

**City Auditor's Office
2004 Annual Report**

September 2004

**City Auditor's Office
City of Kansas City, Missouri**

September 14, 2004

Honorable Mayor and Members of the City Council:

This annual report of the City Auditor's Office of Kansas City, Missouri, for the year ended April 30, 2004, is presented for your review. According to Rule 35 of the *Standing Rules of the City Council of Kansas City, Missouri*, the City Auditor's performance and salary are to be reviewed annually in September. I'm presenting this report now to aid the Budget and Audit Committee in its duty to conduct that review.

In fiscal year 2004, we released 14 reports. Our audits examined issues such as whether persons paid as city employees actually existed, the amount of money owed to the city, use of sick leave, the methods used to set convention center facility rental rates, and controls over the millions of public dollars for which the Tax Increment Financing Commission is responsible.

In the last several years, the focus of our work has shifted from audits identifying economic impact such as increased revenues or reduced costs, to projects addressing broad policy and management issues. Our emphasis on broader policy analyses has resulted in the office not meeting our goal of identifying \$3 of potential economic impact for \$1 of audit costs for the past four years. Since the start of my tenure, however, my office has identified over \$53 million in potential economic impact, resulting in a ratio of \$3.53 in cost savings or increased revenue for every \$1 spent on auditing. We continue to balance our goal of suggesting ways that the city can achieve quantifiable improvement in its efficiency and effectiveness against a sometimes competing goal of presenting the City Council with broader examinations of new policy directions providing less immediate financial impact but more potential for long-term improvement in finances and services.

In 2004, we completed our fourth external quality control review. The reviewers determined that the City Auditor's Office complies with government auditing standards issued by the U.S. Comptroller General. In addition, the City Auditor's Office received a Knighton Award for our September 2003 performance audit, *Controls Over TIF Expenditures*. This award, given annually by the National Association of Local Government Auditors, is the highest award given by the association to local government audit agencies. We are the only audit office to win this award three times.

We appreciate the strong support we receive from the City Council and the cooperation extended to us by management. We look forward to continuing to work with elected officials and management staff on finding ways to improve the city's productivity and effectiveness, and providing information to facilitate policy discussions.

Mark Funkhouser
City Auditor

City Auditor's Office: 2004 Annual Report

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Mission and Goals

Charter Authority of the City Auditor

The City Auditor is appointed by and reports to the Mayor and the City Council. The city charter establishes the position of the City Auditor as independent of the City Manager and responsible only to the Mayor and the City Council. The charter grants the City Auditor complete access to the books and records of all city departments. The City Auditor uses this access, independence, and authority in performing his charter mandate to carry on a continuous investigation of the work of all city departments. The City Council's Budget and Audit Committee oversees the activities of the City Auditor, and reviews audits and other work products of the City Auditor's Office.

Our Purpose

The mission of the City Auditor's Office is to be a catalyst for improving city government. Elected officials and the public need timely, objective, and accurate information about department and program performance. By providing this information and making recommendations for improvement, we help to hold government accountable in its stewardship of the public trust, and assist elected officials and management staff in using resources to maximize effectiveness and productivity.

We seek to accomplish our mission by evaluating department and program performance and identifying ways to make the activities of the city more efficient and effective. Our primary objectives are:

- To evaluate the efficiency, effectiveness, and equity with which city departments carry out their financial, management, and program responsibilities.
- To assist the City Council and management staff in carrying out their responsibilities by providing them with objective and timely information on the conduct of city operations, together with our analysis, conclusions, and recommendations.

Our Work Products

The City Auditor's Office conducts performance audits, including follow-up audits, and memoranda. Audit work is conducted in accordance with government auditing standards. These standards require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting of audit results, and periodic review of the office by outside professionals. In 2003, we completed our fourth external quality control review under the guidelines of the National Association of Local Government Auditors. The reviewers determined that the City Auditor's Office complies with government auditing standards issued by the U.S. Comptroller General. (See Appendix C for the reviewers' report and our response.)

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.¹ A follow-up audit is a performance audit that determines the progress made in addressing findings identified in previous audits.

