one or more auditors, with one auditor designated auditor-in-charge. The audit team works under the direction of the Chief City Auditor. Auditors work closely with managers of the audited department throughout the audit to obtain their input and inform them of progress and results. In addition, a report draft is circulated to department managers and meetings are held to obtain their feedback before the report is finalized and issued. Sometime after an audit is completed, the Office of Audit and Control assesses the status of audit recommendations to help ensure action is taken by management on audit recommendations.

### **Types of audit procedures**

A variety of audit procedures can be used to test transactions or processes. The audit objective determines the type of procedure to use. Types of procedures include:

- *Verification* -- The purpose of verification is to establish the accuracy, reliability or validity of something. Verification techniques include counting, comparing, examining, inspecting, footing, re-computing, reconciling, confirming, vouching, and tracing.
- *Observation* – Auditors observe conditions, make mental notes, consider deviations from the norm, and use judgment to assess dangerous conditions, backlogs, idle personnel, equipment, or facilities.
- *Interviews* – Auditors perform interviews with the auditee and related parties throughout the audit. Good oral communication skills on the part of the auditor assist in getting accurate and meaningful information from the interviewee. Auditors should use open-ended questions when possible. Interviews should be documented and, depending on the type of information received in an interview, may need to be confirmed in writing.
- *Analysis* – Analysis includes compilation and review of data, making detailed calculations and computations, documentation of ratios and trends, and making comparisons.

### **Types of evidence**

Audit programs should be designed to rely on different types of evidence depending on the audit objective. The types of evidence include:

- *Physical evidence* -- Physical evidence is obtained by direct inspection or observation of (a) activities of people, (b) property, or (c) events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed; photographs; charts; maps; and actual samples.
- *Documentary evidence* -- Documentary evidence consists of previously generated information. The documents, forms, journals or reports may originate within the auditee organization or may come from an external source. Examples are letters; contracts; laws; regulations; procedures; budget information; accounting records; and management information on performance.
- *Testimonial evidence* -- Testimonial evidence is obtained from others through statements received in response to inquiries or through interviews. Statements important to the audit should be corroborated when possible with additional evidence. Testimonial evidence also needs to be evaluated from the standpoint of whether the individual may be biased or only have partial knowledge about the area.
- *Analytical evidence* -- Analytical evidence is the result of analysis and verification. Some of the techniques used to produce analytical evidence are: computations; comparisons; reasoning; and separation of information into components.

### **Quality of evidence**

Audit programs should be designed to obtain evidence that meets the basic tests of sufficiency and appropriateness. Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole.

The concept of sufficient, appropriate evidence is integral to an audit. The working papers should reflect the details of the evidence and disclose how it was obtained.

- *Sufficiency* -- Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the sufficiency of evidence, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.
- *Appropriateness* – Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives. In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable.

Auditors should evaluate whether the evidence, taken as a whole, is sufficient and appropriate for addressing the audit objectives and the supporting findings and conclusions. Audit objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives. GAGAS defines the level of assurance associated with a performance audit as providing reasonable assurance that auditors have sufficient, appropriate evidence to achieve the audit objectives and support findings and conclusions.

If, after an audit report is issued, it is determined that the auditors lacked sufficient, appropriate evidence to support the findings or conclusions, the Office should notify appropriate officials (City management and Common Council) and should remove the report from the Office website and post a public notice that the report was removed. They should then decide whether to do more audit work to reissue the report with revised findings and conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions (GAGAS Section 7.07).

Audit risk (Section 6.05 of GAGAS) is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete. This could be due to insufficient evidence, inadequate audit process, intentional omissions, or misleading information due to misrepresentation or fraud. Auditors should be aware of audit risk in the planning of audits and in accordance with Section 6.07 of GAGAS, should take steps to reduce it to an appropriate level to provide reasonable assurance.

## **Audit Planning and Standard Audit Programs**

Audit programs represent the auditor's written plan for completing the audit. Audit programs help to ensure that audit work is adequately planned and supervised, is managed efficiently and effectively, and reflects adherence to Government Audit

Standards. The audit program also represents the primary documentation of the diligence exercised in performing the audit.

The audit program is a document used to plan all phases of the audit. The Standard Audit Program (see Appendix B) has been developed for each of the phases of the audit and list steps and forms to be completed during the audit. In addition, each program specifies the audit objectives and details work tasks tailored to the specific topic. Auditors should use their professional judgment to determine the sufficiency and/or necessity of standard audit steps depending on the type of project. Furthermore, the standard audit program for field work lists only a few required steps; the rest of the audit program should be designed to address the fieldwork objectives that were determined during the preliminary survey and risk assessment phases of the audit.

Audit programs are reviewed and approved by the Chief City Auditor before the audit teams proceeds with audit work. Usually, the first step in starting an audit is to plan and conduct the preliminary survey. A survey program is prepared at the beginning of the audit (unless the initial scope and objective are well defined), with the anticipated time frame for completing the survey indicated on the plan. After the survey is completed and a Survey Memorandum has been prepared, a fieldwork plan and time frame for completing fieldwork and reporting steps are entered on the comprehensive audit program. Completion milestones for fieldwork and reporting are used to monitor the timeliness of the audit process. Accomplishment of planned work tasks are indicated by marking an "X" on the Gantt Chart and citing corresponding working papers in the space provided.

During the audit, the Chief City Auditor meets periodically with the audit team to review the audit program and results to date, and assess whether audit steps are still deemed to be necessary and appropriate, or whether audit steps should be added or can be dropped.

## **Modified Procedures for Smaller Audits**

For smaller audits, it may be inefficient or impractical to apply some of the steps and forms contained in the Comprehensive Audit Program template. The modified procedures in this section may be followed in lieu of the Comprehensive Audit Program (Appendix B) on audits that are less complex or briefer in duration (approximately 1,000 audit hours or less). The decision regarding which procedures to follow hinges on the complexity of the topic and the extent of preliminary survey and research needed to prepare the audit program. If relatively little research is required before an audit program can be prepared, then the steps outlined in Short Audit Steps (Appendix G) would be preferable to using the Comprehensive Audit Program. The decision to use these modified procedures should be made during the initial startup meeting with the Chief City Auditor.

## **Initiating the Audit**

Several tasks are to be accomplished before audit work begins, namely: assignment of audit staff, meeting with the Chief City Auditor, mailing the job start letter (appendix A-5), and establishment of the job file.

