

**City Auditor's Office
2006 Annual Report**

September 2006

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

September 6, 2006

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, 2006, is presented for your review.

In fiscal year 2006, we released 16 reports. Our audits examined issues such as the city's compliance with the Bioterrorism Act of 2002 regarding our water system; whether the city has tools in place to monitor and manage the risks associated with increasing debt; the benefits and costs of the Starlight Theatre concession agreement; the potential impact of the nation's fiscal challenges on the city; whether the city is taking appropriate steps to comply with changes in reporting requirements for non-pension retiree benefits; the employee grievance process; Council oversight of housing programs; and sidewalk management.

During my tenure, this office has identified over \$58 million in potential economic impact, resulting in a ratio of \$3.26 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.

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: 2006 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 Finance 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 provide the City Council with independent, objective, and useful information regarding the work of city government so the Council may better exercise the power vested in it to improve the quality of life of citizens of Kansas City.

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 prepares memoranda. Audit work is conducted in accordance with generally accepted 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.

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 Finance 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 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.

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

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 its oversight responsibilities.

Office Operations

Audit Selection

In May 2005, we released a strategic plan for the City Auditor's Office to clarify our mission and provide a framework for selecting audits and allocating resources.² Our goal is to conduct audits that answer questions that matter to people outside of City Hall and that enable the city to reduce, avoid, or recover costs; and to alert city officials to potential problems that could undermine the public's trust in city government.

In developing our strategic plan, we identified six areas in which to focus our audit work: infrastructure, service levels, human resources, economic development, financial stability, and financial stewardship. These areas are important because they encompass how the city uses its resources and authority.

During our annual audit selection process, we select at least one audit per cycle dealing with financial stewardship. The rest of the audits we select cover at least four of the other areas of emphasis (infrastructure, service levels, human resources, economic development, and financial stability). In addition, we allocate at least 25 percent of our self-initiated audit hours per cycle to financial stewardship issues.

Because weaknesses in governance or management cause financial and performance problems, we consider risks based on the control environment (how managers organize, direct, monitor, and report on a program) when we select audits. We look for ways to save, recover, or avoid costs but recognize that efficiency is a means to an end not an end in itself. We continue to serve the public interest by aiding the Council in its oversight role and work with management to develop sound recommendations.

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.

² *Strategic Plan*, Office of the City Auditor, Kansas City, Missouri, May 2005.

Expenditures

The City Auditor's Office had expenditures of about \$1.3 million in fiscal year 2006. (See Exhibit 1.)

Exhibit 1. City Auditor's Office Annual Expenditures

Category	Fiscal Year		
	2004	2005	2006
Personnel	\$1,164,085	\$1,197,842	\$1,227,831
Contractual	50,454	94,791	105,772
Commodities	3,845	5,494	5,105
Capital Outlay	0	2,318	206
Total	\$1,218,384	\$1,300,445	\$1,338,914

Source: AFN and PeopleSoft.

Staffing

Staff Qualifications

The office was authorized 16 full-time equivalent positions in fiscal year 2006: 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. Eight staff members 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 2006, auditors received an average of 85 hours of training by attending seminars, workshops, conferences, and monthly in-house training sessions. Training topics included accounting and auditing, performance measurement, and information technology.

To help minimize our training costs, we conduct monthly in-house training for all audit staff on topics such as decision making, government audit topic trends, the Comprehensive Annual Financial Report, and audit standards.

Professional Associations

Several staff members are active in organizations of auditors, accountants, and public managers. Professional associations include the 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, the City Auditor is on the Government Accountability Office's Audit Standards Advisory Council and the Association of Government Accountants' Financial Management Standards Board and a staff member is on the Missouri Society of Certified Public Accountants' Governmental Accounting Committee.

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 16 audit reports and four memoranda in fiscal year 2006.

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 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 2006, management agreed with 81 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. In 1987, the City Council directed the then City Manager to establish a policy and procedure to track department progress in implementing audit recommendations. Administrative Regulation (AR) 1-11 outlines the audit report tracking system (ARTS). The AR requires departments to complete an audit tracking report, including a summary of the progress made toward implementing each

recommendation, every six months and submit it to the City Manager. The City Manager is supposed to distribute the ARTS report to the City Auditor and the Finance and Audit Committee members.

Because agreeing to implement a recommendation does not guarantee that it will or can be implemented, we use the actual implementation rate as another means to measure our effectiveness. Our goal is for 75 percent of our recommendations to be implemented within two years of when a report is issued.³ We use the responses in the ARTS report to determine our implementation rate. We are unable, however, to report a current implementation rate because the ARTS process does not appear to be functioning.