To be more informed about pending legislation and other issues coming before them, individual councilmembers occasionally request audit work of a limited scope. Staff are assigned to research costs and other effects of proposed legislation or to provide independent assessments of financial information and other proposals by city management. In most cases, the resulting memoranda are distributed to the Mayor, City Council, and management staff. In addition, department directors occasionally request assistance from the City Auditor's Office. The resulting memoranda are distributed to the department, the City Manager, and the chair of the Budget and Audit Committee.

Some of the work of the office is directed by the City Council. To fulfill the city charter mandate that the City Auditor keep the Mayor and the City Council informed as to the financial affairs of the city, the City Council passed Resolution 911385 in December 1991 directing the City Auditor to annually review and comment upon the City Manager's proposed budget prior to adoption. Similarly, Section 2-722 of the Code of Ordinances requires the City Auditor to report on the results of a governance assessment of boards and commissions and Section 2-113

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.

requires the City Auditor to review the financial audit and internal control reports of those agencies that receive at least \$100,000 in city funding annually.

Most audit reports result in recommendations that will improve resource utilization, reduce the risk of loss or abuse of assets, increase productivity, or correct wasteful practices. Audit recommendations can improve services to the public by making programs more effective and efficient. In addition, they can increase the city's responsiveness to citizens and assist the City Council in carrying out their oversight responsibilities.

Office Operations

Audit Selection

When selecting audit topics, we try to balance audits expected to yield cost reductions, increased revenue, improved services, and improvements in major control systems with projects that will address broad policy and management issues. Our process for selecting audit topics also includes considering complaints we receive, as well as concerns and requests from the City Council and management. The City Auditor initiates projects and assigns them to audit staff.

Expenditures

The City Auditor's Office had expenditures of about \$1.2 million in fiscal year 2004. (See Exhibit 1.)

Exhibit 1. City Auditor's Office Annual Expenditures

Category	Fiscal Year		
	2002	2003	2004
Personnel	\$1,195,280	\$1,152,950	\$1,164,085
Contractual	118,726	90,675	50,454
Commodities	9,680	4,981	3,845
Capital Outlay	1,223	5,884	0
Total	\$1,324,909	\$1,254,490	\$1,218,384

Source: AFN System.

Staffing

Staff Qualifications

The office was authorized 16 full-time equivalent positions in fiscal year 2004: the City Auditor, 14 auditors, and an administrative secretary. All professional staff have advanced degrees in fields such as accounting, business administration, finance, law, psychology, public administration, and social sciences. Several staff members have previous auditing and management experience in the public and private sectors. Seven staff members each have one or more professional certifications, including Certified Internal Auditor, Certified Management Accountant, Certified Public Accountant, Certified Government Financial Manager, Certified Information Systems Auditor, and Certified Government Auditing Professional.

Professional Development

Summary

The City Auditor's Office emphasizes professional development to improve our skills, effectiveness, and efficiency. The office provides required continuing education, encourages professional certification, and supports staff involvement in professional associations.

Continuing Education

Government auditing standards require that our staff complete at least 80 hours of continuing education every two years. In fiscal year 2004, auditors received an average of 73 hours of training by attending seminars, workshops, conferences, and monthly in-house training sessions. Training topics included information systems auditing, analysis techniques for auditors, and interviewing techniques for auditors.

To help minimize our training costs, we conduct monthly in-house training for all audit staff on topics such as government auditing standards, audit planning, and fraud.

Professional Associations

Several staff members are active in organizations of auditors, accountants, and public managers. Professional associations include the National Association of Local Government Auditors, the Association of Government Accountants, the Institute of Internal Auditors, the American Society for Public Administration, the Missouri Society of Certified Public Accountants, the Information Systems Audit and Control Association, and the Intergovernmental Audit Forum. In addition, a staff member is the chair of the National Association of Local Government Auditors' Peer Review Committee.

In 2004, the City Auditor's Office was awarded a Knighton Award for best audit for its 2003 performance audit, *Controls Over TIF Expenditures*. This award is presented by the National Association of Local Government Auditors and is awarded based on the potential for significant impact, the persuasiveness of the conclusions, and the focus of the recommendations on effective and efficient government. We are the only audit office to have received this award three times.

Performance Measures

Summary

We monitor our performance by tracking outputs or work products, the outcomes or results of these products, and the efficiency or unit cost with which we produce work products and results. Exhibit 2 includes our performance measures for the last three years.

Outputs

We released 14 audit reports in fiscal year 2004.