### **Assignment of Staff**

The Chief City Auditor is responsible for assigning staff to audit projects. In making assignments, the Chief considers the skills and knowledge needed to conduct the audit, the number of staff needed to complete the audit in a timely manner, and the possible need for outside expertise. The Chief also considers opportunities for personal and career development and auditor interest when making assignments. The Chief may assign an audit advisor to an audit. To help ensure auditors are appropriately skilled and free from threats to independence, the Chief City Auditor and all those assigned to the project must sign the Auditor Assignment and Independence Statement (Appendix A-1). When the work of consultants or auditors outside the Office of Audit and Control is used the Consultant must sign the Assignment and Independence Statement (Appendix A-2) The Chief conducts sufficient background research to ensure they are independent and adequately qualified to do the work, and any work relied upon is competent and reliable.

### **Meeting with Chief City Auditor**

Before beginning the audit, the auditor-in-charge, and other assigned staff may meet with the Chief City Auditor to discuss the general scope of work to be performed. Topics for discussion include: general scope of the audit, specific items or issues to be reviewed during the survey, Council and public concerns, possible sources of information including persons to interview, and a general time frame for completing the audit.

### **Job Start Letter**

Prior to beginning an audit, a job start letter (Appendix A-5) is sent to the department commissioner and the manager-in-Charge of the function scheduled for audit. The letter is drafted by the auditor-in-charge and forwarded to the Chief City Auditor for approval and signature. The letter explains the general scope of the audit, and indicates audit staff will contact department management to arrange an entrance conference. Requests for specific information to be provided at the conference may also be included in the letter.

### **Establishment of the Job File**

Each audit folder has a subfolder titled "Administrative" which contains key administrative documents. A listing of items to be placed in the Job File is provided in the Job File Check sheet (Appendix E). Responsibility for establishing and maintaining the Job File rests with the auditor-in charge. The physical file is stored in a locked file cabinet or secure area and the electronic file is stored in a folder with password only access. The Job File is a critical control used to help ensure that policies and procedures are followed and that significant documents and administrative records are retained. In addition, the job file helps facilitate easy access to important audit documents in the absence of the auditor-in-charge.

## Phase 1: Audit Survey

The purpose of the audit survey is to gain sufficient information to define audit objectives, to gain a working knowledge of the entity or function under review, and identify problem areas warranting detailed analysis. Steps in the survey include: holding an entrance conference with the department head and manager-in-charge; preparing a survey plan (depending on the size of the audit program); conducting survey activities; holding an internal peer review meeting (optional); analyzing survey results; briefing department management and the commissioner on survey results; and preparing a survey memorandum for the Chief City Auditor.

### Entrance Conference

An entrance conference is held with the management of the department to be audited. The auditor in-charge arranges the conference and invites the manager-in-charge of the audited department or their designee. The purpose of the conference is to explain the intent of the audit and to establish a good working relationship with department management. At the conference, the Chief City Auditor or the auditor-in-charge:

- introduces the audit team.
- explains the purpose and general scope of the audit.
- explains the overall audit process and major activities of each audit phase:
  - survey, fieldwork, reporting.
- explains our practice of briefing management throughout the audit.
- requests a contact person to serve as a department liaison with audit staff.
- arranges for workspace at the department, if necessary, and for use of department equipment, such as copiers and computers.
- asks for input from the commissioner and/or department management on areas of special concern to them.

### Survey Plan

Audit survey work varies depending on the topic area and the nature and purpose of the review. The comprehensive audit program lists several activity areas, and the auditor-in-charge needs to list specific tasks that are appropriate under each activity area. In addition, the auditor-in-charge indicates (via shading) the span of weeks for completing the survey on the right-hand portion of the plan. The weeks when survey tasks are actually accomplished are marked with an "X".

### Conducting Survey Activities

Sometimes auditors have an audit topic in mind and other times, just a general topic area. When there is a well-developed audit topic in mind at the beginning of the audit, the survey phase may be short and is designed to develop familiarization with the department, activity and/or methodology planned. If an audit topic has not been identified, the survey is comprehensive and is used to develop familiarization and to identify a topic of the audit.

Following are common activities that are performed during the audit survey:

- **General Familiarization.** This may include review of adopted budgets, budget requests, annual reports, and other documents that provide descriptions of services and operations. In addition, an on-site visit and walk-through of operations can be helpful in understanding the program and spotting potential problems. In a walk-through, auditors observe conditions and may ask questions about workflow, filing systems, equipment usage, and so forth. Auditors may also spend a day in the field with personnel in what is called a “ride-along”. Examples include ride-alongs with a police patrol officer, a fire company, or a building inspector.
- **Research of Literature.** Auditors identify and review audit reports, management studies, and professional literature on subjects pertinent to the audit. Good sources of information include local libraries, the Internet, the Local Government Auditing Quarterly, and publications of the International City Management Association, the U.S. Government Accountability Office (GAO), the NYS Comptroller’s Audits published on the OSC website, and the Government Finance Officers Association (GFOA). Auditors should determine whether there is pertinent information in periodicals, books, and other documents in the Audit Services Division library or other libraries.
- **Interviews.** Background interviews are held with key department personnel to gain familiarity with policies and practices, to obtain written materials, and to help identify issues or problems. Knowledgeable persons from other City departments and outside City government may also be interviewed for their insight and suggestions.
- **Legal Compliance.** Auditors should review enabling laws, including City Charter and Code, and determine whether there is a need for compliance testing. If auditors determine a detailed assessment of compliance is needed in any area, they should refer to the GAO publication, *Assessing Compliance with Applicable Laws and Regulations*, in planning and conducting appropriate tests.
- **Follow-up.** Auditors should identify related audits conducted previously by the Office of Audit and Control. If a prior audit was conducted, auditors should determine what actions were taken by management to implement audit recommendations.
- **Internal Controls.** Internal controls are methods, policies, and procedures used to ensure that an organization achieves its objectives, operates efficiently, complies with applicable laws and regulations, and adequately safeguards its financial assets. During the survey, auditors should obtain an understanding of those controls that might be significant to the audit objectives. Controls that auditors may review include: department mission statement, goals and objectives, stated priorities, strategic plans; organizational structure and assignment of duties to staff; written policies and procedures; performance standards; management reports; and internal controls over financial assets. If auditors determine that a detailed assessment

of internal controls is needed, they should refer to the GAO publication, *Assessing Internal Controls in Performance Audits*.

- **Computer Processed Data.** Data from a computerized information system that is critical to the audit's objectives, findings, and recommendations, should be tested for reliability. Auditors should refer to GAO's publication, *Assessing the Reliability of Computer-Processed Data* (the Gray Book), when determining if data should be assessed and when making the assessment. See Appendix J for a document based on the Gray Book, which could be used to document your assessment of computer-processed data.
- **Consideration of Fraud.** When planning an audit, auditors should consider (and document) the risk of fraud in the entity/program under review. During audit fieldwork, auditors should be continually alert to situations or transactions that could indicate the existence of fraud or abuse. In the event auditors find indications of abuse or illegal acts, they should confer with the Chief City Auditor. If fraud or illegal acts are suspected, the Office of Audit and Control will confer with the City Attorney's Office and/or other appropriate law enforcement officials. See Appendix I for an example of a document that could be used to document your consideration of fraud.
- **Risk Analysis and Other Tests.** Auditors should identify areas of risk in the program or function being audited that are significant to the audit objectives. Risks could include the potential for waste, loss, or abuse of resources, or the potential for harm to citizens, customers or employees of the City. Auditors may conduct preliminary tests of a sample of transactions or procedures to gain familiarity with operating procedures, as well as identify risks and/or potential findings. In addition, data from budget documents, annual financial reports, and accounting records may be analyzed historically to identify adverse financial and staffing trends.