ARTS Process Not Functioning

An audit tracking process ensures that the City Council is updated on important operational issues and helps ensure that recommendations made to improve city operations are implemented. However, the ARTS process is no longer functioning. Prior to January 1, 2006, no ARTS reports had been presented to the City Council since April 2005. Since then, only one ARTS report has been presented, and that was because the then Budget and Audit Committee requested an update on a particular audit. Management is less likely to follow through on recommendations if they are not required to update the Council on the status.

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 did not estimate any potential economic impact in any reports completed in fiscal year 2006. However, some of our work includes significant potential economic impact that we could not or did not quantify. For example:

- The city owed just over \$1 billion in principal and interest on outstanding tax-supported debt at the end of fiscal year 2004. Debt financing can reduce flexibility in future budgets as debt service obligations can crowd out spending on other priorities such as public safety or infrastructure maintenance. In our audit of managing the risks of increased debt, we recommended establishing debt capacity and management policies, to strengthen monitoring and oversight of tax supported debt and bolster the city's long-term financial position.

³ 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.

- The Starlight Theatre Association pays nominal rent for use of both the Starlight Theatre and Swope Interpretive Center. In addition, the city receives no revenue from theatre operations while providing some maintenance support and money for capital improvements. In our audit of the Starlight Theatre concession agreement, we recommended developing a competitive process to award the Starlight concession to ensure that the city receives the best price.
- The city's housing efforts have been a problem for years. In our audit of Council oversight of housing programs, we recommended developing a city housing policy. Implementing the recommendation should improve the city's housing efforts, including preventing cost overruns such as those incurred in rehabilitating two houses on Tracy Avenue.
- The nation's fiscal challenges could greatly impact Kansas City's budget. In November 2005, we held a forum with 28 leaders from business, government, academia, and other areas to discuss the impact and actions the city could take to mitigate the risks. In our audit of Kansas City's financial future, we recommended developing financial policies and analyzing the future consequences of proposed actions to help mitigate the city's risks.
- Although sidewalks are important city infrastructure, the city does not systematically monitor the condition of its sidewalks. In our audit of sidewalk management, our recommendations are intended to improve the city's management of its sidewalks and decrease repair times. Earlier repairs usually result in lower costs since the city is paying at today's prices. Earlier repairs also can decrease lawsuits due to someone being injured as a result of a sidewalk in disrepair.

Efficiency

Staff Hours Per Report

Hours per audit decreased in fiscal year 2006 to about 700 staff hours per report issued, down from about 840 in fiscal year 2005 and 1,300 in fiscal year 2004.

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.

Since our fiscal year 2006 reports did not identify any quantifiable potential annual savings or increased revenue, our economic impact-to-cost ratio for the year was zero. This is the result of our increased emphasis on audits with broad policy implications that examine the quality and effectiveness of services and operations on a city-wide basis.

Since the start of the tenure of the current City Auditor, the office has released 241 reports containing about 1,150 recommendations. These recommendations identified over \$58 million in potential economic impact, resulting in a ratio of \$3.26 in savings or revenue for every \$1 spent on auditing between fiscal years 1989 and 2006.

Exhibit 2. City Auditor's Office Performance Measures

Performance Measures	Fiscal Years		
	2004	2005	2006
Inputs			
Expenditures	\$1,218,384	\$1,302,271	\$1,338,914
Full-time Audit Staff	13	13	13
Outputs			
Reports Issued	14	17	16
Memoranda	1	2	4
Outcomes			
Recommendation Agreement Rate ⁴	98%	89%	81%
Recommendation Implementation Rate ⁵	56%	81%	Unknown
Potential Economic Impact	\$2,171,865	\$4,351,693	\$0
Efficiency			
Hours per Report	1,301	838 ⁶	700
Ratio of Economic Impact to Cost	\$1.78:1	\$3.34:1	\$0

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

⁴ Percentage of recommendations with which management agreed.

⁵ Percentage of recommendations reported as implemented in ARTS reports submitted through April 30, 2005. This rate usually increases over time as more difficult recommendations are implemented. Consequently, figures for 2004 and 2005 would most likely be higher if we had received the ARTS reports we should have. We cannot determine the rate for 2006 because only one ARTS report has been presented since April 2005.

⁶ Excludes *The City's Housing Program and the Roles of the Housing and Economic Development Financial Corporation* because the audit was done jointly with the HUD Office of Inspector General.