Outcomes

Implementation of Audit Recommendations

The primary benefits of the work of the City Auditor's Office include reduced costs, increased revenues, improved services, and government accountability. However, auditing does not directly produce these benefits; they only come from implementation of audit recommendations. It is up to management to implement most recommendations, while the City Council is responsible for ensuring that agreed upon recommended changes and improvements occur. It is our responsibility to present accurate and convincing information that clearly supports our recommendations.

Recommendations cannot be effective without management's support. To measure the effectiveness of our recommendations, our goal is to achieve management agreement with 90 percent of our report recommendations. In fiscal year 2004, we exceeded this goal; management agreed with 98 percent of our report recommendations.

Although management agreement is a step toward implementing recommendations, it is not a guarantee that recommendations will or can be implemented. We also measure our effectiveness by the actual recommendation implementation rate. Our goal is for 75 percent of our

recommendations to be implemented within two years of when a report is issued.² About 56 percent of recommendations for reports issued in 2002 were implemented within two years according to management's Audit Report Tracking System (ARTS).

Audit Report Tracking System

In response to direction from the City Council, the City Auditor's Office and the Office of Budget and Systems jointly developed a system to track the implementation of audit report recommendations. Administrative Regulation 1-11 describes the Audit Report Tracking System (ARTS) requirements. Six months after the release of an audit or follow-up report, departmental personnel are required to submit a report to the City Manager, the appropriate City Council committee, and the City Auditor's Office describing the progress made on each recommendation included in the audit or follow-up report. A department representative reports to the committee, and the committee discusses the department's progress and any problems encountered in implementing the recommendations. The City Manager's Office coordinates ARTS to ensure that reports are prepared and reviewed when they are due.

In fiscal year 2004, about 78 percent of our recommendations were designed to strengthen management controls such as safeguards over city assets, compliance with laws and regulations, and procedures to achieve program objectives. About 15 percent of our recommendations were designed to increase revenues or reduce costs while 7 percent suggested ways to improve services.

Potential Economic Impact

The potential economic impact includes the estimated annual revenue increase or cost decrease associated with report recommendations with an estimated monetary impact. We identified \$2.1 million in potential economic impact in 2004, mainly due to recommendations to improve controls over tax increment financing payments and reimbursements.

Some of our work includes significant potential economic impact that we could not or did not quantify. For example:

- The city's subsidy to MAST in 2002 was \$5.4 million – an over 145 percent increase from fiscal year 2000. In our follow-up audit on MAST, we recommended MAST analyzing costs and fees as well as financial implications before making operational changes because failure to do so resulted in millions of dollars of losses to MAST and the city.

² We look at a two-year period because often the most significant recommendations cannot be implemented immediately. The implementation rate for recommendations usually increases over time.

- City employees used over 300,000 hours of sick leave in 2003 at an estimated direct cost of \$5.3 million. In our audit on use of sick leave, we recommended actions to improve management of sick leave, which could save the city money.
- We estimate that the city gave \$2.6 million in rental rate credits and discounts for use of the Convention and Entertainment Centers facilities. In our audit of the department's rental revenues, we recommended establishing a policy on rental discounts to control their use and reduce the department's reliance on general fund support.
- Animal Control had an operating deficit of \$1.6 million in 2003 and only 8 percent of dogs and 1 percent of cats were licensed. In our audit of the Animal Control Division, we recommended establishing a task force of pet owners, veterinarians, animal rights activists and Animal Control staff to find ways to increase compliance with animal licensing ordinances. Increasing compliance would increase revenues and reduce general fund reliance.

Efficiency

Staff Hours Per Report

In fiscal year 2004, the average staff hours per report increased to 1,300. We hope to decrease this number in the coming year. We are reviewing our planning process to include more narrow scope audits which should result in us completing audits more quickly.

Economic Impact-to-Cost Ratio

The economic impact-to-cost ratio provides a measure of the cost effectiveness of performance auditing, comparing potential savings and increased revenue identified in recommendations to the cost of operating the City Auditor's Office. Our goal is to identify at least \$3 in savings or revenue for every \$1 spent on auditing.

In fiscal year 2004, we identified \$2.1 million in potential increased revenue or cost savings, resulting in a ratio of \$1.78 in potential economic impact for every \$1 of auditor costs.