### **Analyzing Survey Results**

Auditors need to identify audit areas holding the greatest risks to the City and highest potential for significant findings. The audit team should also meet with the Chief City Auditor and the audit advisor to discuss its conclusions and recommendations for areas to analyze in-depth during fieldwork.

### **Survey Summary**

At the completion of a comprehensive survey, the auditor-in-charge or the audit team prepares a survey memorandum addressed to the Chief City Auditor that summarizes work performed during the survey, the survey results, and the auditor's recommendations on the audit scope and objectives. The survey results may also indicate that additional work is not warranted. Note, if an audit topic was selected before survey began and the survey was used to develop familiarization with the program, the memorandum is not needed. The survey memorandum consists of the following sections:

- **Authorization** – Explains authorization for the audit. Was the audit included in the audit schedule or a response to a special request?

- **Recommendation** – Indicates the auditor’s recommendation to conduct a detailed audit or to terminate the audit due to a lack of material findings.
- **Background** – Briefly describes the audited department or activity. Includes budget, staffing, and program data, and other background information.
- **Survey Activities and Results** – Describes survey work performed, including research, interviews, and data analyzed. Includes discussion of audit issues and potential findings.
- **Proposed Objectives, Scope, and General Methodology** – Summarizes the proposed audit scope and objectives, and the general methodology for accomplishing the objectives.
- **Staffing and Milestones** – Indicates the number of staff needed to complete the proposed audit work. Provides an estimated timeline for completing fieldwork and for developing and issuing the audit report.

### **Briefing Department Management**

Following completion of a comprehensive survey, the auditors brief department management on the survey results and the proposed audit objectives. During these briefings, auditors provide details of work performed; issues identified, and plan for detailed fieldwork. Auditors also respond to questions and seek input on the proposed scope of audit work.

### **Termination of an Audit**

An audit may be terminated if no material or significant risks are identified during the audit survey. The recommendation to terminate the audit should be documented in the Survey Memorandum sent to the Chief City Auditor. A separate memorandum should also be sent to the department commissioner and manager-in-charge communicating our decision to terminate the audit and the reason for discontinuing the audit. Both memorandums and all other administrative documents accumulated during the survey should be placed in the audit’s job file before closing-out the audit. Finally, the department commissioner or manager-in-charge should be contacted to determine if they would like to receive an oral briefing on the survey results.

## Phase 2: Audit Fieldwork

It is during fieldwork that auditors perform detailed data collection and analysis to address the audit objectives. However, before proceeding, auditors must first establish clear audit objectives and define the work steps (methodology) that will enable them to meet the objectives.

### Fieldwork Plan

The approved survey memorandum, if there is one, will serve as the basis for developing the fieldwork plan. Otherwise, the predetermined audit topic will be the basis. The fieldwork portion of the comprehensive audit program should clearly state the audit objectives and the specific work steps to accomplish the objectives. The plan will indicate the auditor responsible for each task and the days required to complete the task. The auditor-in charge needs to indicate in the Gantt chart portion of the plan (via shading) the weeks when fieldwork steps will be accomplished, and mark with an "X" the weeks when they are actually accomplished. The fieldwork plan is to be approved by the Chief City Auditor before fieldwork begins.

It is sometimes necessary to revise the fieldwork plan during the course of the audit. Auditors may encounter difficulties in completing certain tasks or discover new issues or findings. When revisions are needed, auditors should obtain approval from the Chief City Auditor and prepare a memorandum for the job file explaining scope and milestone changes. Targeted issue dates may be adjusted at this time.

### Development of Findings

In conducting fieldwork, auditors need to make sure that sufficient, competent, and relevant evidence is gathered to address the audit objectives and to provide support for audit findings. While audit findings have generally been regarded as containing five elements (condition, criteria, cause, effect, and recommendation), the elements needed for a finding depend largely on the audit objectives. Findings are complete to the extent that audit objectives are satisfied. The five elements of a finding are described below:

- (1) **Criteria.** ("What should be?") Criteria are the standards, measures, expectations, best practices, and benchmarks against which performance is compared or evaluated. Auditors should select criteria that are reasonable, attainable, and relevant. Criteria can be laws and regulations, program goals and objectives, policies and procedures established by the entity, technical or industry standards, performance in similar public or private entities, expert opinions, or best practices of leading organizations.
- (2) **Condition.** ("What is?") Condition is the existing state of affairs and represents a discrepancy from criteria, or "what should be". Condition is determined and documented during the audit.
- (3) **Effect.** ("What is the adverse impact?") Effect represents the impact of the discrepancy between condition and criteria. Effect is frequently stated in quantitative terms such as loss of dollars, reduced productivity, or

reduced or adverse performance. Auditors often use effect to demonstrate need for corrective action to address identified problem areas. Effect can also mean the impact of a program on social, economic, or physical conditions, and the extent to which positive or negative changes can be identified and attributed to programs operations.

- (4) **Cause.** (“Why did it happen?”) Cause is the explanation for the deviation between condition and criteria. While a number of plausible factors can contribute to poor performance, it is important that auditors demonstrate and explain with evidence the link between problems and cause. Identifying cause is important in order to determine what action is needed to correct the problem. The causes of adverse performance can often be described as deficiencies in various types of internal controls.
- (5) **Recommendation.** (“What should be done?”) The auditors make recommendations to management on actions needed to correct the deficiency. A recommendation is usually the inverse of cause. Recommendations can be general or very specific depending on the audit objectives and management’s need for guidance and direction.

*Government Auditing Standards* state: “Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have authority to act and when the recommended actions are specific, practical, cost effective and measurable.” (GAGAS 7.29)

Recommendation wording that is specific and measurable will improve the quality of future follow-up work by Audit and Control to review the implementation of our recommendations. However, care must be taken when wording a recommendation so that the auditor does not take on management’s responsibility to fix the problem. Recommendations state what Audit and Control believes should be done to benefit the City and/or the public in specific circumstances. They do not direct what must be done but seek to convince others (e.g. management of the audited area) of what needs to be done. Appendix A-9 is a Finding Development Sheet that may be used by auditors in developing findings. In analyzing findings, it is important for auditors to consider materiality and significance, which are normally judged by the extent of adverse effect (e.g., dollars lost, increased risk to public health, etc.).

