External Peer Review of the City of Rochester Office of Public Integrity Internal Audit Activity

ISSUED:
January 18, 2018

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PEER REVIEW REPORT

January 18, 2018

Mr. Timothy Weir
Director of the Office of Public Integrity
City of Rochester
85 Allen Street, Suite 100
Rochester, NY 14608

Dear Mr. Timothy Weir,

We have completed a peer review of the City of Rochester's (the City) Office of Public Integrity's (OPI) Internal Audit Activity (Internal Audit) for the period January 1, 2015 through December 31, 2017. In conducting our review, we followed the standards and guidelines for external peer review contained in the Generally Accepted Government Auditing Standards (GAGAS) set by the Government Accountability Office (GAO).

We reviewed the quality control system of your audit organization and conducted tests to determine whether your internal quality control system operated to provide reasonable assurance of compliance with GAGAS. Our procedures included:

- Reviewing OPI's quality control policies and procedures;
- Reviewing the adequacy and results of OPI's internal monitoring procedures;
- Reviewing a selection of audit reports and audit file documentation;
- Reviewing documents related to independence, training, and development of audit staff;
- Interviewing audit staff and the Director of OPI to assess their understanding of, and compliance with, quality control policies and procedures; and
- Interviews with the Mayor, Senior Management, and City Council to assess the organization's views on the professionalism, effectiveness, and credibility of OPI.

The nature of our review included sampling and selective testing; therefore, it would not necessarily identify all system design and compliance matters. Our review found compliance in most cases; however, it does not guarantee compliance in its entirety.

Based on the results of our external peer review, we found that the City of Rochester Office of Public Integrity's Internal Audit Activity's internal quality control system is adequate. The internal control system was complied with in a manner that provides reasonable assurance of conformance with GAGAS.

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Therefore, it is our opinion that the City of Rochester Office of Public Integrity's Internal Audit Activity complies with GAGAS.

Findings of our review are included in the *Letter of Comment* on page 6. We have prepared a separate letter offering recommendations to further strengthen your internal quality control system. These recommendations do not affect the opinion we expressed in this report.
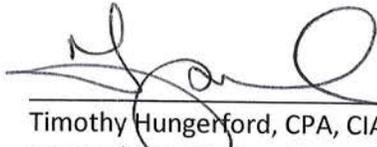
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Scope and Methodology

We performed testing to assess OPI's Internal Audit Activity's conformance with GAGAS for the period January 1, 2015 through December 31, 2017. This testing included interviewing Internal Audit staff, the Director of OPI, Senior Management, City Council, and the Mayor. A total of 12 formal interviews were conducted during our review.

We reviewed Internal Audit's policy and procedures documents to determine whether the organization's system of quality review was designed in conformance with GAGAS. This included inspecting Internal Audit documents for compliance with GAGAS standards.

We selected a sample of completed engagements performed by Internal Audit to determine whether the organization is operating in conformance with GAGAS. Each engagement was reviewed and assessed on planning, fieldwork and reporting requirements. A total of thirteen (13) audits were completed within the past year. We selected five (5) completed audits for our testing, which included 57% of total engagement hours worked. See the "Engagements Reviewed" chart below for the list of engagements reviewed in our peer review.

Engagements Reviewed			
Report Date	Department	Audit	Hours
9/20/2016	Department of Environmental Services / Department of Recreation & Youth Services	Employee Field Check	178
4/26/2017	Law	Adirondack Sports Forensic Audit	1137
8/29/2017	Finance	Purchasing Card Review	287
9/21/2017	Neighborhood & Business Development	Greater Rochester Health Foundation Grant	932
9/26/2017	Fire	NYS Inspection Review	106

Letter of Comment:

Finding 1: Lack of independence due to reporting structure

GAGAS requires that the chief audit executive must report to a level within the organization that allows Internal Audit to fulfill its responsibilities. We noted that the City does not have an Audit Committee. Functionally, OPI and the Internal Audit Activity report directly to the Mayor. Because the Director of OPI is appointed by the Mayor, and the department reports directly to the Mayor, this reporting structure could result in a conflict of interest for OPI, in the event the Mayor's activities are under scrutiny. Therefore, an issue of independence of the Internal Audit Activity is apparent.

Based on our interviews, Internal Audit has never been told they cannot audit any department or program. If an audit of the Mayor needed to be performed, OPI should refer the work to an outside organization so that the independence of OPI would not be compromised.

In addition, the *Professional Practice of Internal Auditing (Standards)* Standard 2110.A1 states that Internal Audit must "evaluate the design, implementation and effectiveness of the organization's ethics related objectives, programs and activities." Currently, the Director of OPI is a member of the City's Board of Ethics and provides ethics training to City employees. Because of this involvement, there could be an impairment of objectivity if OPI is evaluating the City's ethics policy, programs, and activities.

Recommendation: We recommend that OPI work with the Mayor and City Council to determine an alternative reporting structure that promotes greater independence for OPI.

In addition, we recommend that the Department of Human Resource Management (DHRM) take the responsibility of providing ethics trainings to City employees and that the Director of OPI step down from the Board of Ethics. OPI should be responsible for evaluating the City's ethics program, but OPI employees should not be involved in the operational processes or management of the ethics program. An alternative recommendation would be to keep OPI involved in the ethics program and to hire an external firm to audit the ethics program as needed.

This finding was also identified by OPI in their self-assessment.

Finding 2: Lack of information technology expertise

Through our testing, we determined that the Internal Audit staff have an immense knowledge base of the City of Rochester's operations and key personnel. This comes from years of experience within the City's Internal Audit Activity. We found that the Internal Audit staff is very competent, and the staff are very well respected amongst senior management.