Since the start of the tenure of the current City Auditor, the office has released over 200 reports containing more than 1,050 recommendations. These recommendations identified over \$53 million in potential

economic impact, resulting in a ratio of \$3.53 in savings or revenue for every \$1 spent on auditing between fiscal years 1989 and 2004.

Exhibit 2. City Auditor's Office Performance Measures

Performance Measures	Fiscal Years		
	2002	2003	2004
Inputs			
Expenditures	\$1,324,909	\$1,254,490	\$1,218,384
Full-time Audit Staff	16	13	13
Outputs			
Reports Issued ³	18	9	14
Memoranda and Other Projects ⁴	2	6	1
Outcomes			
Recommendation Agreement Rate ⁵	99%	100%	98%
Recommendation Implementation Rate ⁶	61%	78%	56%
Potential Economic Impact	\$0	\$230,000	\$2,171,865
Efficiency			
Hours per Report	977	926	1,301
Ratio of Economic Impact to Cost	\$0	\$0.18:1	\$1.78:1

Sources: AFN System; Audit Report Tracking System reports; City Auditor's Office time and utilization records; and City Auditor's Office audits and reports.

³ Includes audits, follow-ups, and special reports.

⁴ Includes City Council and management memoranda, and staff support to other projects.

⁵ Percentage of recommendations with which management agreed.

⁶ Percentage of recommendations reported by department as implemented in ARTS reports submitted through April 30, 2004. This rate usually increases over time because not all recommendations can be implemented immediately.

Appendix A

Reports Released in Fiscal Year 2004

Convention and Entertainment Centers Facility Rental Revenues (May 2003)

Accounts Receivable (May 2003)

MAST Financial Viability (July 2003)

Controls Over TIF Expenditures (September 2003)

Animal Control (October 2003)

Governance Assessment Fiscal Year 2003 (October 2003)

Payroll (November 2003)

Trash Collection Cost Data (November 2003)

Insurance for Use of Parks and Recreation Facilities and Property
(December 2003)

Review of the Submitted Budget for Fiscal Year 2005 (March 2004)

MAST Financial Viability Follow-up Audit (March 2004)

City Services Performance Report for Fiscal Year 2003 (March 2004)

Review of Audits of Outside Agencies (March 2004)

Citywide Use of Sick Leave (April 2004)

Councilmember and Management Memoranda

MAST Work Sessions/September 2003

Performance Audits

Convention and Entertainment Centers Facility Rental Revenues (May 2003)

This audit examined Convention and Entertainment Centers' process for setting rental prices and approving rental discounts, as well as the impact of rental prices and discounts on department revenues.

We found that the rental rate setting process needed improvement. Rates were set without determining the cost of holding an event. Operating revenues were less than operating costs, and the general fund contributed more than \$6 million over the past five years to make up the difference. A new mission statement included a goal of maximizing revenues; this goal was never formally adopted by the City Council.

We also found that although the department had written guidelines describing factors to be considered in granting rental discounts, there were no written policies describing how much rental revenue the city was willing to forgo and who was responsible for reviewing and approving the discounts. Inadequate controls over rental discounts could lead to the appearance of, and opportunity for, favoritism toward some users of the convention facilities. Management did not track the total amount of rental discounts given. We recommended that the department improve its rental rate setting process; develop cost information; and establish a comprehensive discount policy that sets limits on rental discounts offered, establishes responsibility for discount review and approval, and requires documentation and tracking reports on total rental discounts given.

Accounts Receivable (May 2003)

This audit focused on the amounts of receivables, and the methods used to invoice, collect, and record payments for services.

We found that more than \$26 million in accounts receivable were owed to the city. Receivables included special assessment amounts that included inaccuracies. Some Water Services account records were not centrally maintained, and were not in compliance with state record retention requirements. We also found that city departments did not consistently utilize best practices for billing and collecting accounts receivable. Some bills did not include due dates, and not all departments assessed penalties for late payments or non-payment. Controls over receivables were inadequate, and millions of dollars had been owed for

over 90 days. We made a number of recommendations designed to strengthen recording and collection of accounts receivable.

MAST Financial Viability (July 2003)

This performance audit assessed MAST's financial condition, why it had deteriorated, and the consequences to the city.