### **Collecting Evidence**

Decisions about the type and quantity of information to be collected are important and require sound judgment. *Government Auditing Standards* state that evidence, whether physical, documentary, testimonial, or analytical, should be sufficient, and appropriate to provide a reasonable basis for auditor’s findings and conclusions.

- **Sufficiency** - the presence of enough factual and convincing evidence to support the auditor’s findings and conclusions related to the audit objectives.
- **Appropriate** - evidence is appropriate if it is relevant, valid and reliable.

In general, a review of internal controls can play a role in deciding on the validity and reliability of evidence. If internal controls are weak, corroborating evidence should be found. A confirmation that the data comes from an environment with strong internal controls can be an alternative to data testing. In particular, when computerized data are key to an audit finding, they should be tested for validity and reliability, or testing of the effectiveness of controls over the data should be done. There are various methods available to auditors for gathering evidence to achieve the audit objectives. The particular methods chosen vary from audit to audit and depend on a number of factors, including time constraints, staff expertise, and the availability and reliability of information. Data collection techniques generally fall into the following categories: interviews, physical record reviews, observations, and questionnaires.

- **Interviews.** Interviews are an integral part of evidence collection. Information that is collected often cannot be fully understood from written records alone. In some cases, the written records must be clarified or explained, and in others, no written records are available. In addition, auditors often need to find out how employees spend their time, and cannot rely solely on what written documents state that they do. As much as possible, however, auditors should corroborate information obtained through interviews by collecting supporting documentation. It is important that auditors develop good interviewing skills. Some keys to successful interviewing are:
  - Schedule interviews in advance and inform the interviewee of the purpose and nature of the interview.
  - Set a positive tone at the interview; be courteous and tactful.
  - Prepare for the interview by reviewing appropriate background materials and making a list of questions to ask. During the interview, listen carefully, take good notes, and, when appropriate, rephrase interviewee responses to confirm your understanding of what is said.
  - Document the interview as soon as possible following its conclusion.
  
- **Physical records review.** There are many types of tests and analyses that can be performed to extract evidence from physical records and data. Sampling techniques can be used to limit the amount of data collection necessary. Common analytical techniques include: cross-tabulations, regression analysis and tests of significance, flowcharting and diagramming; applicable operations research methods; and tracing documents, such as contracts or invoices, through a process or system.
  
- **Observations.** Auditors can obtain evidence by observing physical conditions and operating practices. Examples include observation of 9-1-1 dispatch operations, emergency medical rescue response, and street maintenance crew activities.
  
- **Questionnaires.** Questionnaires and surveys are valuable tools for obtaining comparative information. It is common to survey other cities to obtain comparative data on management practices, staffing and expenditure levels, and so forth. Surveys are often conducted over the telephone using a

prepared list of questions and requesting that supporting documents be mailed to our office.

### **Audit Documentation**

Auditors should prepare and maintain audit documentation related to planning, conducting, and reporting on the audit. Documentation should be sufficient to enable an experienced auditor who has had no previous connection with the audit to ascertain the evidence that supports the auditor's judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations.

The office uses both hard copy documents and electronic documents as audit evidence. OAC staff maintains all audit documents in electronic format as described in Appendix N. All hard copy documents shall be scanned into electronic files and organized in accordance with Appendix N unless it is prohibitive for some reason. If hard copy documents are not scanned, the auditor can direct the reviewer to the hard copy document by creating an electronic document that identifies the contents and location of the hard copy.

Working papers provide a systematic record of work performed and include the evidence obtained to support auditors' findings and conclusions. Working papers also serve as the connecting link between fieldwork and the written report.

Whenever possible, source documents should be included in the working papers. However, when source documents are too voluminous to be incorporated, auditors should copy only relevant data and include samples of documents to facilitate the reviewer's understanding of what the auditors did.

While working papers should be complete, they should also be as concise as possible and restricted to matters that are significant and relevant to the audit objectives. In addition, it is important that working papers be neat, clear, and legible, and electronic files be labeled and explained. Audit staff use computers to generate work papers unless there is good reason not to.

- **Labeling Working Papers.** Guidance for sequentially organizing working papers is provided in Appendix N. Working papers should be understandable without oral explanation. Anyone reading them should be able to readily determine their **purpose**, data **sources**, nature and scope of work conducted and any significant **conclusions** drawn from the work or document in question. The Department's procedures for labeling working papers vary depending on whether they are a write-up of an interview or meeting; an analysis or test; or a record, memorandum, and other document obtained.

Write-ups of interviews and meetings should contain:

- **Heading.** The heading consists of the working paper number (Appendix N) and the working title of the audit.

- **Name of People in Attendance.** The auditor indicates the name of persons interviewed, and their positions.
- **Auditor Name.** The auditor preparing the working paper electronically initials or signs the working paper.
- **Date/Time/Place.** The auditor indicates the date, time, and place of the interview or meeting.
- **Subject/Purpose.** A description of the nature and purpose of the interview or meeting is provided.

Working papers containing analysis and tests include a description of work performed (including a discussion of objectives and methodology used to perform the test or analysis), a summary of results or conclusions, and a detailed record of tests, calculations, and data obtained. They should contain the following:

- **Heading.** The heading consists of the working paper number (Appendix N) and the working title of the audit. Name and location of the computer file should be included in the header or footer of the document if the document is computer-generated.
  - **Auditor Name.** The auditor preparing the working paper electronically initials or signs the working paper.
  - **Date.** The auditor indicates the date that the working paper was prepared.
  - **Title/Purpose.** A descriptive title is provided indicating the nature and purpose of the analysis or test.
  - **Source.** An explanation of the source of the data or document used in the analysis, and the name of the electronic data file and its location on the Department's computer network, if appropriate.
  - **Methodology or "work-performed".** An explanation of how the test or analysis was performed so that the work can be replicated by another auditor or a reviewer.
  - **Conclusion.** If results or conclusions are not obvious on initial read, the auditor should include a summary.
- **Records, memoranda, and other documents** obtained during the audit should be labeled to indicate the source and date received. When data is obtained electronically from the auditee, the data file should be retained as it was when received, without additions or deletions by the auditor. Analysis should be done with a copy of the file. The original and the copy should be

kept in separate folders and labeled according to instructions in Appendix N. In the case of a data file transmitted electronically, the auditor should take and document steps taken to verify that the data was received in full and without corruption.

- **Organizing and Numbering Working Papers.** Working papers should be organized in the manner outlined in Appendix N or in a logical manner approved by the Chief City Auditor.