However, information technology (IT) is one area where expertise is lacking in the Internal Audit Activity. None of the staff have backgrounds or experience in IT audit, and therefore, no IT audits have been performed by the department. In addition, no data analytics tools are used by the department at this time.

Recommendation: We recommend that Internal Audit hire a staff member with IT audit experience, or engage an outside party to perform IT audit work and data analytics as necessary.

This finding was also identified by OPI in their self-assessment.

Finding 3: Planning process improvements

It is stated in the *City of Rochester Office of Public Integrity Internal Audit Unit Policy and Procedures Manual* that OPI will usually send a formal audit notification letter to the auditee. There are circumstances where an advance letter notification will not be sent; however, in most cases a notification letter should be sent. The *Office of Public Integrity Internal Audit Quality Assurance and Improvement Program (QAIP)* states that engagements will be formalized with an Engagement Letter or Email and copies of the letter or email will be included in the audit file.

For the audits selected for testing, this notification letter could not be provided. Evidence was provided demonstrating communication with the departments in the beginning phases of the audit, but no notification letter could be produced.

In addition, we noted that controls and risks were not documented for each engagement. This is performed annually as part of the risk assessment; however, that is performed over the organization as a whole, and does not provide insight on the risks that should be addressed in each audit. Through interviews and inspection of the *City of Rochester Office of Public Integrity Internal Audit Unit Policy and Procedures Manual*, we noted that this is done in practice; however, evidence of this is not documented in the audit file.

Recommendation: We recommend that a formal announcement letter or email be sent by the Director of OPI to the auditee prior to the beginning of fieldwork. This announcement should explain the scope of the audit, who the audit team will be, the timeframe of the audit fieldwork, and general audit requests that the auditee should expect during the audit. In addition, we recommend that an audit kick off meeting occur prior to audit fieldwork so that the auditee can ask questions and express any concerns prior to the audit.

We also recommend creating an internal planning memorandum that includes background information obtained for the audit, prior audit issues found, risks that should be considered when determining audit fieldwork, and controls in place that should be tested. This planning memorandum and the announcement letter or email should be retained within the audit file.

Finding 4: Annual audit plan not performed

The *Office of Public Integrity Internal Audit Quality Assurance and Improvement Program (QAIP)* states that audit plans are created annually and are based upon risk assessments that are performed periodically. For the 2017 fiscal year, an audit plan was not created in advance. This is because the department engaged an external CPA firm to help perform an improved risk assessment in fiscal year 2016. The department was in the middle of this process during the planning for fiscal year 2017, and therefore did not create an audit plan prior to the beginning of the fiscal year. The results of the risk assessment were used to develop a three-year audit plan for fiscal years 2018 through 2020. The audit plan and risk assessment will be reviewed annually to address the risks of new programs and to remove obsolete programs.

Recommendation: We recommend that annual risk assessments and audit plans be created. A full risk assessment of the City's audit universe should be performed at least once in every peer review cycle (every three years). Annually, the risk assessment should be reviewed and assessed. Adjustments should

be made for changes to departments, programs and risks within the City. This risk assessment should be used to create rolling audit plans for the next three years.

This finding was also identified by OPI in their self-assessment.

Distribution List

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Appendix A: Office of Public Integrity Responses

Finding 1: Lack of independence due to reporting structure

The reporting structure of the Office of Public Integrity (OPI) is set forth in Section 3-13 of the City Charter. Any amendments to the Charter language would require the introduction of new legislation. The OPI Director will coordinate with the Mayor's Office and the Law Department to determine the feasibility of strengthening OPI's independence as required by the *Standards*.

Per the City Charter, the Mayor appoints one department head to the Board of Ethics. Traditionally, the Director of OPI has filled this position and has served as the Secretary of the Board. Based on this report's recommendation, the OPI Director will coordinate with the Mayor's Office and the Law Department regarding the appointment of non-OPI personnel to this position. In addition, OPI will discuss the feasibility of transitioning ethics training to the Department of Human Resource Management (DHRM).

Finding 2: Lack of information technology expertise

OPI acknowledges that information technology (IT) expertise is limited amongst the audit staff. This lack of experience hinders OPI's ability to execute a robust IT audit strategy. OPI will coordinate with the Mayor's Office, IT, and Budget to explore possible corrective actions to include the hiring of IT personnel or contracting with third party vendors specializing in IT audit services.

Finding 3: Planning process improvements

OPI recognizes the value of formal audit notifications and has recently implemented a process that documents the notification via email to the department head. This email is maintained as part of the audit file and will be available to peer reviewers in the future.

In addition, OPI will establish a process to identify and document the controls and risks specific to each audit and maintain this documentation in the audit file. This will ensure the audit program is effectively designed to address all significant risks associated with the auditable entity or process.

Finding 4: Annual audit plan not performed

OPI acknowledges the importance of annual risk assessments and audit plans. As stated in the finding, the fiscal 2016 risk assessment was delayed as result of OPI's efforts to engage an external CPA firm to collaborate with OPI to design a new risk assessment methodology. This was a self-initiated action taken by OPI to identify best practices regarding risk assessment and to improve the process by which OPI identifies and evaluates risk across the organization. During this time, audits initiated where consistent with the most recent risk assessment conducted in fiscal year 2015.

In the future, OPI will review the audit plan and risk assessment annually to address new programs and remove obsolete programs. In addition, OPI will conduct a full risk assessment utilizing the recently developed risk assessment matrix once every peer review cycle. In effect this would require a full risk assessment to be conducted every three years.