We found that MAST was not financially viable without additional funding and MAST management had not adequately analyzed factors contributing to the ambulance system's worsening financial condition. MAST management offered several explanations for its poor financial condition including, loss of federal funds, inadequate billing information from the contractor, lack of competition that was exacerbated by the contractor's labor negotiations, and duplication and inefficiencies in the system. However, the data we examined did not support management's perceptions and explanations. We concluded that because management had not correctly identified the causes of the financial problems, their suggested solutions – including MAST's takeover of ambulance operations – were unlikely to fix the problems and exposed the city's emergency medical care system to unnecessary risk. We recommended the Health Director provide the City Council with information necessary to evaluate options for providing ambulance service. We recommended the MAST Executive Director prepare an RFP to secure an operations contractor to comply with city ordinance; analyze the costs of services, collection rates and fee structure; and prepare written agreements to enter into with all of the jurisdictions served.

Controls Over TIF Expenditures (September 2003)

This performance audit focused on the TIF Commission's controls over use of redirected tax dollars.

We found that the TIF Commission had not established basic internal controls to safeguard, manage, and account for the public dollars for which it is responsible. Documentation was missing or inadequate to support more than \$7 million in developer expenses, \$357,000 in TIF-related bond disbursements, and more than \$1 million transferred to the Economic Development Corporation. The problems identified in our review of one year's certified costs raise doubts about previously paid reimbursements and previously certified but unpaid costs. It was also unclear what TIF purchased with redirected tax dollars, as the commission had not classified developer costs into meaningful categories to summarize and analyze expenditures. Missing and inadequate documentation limited the usefulness of the information that was available. We also found that \$3.3 million in payments due to the city

and county had not been made. We made a number of recommendations directed toward strengthening oversight and control over public revenue.

Animal Control (October 2003)

This audit focused on the efficiency and effectiveness of Animal Control Division efforts to protect public health.

We found that the number of dog and cat licenses sold dropped dramatically between fiscal years 1982 and 2002. Only about 8 percent of dogs and one percent of cats were licensed in accordance with the city's laws. Pet licensing serves as a means of tracing lost pets back to their owners; in fiscal year 2002, about 68 percent of animals brought to the animal shelter were euthanized. We recommended that the Director of Neighborhood and Community Services appoint a task force of pet owners, veterinarians, animal rights activists, and Animal Control staff to examine ways of increasing licensing compliance. We also recommended that the director provide information on program costs and revenues to be used by the City Council in determining cost recovery goals.

Governance Assessment Fiscal Year 2003 (October 2003)

This review, which is required by the Code of Ordinances, assessed the governance practices of the boards and commissions in Kansas City. All 10 appointed boards and commissions included in the assessment submitted answers to questions and provided documents related to their governance practices, although six boards did so after the deadline. These organizations spent over \$300 million in 2002.

The governance assessment checklist asked the boards and commissions questions regarding the organization's goals, definitions of board and staff responsibility, accountability, and other areas relating to the core functions for which boards and commissions are responsible. The report included the responses from each board and commission.

Payroll (November 2003)

This audit sought to identify city paychecks going to fictitious or nonexistent employees.

We did not identify any city funds lost to payroll fraud. We confirmed the existence and identities of all city employees in our sample, as well as the identities of all employees who list a post office box as their home address. The city had several payroll system controls in place that limited the potential for payroll fraud, but we found that additional

controls were needed. We recommended several steps to be taken relating to removing outdated or inaccurate information on contract employees and ensuring accurate modifications to employee personnel records.

Trash Collection Cost Data (November 2003)

This performance audit focused on the accuracy of reported trash collection cost data.

We found that the Department of Environmental Management understated the cost per household for city crews to pick up residential trash. Although the department knew that its cost figure was based on an imprecise (and likely too high) estimate of the number of households served, management did not correct the number or disclose the limitations of using the estimate in presentations to the City Council. Environmental Management presented its cost estimate as a benchmark to support its recommendation that the City Council reject all bids to outsource a portion of the city's service area. Without more accurate data, it is not clear that this decision saved the city money. Our audit wasn't intended to second guess the city's decision to retain the service in-house – the low bid was considered unresponsive – but to emphasize the need for management to provide the City Council with complete and accurate information and to describe limitations when information is uncertain. We recommended the City Manager set guidelines for departments to follow in collecting and reporting performance information.