### **Concluding fieldwork**

At the end of fieldwork, the audit team or the auditor-in-charge should meet the Chief City Auditor and the audit advisor (if applicable) to assess if sufficient evidence has been gathered to answer the audit objective. If there is not sufficient evidence, the group should discuss outstanding fieldwork and timeframe. If fieldwork is complete, the group should discuss the desired message of the audit report.

## **Phase 3: Audit Reporting**

The Office of Audit and Control prepares a report communicating the results of each audit conducted. The form of the report should be appropriate for its intended use, but must be written or in some other retrievable form. If an audit is terminated prior to completion, the Office informs the auditee and prepares a memorandum summarizing the results of work performed and the reason the audit was terminated.

### **Characteristics of a Well-Written Report**

The Office of Audit and Control places great emphasis on the quality of audit reports. The value of our work to the Common Council, City management, and the public will be judged primarily by the quality of our written reports. To be effective, audit reports should have the following characteristics:

- *Significant and Useful.* Matters included in an audit report should be sufficiently significant and useful to justify reporting them. Factors to consider when determining significance include: the degree of interest by Common Council, City management, and the public; dollar impact; and the frequency of occurrence. Typically, significance is judged by effect (e.g., dollars or productivity lost, public endangerment). To be useful, reports should be structured to the needs and interests of the intended audience.
- *Timely.* Reports should be issued in a timely manner. Consideration should be given to the needs of Council, City management, and other interested parties (e.g., budget and other decision-making time frames) when planning and conducting audit work, and reporting audit results. When we need to meet a timeline to satisfy user needs, we establish appropriate deadlines in the comprehensive audit program or the modified audit plan. (See Appendix B and G). Interim reporting may be appropriate when critical information is needed by users before the formal report can be issued.

- *Accurate and Sound.* The Office of Audit and Control places great emphasis on the accuracy and soundness of information presented in audit reports. Inaccuracies found in an audit report can cast doubt on the validity of the entire audit and can have a damaging effect on the credibility of our office. Supervisory review, independent review, and proofing and editing of report drafts are all intended to help ensure that information reported is accurate and valid.

As required by Government Auditing Standards (7.07), 2011, if we discover, after a report has been issued, that the evidence presented in the report was insufficient or unreliable, we will inform Common Council and appropriate managers of this fact so they do not continue to rely on the unsupported findings or conclusions. We will remove the report from the list of audits on our Office's web site, replace it with a public notice that the report has been removed, and cease to share hard copies of the report with others. We will also make a determination as to whether additional audit work should be conducted to obtain evidence needed to support the audit's findings and conclusions. We will re-issue the report if we are able to obtain appropriate evidence and re-state the audit's findings and conclusions accordingly, or to repost the original report if the additional audit work does not result in a change in findings or conclusions.

- *Complete Yet Concise.* The report should contain sufficient information to facilitate the reader's understanding of the audited entity and of the nature and significance of the audit findings. However, the report should also be as concise as possible and avoid excessive detail or repetition which could confuse the reader.
- *Clear and Simple.* To communicate effectively, reports should be presented as clearly and simply as practical. The writing style should be direct and avoid difficult or unnecessary words. When technical terms or abbreviations are used, they should be defined in the text or in a glossary of terms. The use of graphs, charts, pictures, maps, and other visual aids should be used to the extent they facilitate the reader's interest and understanding.
- *Persuasive.* Reports should be written in a convincing manner, and conclusions and recommendations should follow logically from the facts. Information presented should be sufficient to persuade the reader of the significance of the findings, the reasonableness of the conclusions, and the importance of taking action to correct the identified deficiencies.
- *Objective and Balanced.* Audit reports should be presented in a fair and objective manner. They should contain sufficient information to give the reader a proper perspective. Auditors should avoid exaggerations or overemphasis of deficiencies. The tone of the report should be constructive in order to foster a favorable response. Although criticism of past performance may be necessary to demonstrate the need for management improvement, emphasis should be placed on making improvements. In addition, the audit report should cite significant noteworthy accomplishments of the auditee which relate to the audit objectives.

## **Report Format and Contents**

Although some audits are limited in scope and may be presented in an abbreviated format, many audit reports issued by our office adhere to a similar format, as described below. Note, though the components described below (besides Table of Contents and Appendices) should be in each audit report, the structure of the audit report may vary.

- **Report Cover.** The report cover includes the title of the report, the month and year the report is issued, and “Office of Audit and Control, Albany, New York.”
- **Table of Contents.** The table of contents is used for lengthy reports. It lists the major sections and headings in the report, with corresponding page numbers. When appropriate, a list of tables and figures may also be included in the table of contents.
- **Summary.** The summary provides a concise description of the report’s contents, including findings, conclusions, recommendations, and other pertinent information.
- **Background.** This section contains an introductory paragraph that states the overall nature and purpose of the audit, and background information that introduces the reader to the department or function audited.
- **Objectives, Scope, and Methodology (OSM).** This section contains a description of the audit objectives and scope, and the major steps followed in conducting the audit. The OSM section may also contain an explanation of why the audit was performed if done so on request or because of a particular concern. It includes a statement that the audit was conducted in accordance with generally accepted government auditing standards. Inclusion of the statement is prescribed by Government Auditing Standards, 2011 Revision, section 7.30:

*We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.*

If any auditing standard was not followed during the audit, it is disclosed in this section of the report along with the reason for the non-compliance and possible impacts on the audit results. When appropriate, this section includes discussion of any scope or other threat, and information that was omitted from the report and the reasons for the omission.

- **Audit Results.** This section contains discussion of the detailed audit results, including the auditors’ findings and conclusions. The report normally includes discussion of all five finding elements--condition, criteria, cause, effect, and recommendation, though the elements may not be named. Some auditors may choose to address recommendations only in the recommendation section of the audit report. The emphasis placed on each finding element and the order in which they are presented varies depending on the nature and significance of the problem. When

appropriate, the audit results section discusses: (1) the status of known uncorrected findings from prior audits that are related to the audit objectives, (2) significant instances of noncompliance, abuse, or illegal acts, (3) internal control weaknesses found, (4) noteworthy accomplishments of the auditee, and (5) significant issues needing further study or consideration.

- **Recommendations.** The recommendation section should contain a numbered list of all audit recommendations. Each recommendation should be briefly described so that management can determine what should be done. The recommendations should be specific and measurable and written so that they can be tracked and summarized in the follow-up of recommendations.

Government Auditing Standards state: “Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have authority to act and when the recommended actions are specific, practical, cost effective and measurable.” (GAGAS 7.29)

- **Appendices.** Useful or important information that is too detailed to include in the body of the report may be attached as appendices. Appendices are assigned letters--A, B, C, etc.-
- **Management's Written Response.** Government Auditing Standards require that audit reports include pertinent views of the officials of the audited organization concerning the auditors' findings and recommendations, and their planned corrective action. Written responses are typically received from the Commissioner-in-charge and the manager of the audited department. Written responses are attached and published with the audit report. When officials' comments fail to address or disagree with the audit recommendations, the Office of Audit and Control will attempt to resolve the disagreement and/or explain the disagreement in the audit report. The views of responsible officials can be obtained orally rather than in writing when time critical information is needed, the issues are well-known and understood by management, or if the report findings are not controversial.