Insurance for Use of Parks and Recreation Facilities and Property (December 2003)

The audit focused on the identification of risks associated with the use of Parks and Recreation Department properties and the documentation of risk elements associated with events.

We found that in many instances department decision makers did not obtain or maintain written documentation sufficient to determine whether or not insurance requirements were consistently applied to similarly situated individuals or groups. We recommended that department guidelines be expanded to include a more comprehensive list of risks considered in the decision-making process and outline more complete documentation and review requirements.

Review of the Submitted Budget for Fiscal Year 2005 (March 2004)

This annual review of the City Manager's submitted budget provided the City Council with information about the city's financial condition and the coming year's budget.

A group of experts in economic and finance from private, government, non-profit and academic organizations discussed the city's financial condition at a forum that we hosted in June 2002. The group identified fragmented governance, a lack of financial policies and financial information, and problems with service delivery as causing the city's weak financial condition. In this review, we illustrate each of the problems they identified with specific examples.

City Services Performance Report for Fiscal Year 2003 (March 2004)

In this third annual city services performance report, we reported the results of the 2003 citizen survey along with performance indicators in six broad categories: streets, public safety, parks, water and sewer, neighborhood livability, and overall quality of life.

The 2003 citizen survey showed improvement in some areas compared to the 2002 survey. Citizen satisfaction with snow removal on major city streets improved, as did satisfaction with street lighting. Citizen satisfaction with water service was above the average for the metropolitan area. Fewer citizens, however, rated Kansas City as an excellent or good place to work.

Review of Audits of Outside Agencies (March 2004)

This annual review, which is required by the city's Code of Ordinances, focused on reviewing the financial audit and internal control reports of those agencies that receive at least \$100,000 in city funding in fiscal year 2003.

We reported that almost 50 outside agencies received \$141 million in funding or pass-through money to operate or administer programs or services. Auditors for 8 of the 46 agencies submitting audits had concerns they were required to report, a number that decreased from the prior year. Three agencies did not submit their audits as required and 11 agencies did not submit the required internal control analyses.

MAST Financial Viability Follow-up (March 2004)

This audit examined whether MAST management provided the MAST Board and City Council with accurate, timely, and relevant information to support decision-making since taking over the system July 1, 2003.

We found that MAST had continued to base operational decisions on incomplete and flawed analysis. Management and the Board made operating decisions without considering the effects on costs or revenues. While MAST initially requested \$5.1 million in funding from the city for fiscal year 2004, subsequent requests increased the total city subsidy to \$10.3 million. MAST operated the system for roughly the same cost as the previous contractor's negotiated proposal, an amount that the MAST Board had rejected as too costly. We recommended that the City Council separate current management practices from the public utility model when evaluating options for ambulance service. We also made a number of recommendations directed toward increasing oversight over the service and improving financial analyses.

Citywide Use of Sick Leave (April 2004)

This audit focused on city employees' use of sick leave.

We heard from managers that use of sick leave was high and from workers that departmental policies covering use of sick leave were unfair and inconsistent. We found that both these perceptions were true. City employees used over 300,000 hours of sick leave in 2003 at an estimated direct cost of about \$5.3 million. While the city's overall policy on sick leave accrual and use was comparable to that of other governments, we found that departmental attendance policies were inconsistent and treated employees in the same general classification differently.

We recommended that the City Manager develop a mechanism to monitor employees' use of leave citywide; establish a citywide policy on time and attendance that treats similarly situated employees consistently; provide guidance to managers and supervisors to identify potential abuse of sick leave; and hold managers accountable for attendance in their departments and divisions. We also recommended that the City Manager conduct employee surveys to identify factors contributing to poor morale.

Appendix B

Reports Issued, Fiscal Years 2001-2003

Performance Audits

Review of the 1999 TIF Annual Report (August 2000)
Citywide Management of Take-Home Vehicles (November 2000)
Health Department Food Protection Program (January 2001)
Consolidating City and Police Support Services (January 2001)
Controlling Development's Impact on Storm Water Runoff (April 2001)
Liberty Memorial Restoration (April 2001)
Revenue Division Document Processing Unit (May 2001)
Department of Housing and Community Development: Review of
Subrecipient Selection, Monitoring and Reporting (July 2001)⁷
Strengthening City Contracts: Aviation Department Relighting Contract
(October 2001)
Kansas City, Missouri Police Department Fees and Service Charges
(November 2001)
KCI News and Gift Concessionaire Selection Process (December 2001)
Concurrent Review: ERP Solicitation (April 2002)
Span of Control (April 2002)
Parks and Recreation Department Community Centers (April 2002)
Fire Prevention Division (August 2002)
Park Conditions (November 2002)
Telephone Billing Process (January 2003)