### **Stages in the Reporting Process**

There are several stages in the reporting process, beginning with preparation of the report outline. The stages, outlined below, are intended to ensure that the issued report is timely, complete, accurate, objective, convincing, clear and concise. These steps also insure the report receives appropriate internal and external review and input from the City Auditor, City management, and other appropriate parties.

- **Report Outline.** The nature and organization of information presented in reports vary from audit to audit. In order to identify an effective way to present the results of their work, auditors first prepare a report outline. The outline depicts major sections and contents of the report, including audit findings and the data supporting the findings. Finding Development Sheets (Appendix A-9) can be used by auditors to help ensure that all finding elements are identified and included in the report outline. The Chief City Auditor and the audit advisor (if applicable)

review the outline and makes suggestions for improvement. The auditor-in-charge then makes final changes to the outline and receives the Chief's approval before beginning to draft the report. Note, with the Chief's approval, an audit team may draft the audit report without an outline.

- **Internal Draft.** The audit team prepares an Internal Draft based on the report outline. The draft includes all major sections of the report as well as proposed graphs, charts, and appendices. In preparing the draft, the audit team should refer to prior audits for conventions used by our office. The Internal Draft is submitted to the Chief City Auditor and possibly to other staff in the Office to obtain additional feedback. The feedback will be incorporated into the internal draft until it receives approval from the Chief City Auditor.
- **Independent Review.** To verify the logic and accuracy of information contained in the audit report, OAC has established an independent review process. In independent review, a staff member not assigned to the audit is asked to review the approved digital Internal Draft report. The audit team is responsible for indexing the Internal Draft to supporting working papers so that every statement and fact can be traced to source by the independent reviewers<sup>1</sup>. Indexing is done by using MSWord footnotes to place working paper cites in red on the digital reference draft. The audit team should use the "custom mark" footnote function to identify the referenced working paper according to the numbering system specified in Appendix N. The footnote space at the bottom of the page may be used for hyperlinks to the working paper and/or to better direct the reviewer to the reference if the audit team so desires. It may also be left blank.

When the Internal Draft has been completely indexed, the independent reviewer checks the working paper cites and verifies information for accuracy and adequacy of support. Once the reviewer is satisfied that the information on each page is supported and accurate, s/he indicates approval by placing his/her initials in a text box in the upper right-hand corner of the page.

When the independent reviewer discovers inaccuracies or disagrees with the logic or adequacy of support, s/he inserts an MSWord comment explaining the disagreement. Minor points can be handled informally/ orally; however, all substantive matters should be recorded on the Internal Draft.

After the reviewer has completed his/her initial review, the auditor responds to each of the reviewer's notes by inserting a second MSWord comment at the same location. If a disagreement arises which the auditor and reviewer are unable to resolve, the Chief City Auditor intervenes and makes a final decision. The independent reviewer inserts a third comment with the word "RESOLVED" to indicate resolution. Independent review is complete when all review comments have been resolved. When the review is complete, the independent reviewer saves the file and locks Internal Draft for editing.

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<sup>1</sup> Indexing should be complete when the Internal Draft is submitted to the Chief City Auditor.

The auditor-in-charge uses “save as” to create a new file titled Final Internal Draft. He/she then erases the comments and makes changes to the digital Internal Draft document based on the independent review, updating the indexing and clearing the changes with the independent reviewer. The Final Internal Draft is then initialed and dated by the independent reviewer, saved and locked for editing.

The auditor in charge uses the “save as” function to save the Final Internal Draft as the Working Draft. He/she then deletes the footnotes and formats the Working Draft for public presentation. Following independent review, the formatted draft report is forwarded to the City Auditor for review and approval.

*NOTE: The primary role of the independent reviewer is to verify the accuracy and logic of all facts, findings, analyses, and conclusions contained in the audit report, and to confirm that the auditors’ working papers adequately support all reported information. While independent reviewers may make suggestions for strengthening documentation and improving report presentation, they should not become involved in conducting analyses and/or preparing working papers. (Occasionally, all staff in the Office will be assigned to the audit, in which case the staff member with the least involvement will conduct the independent review.) Because of their involvement in the report development process, **independent reviewers are required to sign the Auditor Assignment & Independence Statement (Appendix A-7).***

- **Working Draft.** Once the Working Draft is approved by the Chief City Auditor, the Chief City Auditor or the auditor-in-charge emails the working draft to client management and if applicable, to other client staff/managers who have served as key audit contacts. A transmittal message is prepared or approved by the Chief City Auditor, which makes up the text of the email. The transmittal email should include a request for feedback. The feedback is often obtained through a meeting, but can also be done via phone or email. The audit team carefully considers management’s feedback and makes appropriate changes to the Working Draft. If management believes there are serious weaknesses or errors in the auditors’ findings and conclusions, the audit team should request support from the audit client, and the team may need to do analysis or further research to either disprove or confirm management’s assertions.

*NOTE: Some audits may go straight to the Final Draft, skipping the Working Draft phase, if the audit team already knows there are few comments from the audited client. Alternatively, for particularly sensitive audits, the audit team may choose to obtain client feedback for the Finding Development Sheets before writing the draft. This requires Chief City Auditor approval.*

- **Final Draft.** Changes made to the report due to feedback from management are entered onto the Working Draft and checked by the independent reviewer. Once the changes have been approved by the independent reviewer, and Chief City Auditor, the Working Draft is saved and locked for editing with the changes highlighted or otherwise indicated. The Working Draft is then saved as the Final Draft and formatted for public release. The Final Draft is emailed to the appropriate management officials by the Chief City Auditor. The text of the email asks management to prepare written responses to the report and deliver them to

the Office of Audit and Control generally within one week (or other reasonably short period of time) from their receipt of the final draft.

- **Published Report.** Normally, few changes are made in the Final Draft before it is released to the public. Written responses are attached to the report and a final proofing for spelling and typos is done before converting the MSWord file into pdf format. The written responses are typically scanned in, and placed into the pdf document.
- **Report Release and Distribution.** A plan for releasing the report is developed by the Chief City Auditor and the Auditor In-Charge to ensure that the report is communicated to appropriate officials in the City and to the public. All audit reports are posted on the OAC website. Options for communicating and releasing the report include:
  - press releases and/or press advisories emailed to the media, Common Council members, client management, neighborhood coalitions and neighborhood newspapers
  - report mailed or emailed to auditee and key officials
  - special distribution of the report to other interested groups or individuals
  - oral presentation of results to Common Council, management, community or neighborhood associations, business groups, radio or television audiences, or other interested parties
  - posting of electronic report on the Office's, Chief City Auditor's and the main City web pages, to remain available on the Office's web page for 10 years.
- **Media Advisory / Press Release.** Presentation of the report to the media will vary somewhat, depending on the significance of the audit findings and general interest in the topic. All audits have a media advisory. The purpose of the advisory is to inform the media about the audit report release, noting significant findings or recommendations, and to direct the media's attention to how to obtain the report. For some audit reports with high public interest, the Chief City Auditor may choose to hold a press conference with local media representatives, to present the report publicly to Common Council, or to do other public presentations and communication.

### **Completion of Job File and Working Papers**

The auditor-in-charge ensures that the digital job file is properly completed following issuance of the report. Some items (e.g. various follow-up reports, newspaper articles, etc.), will be added to the job file subsequent to completion of the audit.

The auditor-in-charge is responsible for seeing that working papers are properly numbered, identified, organized, and that any hyperlinks are working.

Finally, the auditor-in-charge files any papers in the office's file room along with finalizing the digital files and separate digital backup as spelled out below and in Appendix K.

### **Retention of Working Papers**

It is the normal practice of this office to retain the digital working paper files indefinitely for future reference. The Chief City Auditor sets the retention schedule for audit working papers and ensure that it is in accord with the City's record retention policies. The NYS guidelines for record retention for municipalities, which can be accessed on the internet at [http://www.archives.nysed.gov/a/records/mr\\_pub\\_mu1.shtml](http://www.archives.nysed.gov/a/records/mr_pub_mu1.shtml) , requires permanent retention of audit reports and six (6) year retention of working papers and background materials. Other periodic reports should be retained for six (6) years. Working papers are stored in the Audit and Control G-Drive file and are also copied into separate digital format and stored as backup in the physical OAC office files. The details of this practice are spelled out in Appendix K. *Note: audit reports that are subcontracted to a third party should also be retained according to this schedule.*

### **Audit Follow up**

The primary purpose of the Audit Follow-up process is to encourage departments to address and resolve audit findings. A secondary purpose is for the Office to monitor its effectiveness in improving City operations.

Department Heads should respond in writing to audit findings and specify their plans for implementing solutions to identified problems. It is important to follow up on findings and recommendations to help ensure that timely and appropriate actions are taken by management.

When the Chief City Auditor decides to conduct an audit follow-up, eleven months following report issuance, the auditor-in charge (or other staff member designated by the Chief City Auditor) sends an email to management notifying them of the follow-up and including a status update form designed by the auditor-in-charge. The Chief City Auditor and auditor-in-charge are responsible for reviewing the department's status report, assessing the reasonableness of the stated actions, and determining whether any further follow-up action is needed. The auditor-in-charge places the one-year status report and any related documentation in the job files.

The Office of Audit and Control maintains a database containing the status of all followed-up findings issued during the past five years. The auditor-in-charge is responsible for entering each audit finding into the database, and for indicating the status of each. Audit findings are deemed as "resolved," "in process," or "not resolved."

Upon completion of each audit, the Chief City Auditor consults with the auditor-in-charge to determine whether that audit will be followed-up. If there is to be a follow-up, it is the auditor-in-charge's responsibility to schedule it.

### **Findings of Fraud, Illegal Acts, Non Compliance, or Abuse**

**Fraud** is defined by GAGAS as:

“...obtaining of something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors’ professional responsibility.”

It is an auditors’ responsibility to assess the risk of fraud that is significant within the context of the audit objectives, as well as the controls set in place by a department to detect and deter fraud.

For fraud to occur most people need have opportunity, pressure, and rationalization (AKA the fraud triangle). Alternatively, some people (particularly sociopaths) simply enjoy fraudulently taking advantage of situations and people. This can eliminate the pressure requirement and parts of the rationalization requirement. OAC should look for both of these scenarios.

Part of the rationalization is a reasonable chance for the crime to go undetected (at least in the mind of the perpetrator). A key element in fraud is the willful intent of the person committing the act. It is not the intention of this manual to list the many various ways in which someone or a group can steal, convert assets or defraud the City, employees, or public in some way. For an act to be fraudulent the one doing the act must have intended to do wrong and there must be a victim with real monetary loss occurring. Intent usually manifests itself in the actions of the perpetrator such as, lying, concealment, framing a co-worker, etc.

While auditors need to be aware of fraud and able to assess it, according to the International Professional Practices Framework (IIA Red Book) auditors are not expected to have the knowledge and skills of a person whose primary responsibility is investigating fraud.

GAGAS section 7.21 states that fraud, illegal acts, noncompliance, or abuse will be reported as a finding if the Chief City Auditor concludes based on sufficient and appropriate evidence that the acts have occurred or is likely to have occurred.

When a possibility of fraud has been detected, the information should be documented and the Chief City Auditor shall be notified. The Chief City Auditor will determine what further actions are warranted. These actions may include: extending audit work to determine whether fraud or abuse have or are likely to have occurred and, if so, their effect on the audit results; reporting to law enforcement or investigative authorities before extending audit work; and, if necessary to avoid jeopardizing legal investigations, withdrawing from or deferring further audit work.

**Illegal acts** are violations of a law or regulation and **noncompliance** is a violation of a provision of a contract or grant agreement. **Abuse** involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. Findings of possible illegal acts, noncompliance, or abuse should be documented and reported to the Chief City

Auditor. They should then assess the effect on the audit and discuss if further audit steps will be taken or if the proper authorities should be notified in the case of possible illegal acts.

GAGAS requires auditors to report fraud, illegal acts, noncompliance and abuse to parties outside of the City in two circumstances: (1) when management fails to satisfy legal or regulatory requirements to report to external parties or (2) management fails to take timely steps to respond to fraud, illegal acts, violations of contracts, grant agreements, or abuse that is significant to the findings and conclusions and also involves funding from a government agency. (GAGAS 7.24)

In cases of fraud and illegality, auditors should take care not to imply that they have determined an act as fraud or illegal, as the final determination may be made by a regulatory agency or a court of law. Auditors should also take care to avoid interference with an investigation or legal proceeding into illegal acts, violations of contracts or grant agreements, or abuse. In some cases, auditors may be required to withdraw from or defer further work on the audit so as not to interfere with an investigation.

The five-step approach to fraud detection is:

- 1) Know the exposures
- 2) Know the symptoms of occurrence
- 3) Be alert for symptoms
- 4) Build audit programs to look for symptoms
- 5) Follow through on all symptoms observed

The following is a checklist of things that the auditor should do when confronted with possibility of fraud.

- 1) Notify the Chief City Auditor immediately.
- 2) Keep a daily diary of events and conversations with individuals both in and outside the Audit Department.
- 3) Keep the diary off premises for safekeeping.
- 4) Do not let the subject know that he/she is under suspicion.