Follow-Up Audits

Kansas City Street Lighting Costs and Funding Alternatives
(August 2000)
Fire Fighting Force Resource Allocation (September 2000)
Street Resurfacing Contracts (September 2000)
Fees and Service Charges (September 2000)
Golf Course Retail Inventory Controls (October 2000)
Reporting Accidents, Damage and Loss (January 2001)
Human Resources Department (August 2001)
City's Flood Response (September 2001)
Sanitary Sewer Special Assessment Program (March 2002)
KCATA (July 2002)

⁷ This report was issued jointly with the U.S. Department of Housing and Urban Development, Office of the Inspector General.

Special Reports

Comparative Analysis of Tax Effort (October 2000)
2000 Kansas City Citizen Survey: Benchmarking Report
(November 2000)
Review of Audits of Outside Agencies (January 2001)
Sales Tax Study (February 2001)
Review of the Submitted Budget For Fiscal Year 2002 (February 2001)
Information Technology Department Performance Measures
(March 2001)
Budget Process Practices (August 2001)
Analysis of Report Recommendations 1988-2001 (August 2001)
Good Governance Practices for Boards and Commissions (August 2001)
Review of Audits of Outside Agencies (January 2002)
Review of the Submitted Budget for Fiscal Year 2003 (March 2002)
2001 Business Focus Group Report (March 2002)
City Services Performance Report for Fiscal Year 2001 (March 2002)
Financial Condition Forum (September 2002)
Governance Assessment Fiscal Year 2002 (October 2002)
Review of Audits of Outside Agencies (February 2003)
Review of the Submitted Budget for Fiscal Year 2004 (March 2003)
City Services Performance Report for Fiscal Year 2002 (March 2003)

Appendix C

Results of the External Quality Control Review



National Association of Local Government Auditors

October 30, 2003

The Honorable Mayor Kay Barnes
and Members of the City Council
City of Kansas City
414 East 12th Street, 29th Floor
Kansas City, MO 64106

We have completed an external quality control review of the City Auditor's Office, City of Kansas City, for audits issued during the period December 1, 2000 through July 31, 2003. In conducting our review, we followed the standards and guidelines contained in the *N.A.L.G.A. Quality Control Review Guide* published in May 1995, by the National Association of Local Government Auditors. We also used the companion N.A.L.G.A. publication, *Guide to Government Auditing Standards Amendment #3*, where appropriate.

As prescribed by the N.A.L.G.A. *Guide*, we reviewed the internal quality control system of the City Auditor's Office and tested a sample of audits it conducted for compliance with Government Auditing Standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that the City Auditor's Office's system of internal quality control was suitably designed and provided reasonable assurance that applicable Government Auditing Standards were followed in its audit work. We have also concluded from the sample of audits tested that the quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the City Auditor's Office, City of Kansas City, was in compliance with Government Auditing Standards during the period December 1, 2000 through July 31, 2003. We have prepared a separate letter to management which offers suggestions for further strengthening its internal quality controls.

Sincerely,

A handwritten signature in cursive script, reading "Jere A. Trudeau".

Jere A. Trudeau
Senior Audit Supervisor
Milwaukee County, WI

A handwritten signature in cursive script, reading "Ruth Merino".

Ruth Merino, CISA
Senior Program Performance Auditor
City of San Jose, CA

A handwritten signature in cursive script, reading "David Givans".

David Givans, CPA
County Internal Auditor
Deschutes County, OR

Member Services, 2401 Regency Road, Suite 302, Lexington, KY 40503
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website: www.N.A.L.G.A.org



National Association of Local Government Auditors

October 30, 2003

Dr. Mark Funkhouser, City Auditor
City Auditor's Office
414 East 12TH Street, 21st Floor
Kansas City, Missouri 64106

Dear Dr. Funkhouser:

We have completed an external quality control review of the City Auditor's Office, City of Kansas City, for audits issued during the period December 1, 2000 through July 31, 2003. We issued a report stating our opinion that your office complied with Government Auditing Standards (GAS). We are presenting you with this companion letter to highlight some of the areas where we believe your office has excelled and to offer some suggestions that may further enhance your internal system of quality control.