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## SECTION 4 ADMINISTRATIVE PROCEDURES

The City of Albany Personnel Policy & Procedures Manual contains the City's standards of conduct and the citywide personnel policies and procedures that apply to the employees of the Office of Audit and Control. Each new employee is given a copy of the Personnel Policy & Procedures Manual and is responsible for reading and understanding them. In addition, this section contains supplemental procedures that apply solely to staff of the Audit Services Division.

- **Confidentiality and Conduct** – Staff are instructed to treat information about audit work as confidential until reports are released publicly. During the audit, staff should not discuss audit work with others outside the Office except appropriate managers of the organization being audited. In addition, while audit staff are encouraged to foster positive relations with auditees, it is important that auditors be viewed as impartial. They should be wary of social or personal relationships that could compromise their independence and objectivity. Violations of confidentiality, independence, or other Rules of Conduct may subject staff to disciplinary processes.
- **Contact with the Common Council and the News Media** – The Chief City Auditor is the point of contact with members of the Common Council and with the news media. Any request for information should be routed to the Chief City Auditor. The Chief City Auditor may, at his or her discretion, delegate the responsibility to other staff for specific issues.
- **Public Access to Office Records** – In general, all activities of the Office are public business and subject to public review. It is the policy of the Office to provide copies of all final audits and reports upon request from the public. (Most are kept on the Office website.) Responding to these requests does not require the approval of the Chief City Auditor and timely response should be given the highest priority.

It is important to note that many elements of drafts and working papers are also subject to public review. The NYS Committee on Open Government has issued a number of Freedom of Information Law (FOIL) Advisory Opinions, which are available at [http://www.dos.state.ny.us/coog/foil\\_listing/fa.html](http://www.dos.state.ny.us/coog/foil_listing/fa.html) . A repeated theme in the opinions is that statistical and factual based information is excluded from the inter-agency and intra-agency materials exemption from FOIL. This means that the fact-based portions of draft audits and working papers may be subject to public review under FOIL. This can be difficult because one of the purposes of drafts and working papers is to verify the accuracy of such information. As a result, care should be taken to maintain strict professionalism in all audit documentation.

- **Professional Appearance and Conduct** – It is the policy of the Office to promote an attitude of professionalism and competence. Professional appearance and conduct help to convey these attributes. As such, the audit staff should dress appropriately when on the job and treat other employees with courtesy and respect. All staff members are representatives of the Office of Audit and Control and should present themselves accordingly.

Staff members are responsible for keeping their work areas neat and orderly. Care is to be exercised to avoid exposure of confidential or potentially sensitive documents. All confidential and potentially sensitive documents will be locked up at the end of the day.

The success of any audit is due in part to the cooperation and assistance of City staff. As such, it is important to remember that these employees are working for their respective departments and that their primary duty is to fulfill their daily assignments. Therefore, audit staff should be courteous and understanding of employee time constraints. If the audit staff needs an employee to perform a major task, this should be discussed with Chief City Auditor in advance.

- **Overtime Pay and Compensatory Time** – According to Section 3.04 of the Personnel Policies & Procedures Manual, none of the employees of the Office are eligible to earn overtime pay or compensatory time. As professional personnel they are expected to work the necessary hours to perform their jobs in a proper manner. With that in mind, it is the policy of the Office that employees maintain a balance between their work and home lives. When employees are required to work additional hours to meet deadlines or attend meetings, the Chief City Auditor will take steps to allow for that balance.
- **Office Hours** – The office is open Monday through Friday 8:30am to 5:00pm. While there is some flexibility for working alternative schedules, those schedules should be coordinated to provide office coverage. Changes to regular working hours must be approved by the Chief City Auditor. Each employee is expected to adhere to his or her approved work schedule.

Due to the size of the Office, the fieldwork nature of auditing, and the GAGAS educational requirements, there will be times when there are no employees available to staff the office. During these times, a note of explanation will be posted on the office door.

- **Time Reporting** – To accurately track audit hours, each staff member is required to keep their timesheet up to date on a daily basis. The timesheets are kept in the shared TIMESHEETS folder of the Office's G-drive and each employee is expected to use numbered job-codes to accurately record their daily activities in half-hour increments. Each Friday, employees should give a signed hard copy of their timesheet (Appendix F) to the Executive Assistant. Employees are advised to password protect their timesheets for editing.

- **Vacation, Sick Leave, and Leave of Absence** – The rules and regulations for scheduled and non-scheduled absences are described in the Personnel Policy & Procedures Manual. The Office maintains a departmental Google Calendar for better coordination of meetings and absences.

Planned leave of more than one day should be approved in advance by the Chief City Auditor. Naturally, earlier requests are more likely to be approved. For absences of less than one day, employees should check the calendar for conflicts, enter the absence on the calendar, and informally notify the Chief City Auditor.

- **Use of Computer Equipment, Email, Internet, and Telephone** – Each employee is given and signs a copy of the City’s Internet, Email and Computer Acceptable Use Policy and is responsible for understanding and following the policy. The encouraged uses of these tools are as follows:
  - Communicating with fellow employees, business partners of the City, and other individuals within the context of an employee’s assigned responsibilities;
  - Acquiring or sharing information necessary or related to the performance of an individual’s assigned responsibilities; and
  - Participating in job related educational or professional development activities.

The City allows limited personal use for communication with family and friends, independent learning, and public services. Excessive personnel use of the internet without approval may be grounds for discipline.

- **Office Files** – It is the responsibility of the Auditor In-Charge ensure that the audit files are maintained in the manner outlined in Section 3. It is the Executive Assistant’s responsibility to maintain the office files including:
  - A folder with all formal letters and memos issued by the Office in chronological order.
  - A central file containing originals and extra copies of all audit reports and other formal reports issued by the Office. Copies of all formal reports shall be available to the public free of charge and timely delivery shall be a top priority.
  - Professional development records tracking continuing education credits.
  - Confidential Personnel Files – Electronic files are to be stored in a folder with password only access.
- **Performance Review** – All employees in the Office participate in regular performance reviews. Each employee completes a self-evaluation questionnaire and then meets with the Chief City Auditor to discuss his/her work performance.

Following the meeting, the Chief City Auditor prepares comments, an overall evaluation of performance for the preceding year, and an action plan for the

year ahead. Copies of the completed forms are filed in the Confidential Personnel Files.

- **Outside Employment** – Employees desiring outside employment must obtain the approval of the Chief City Auditor.
- **Gifts** – Employees are forbidden to accept gifts from individuals, businesses, or organizations doing business or seeking to do business with the City. Any gifts of more than a nominal value from City employees outside of the Office must be reported to the Chief City Auditor and evaluated for its impact on independence.