We want to start by mentioning those areas in which we believe your office excelled. Through observations, interviews and an examination of policies, procedures, and audit workpapers, we offer the following comments:

- The City Auditor's Office staff is comprised of exceptionally well-qualified and credentialed audit professionals.
- The City Auditor's Office has established an organizational culture that places a demonstrably high priority on consideration of, and adherence to, Government Auditing Standards. We were especially impressed with your comprehensive policies and procedures, including your use of the extended review team to help provide a variety of perspectives when planning audit work and reviewing audit progress. We believe this provides an invaluable resource for helping ensure audits stay on track.
- The audit workpapers were very thorough and supported the findings and recommendations for the six audits examined.

The above are a few of the qualities of your office that impressed us during the review. The following comments and suggestions arise from the peer review team's discussion of issues throughout the course of the review.

Assessing the Reliability of Computer-Processed Data (GAS 6.62)

Government Auditing Standards state that a data reliability assessment be performed for all data used as support for engagement findings, conclusions, or recommendations. In planning, auditors should identify potential sources of computer-processed data that could be used as audit evidence and consider the validity and reliability of these data. During fieldwork, auditors should obtain

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October 30, 2003

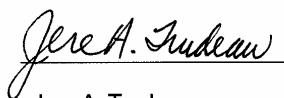
sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings.

We noted instances where the assessments of computer-processed data were not performed. In looking at your planning and quality control documents, we found that steps to show compliance with the standard were either not followed or not properly documented. We recommend that you emphasize the need to document properly the assessment of computer-processed data and provide training to staff as needed.

Obtaining an Understanding of Relevant Management Controls (GAS 6.39)

Government Auditing Standards state that in planning, auditors should obtain an understanding of management controls. During the peer review, we noted a couple of instances where the extent of the auditor's knowledge of pertinent management controls was not clearly documented in the planning workpapers. Planning documents include steps to address this standard, but workpapers addressing this step did not adequately convey a sufficient understanding of management controls. Demonstrating a clear understanding of management controls is important in developing the scope and objectives of the audit. We recommend you emphasize the need to document properly an understanding of management controls, and to provide training to staff as needed.

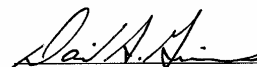
We appreciate the courtesy and cooperation extended by you and each of your staff members during our on-site review visit.



Jere A. Trudeau
Senior Audit Supervisor
Milwaukee County, WI



Ruth Merino, CISA
Senior Program Performance Auditor
City of San Jose, CA



David A. Givans, CPA
County Internal Auditor
Deschutes County, OR

CITY OF FOUNTAINS
HEART OF THE NATION



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MISSOURI

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November 20, 2003

Jere A. Trudeau
Senior Audit Supervisor
County of Milwaukee
2711 W. Wells St. – 9th Floor
Milwaukee WI 53208

Dear Mr. Trudeau:

This letter includes my response to your reports on the external quality control review of our office. My comments address both the opinion letter and the management letter.

I am pleased that the review team concluded that the City Auditor's Office complies with government auditing standards. The audit staff has devoted a great deal of effort to developing and implementing an internal quality control system to help us achieve this goal. I also appreciate your positive comments on the review team's overall impression of the office.

I agree with the review team's recommendations to document properly and provide training on assessing computer-processed data and understanding management controls. With input from the audit staff, I will review office procedures and direct appropriate revisions to address the issues you raise.

Thank you for your constructive suggestions for improving the City Auditor's Office. I appreciate the thoroughness and professionalism with which you and the other team members conducted the review.

Sincerely,

Mark Funkhouser
City Auditor

cc: Ruth Merino, Senior Program Performance Auditor, City of San Jose, California
David A. Givans, County Internal Auditor, Deschutes County, Oregon

City Auditor's Office Staff
(as of April 2004)

Mark Funkhouser, City Auditor

Anatoli Douditski
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Mary Jo Emanuele
Dottie Engle
Leslie M. Goldstein (part-time)
Nancy Hunt
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Sue Polys
Joan Pu
Julia Talauliker
Gary L. White
Vivien Zhi