Appendix A

Reports Released in Fiscal Year 2006

Performance Audits

City Services Performance Report for Fiscal Year 2004 (May 2005)
Reporting Requirements for Non-Pension Retiree Benefits (July 2005)
Water System Security (August 2005)
Managing the Risks of Increased Debt (August 2005)
Governance Assessment (October 2005)
City Services Performance Report for Fiscal Year 2005 (November 2005)
Starlight Theatre Concession Agreement (December 2005)
Employee Grievance Process (February 2006)
Police Department Property and Evidence (February 2006)
Review of Audits of Outside Agencies (March 2006)
Review of the Submitted Budget for Fiscal Year 2007 (March 2006)
Mission and Performance Reporting Requirements for Non-Municipal Agencies (March 2006)
Benchmarking Report and Citizen Survey Results by Geographic Area (March 2006)
Council Oversight of Housing Programs (March 2006)
Kansas City's Financial Future Forum (April 2006)
Sidewalk Management (April 2006)

Councilmember and Management Memoranda

ERP – Acquisition Testing (July 2005)
Effects of Incentives on City's Financial Condition and Developing Financial Policies (October 2005)
Summary of Issues Reported by KPMG and JMA Chartered for Fiscal Year 2004 (December 2005)
Potential Police Audits Letter (January 2006)

Performance Audits

City Services Performance Report for Fiscal Year 2004 (May 2005)

This report provided results of the 2004 citizen survey along with performance indicators in six areas related to city services: streets, public safety, parks and recreation, water and sewer, neighborhood livability, and overall quality of life. In addition to reporting trends in satisfaction with city services during the last five years, the report also identified significant differences in satisfaction between four areas of the city – north, south, east, and west. The survey results showed lower citizen satisfaction with city government and service delivery, reflecting both a change in methodology (mail survey versus phone survey) and lower citizen satisfaction.

Reporting Requirements for Non-Pension Retiree Benefits (July 2005)

In June 2004, the Governmental Accounting Standards Board issued a statement requiring employers to begin measuring and reporting the long-term costs of retiree health and other non-pension benefits in financial statements. This audit focused on whether the city is taking appropriate steps to address changes in the requirements, which must be implemented in the fiscal year 2008 financial statements.

We found that the Finance Department is taking reasonable steps to address the new requirements. Finance staff discussed the new requirements with the city's external auditors and financial advisors, identified the non-pension benefits currently provided, and requested funds for an actuarial study to determine the total costs of these benefits for each of the city's pension systems.

We recommended that the City Manager ensure that the actuarial study be completed as soon as possible and develop a plan to address the new reporting requirements.

Water System Security (August 2005)

This audit focused on whether the city complied with the Bioterrorism Act of 2002 in assessing vulnerabilities in the water system and planned emergency responses, and whether the city was using the vulnerability assessment appropriately.

We determined that the Water Services Department assessed security vulnerabilities of the water system and planned how to respond to an

emergency, complying with federal requirements. City staff erred, however, by not following contracting procedures. The city contracted with a consultant to assess the vulnerabilities, but the consultant completed significant work before the contracts were approved. In addition, the work was completed under two contracts structured so that the contracts would both be under the threshold requiring City Council approval. We also found that the city did not fully develop mechanisms and processes to address homeland security issues.

We recommended that as the City Manager consolidates security functions, he address updating security assessments and plans; coordinate security and response; test and monitor security improvements; provide information to the City Council and the public; and define the City Council's role.

Managing the Risks of Increased Debt (August 2005)

This audit examined whether the city had tools in place to monitor and manage the risks associated with increasing debt.

We found that while the city's Finance Department generally followed recommended practices in issuing debt, the lack of consistent policies to monitor debt capacity exposes the city to risk. We also found that Finance staff took steps within individual debt issues to protect the city's interest to the extent possible, but decisions about using and structuring debt needed to be part of a broad policy framework rather than driven by support for individual projects.

We determined that the city's relatively high level of tax-supported debt and tight budget make it vulnerable to adverse economic trends. However, the city's financial position could be hurt even without an economic downturn. Lower than expected growth, difficulty in managing the departmental reorganization or continued late release of the city's Comprehensive Annual Financial Report could hurt the city's credibility with bond rating agencies.

We recommended that the City Manager adopt debt capacity and debt management policies to strengthen monitoring and oversight of tax supported debt and bolster the city's long-term financial position.

Annual Governance Assessment (October 2005)

This audit is intended to help the Mayor and City Council understand and evaluate the governance practices of boards and commissions in Kansas City. We met with members of 11 boards and commissions, asking them questions about their governance practices and discussing the practices.

Based on interviews with board members, we identified some strengths among Kansas City's municipal boards. Several boards used annual retreats to work on strategic planning. Boards that employed executive directors make efforts to hold their directors accountable for achieving the organization's goals. And, some board members expressed interest in further training and development.

We also identified some weaknesses in governance practices based on interviews with board members. Some boards set procedural rather than outcome-based goals. Several board members interviewed noted the need for policy guidance from the City Council. In addition, the board members for the Downtown Minority Development Corporation and the Maintenance Reserve Corporation interviewed expressed concerns about the relevancy of their agencies.

We made several recommendations to the City Manager intended to strengthen governance through increasing accountability for executive directors; providing policy direction; establishing audit functions; offering training; and discussing the future roles of the Downtown Minority Development Corporation and the Maintenance Reserve Corporation.

City Services Performance Report for Fiscal Year 2005 (November 2005)

This audit provides results of the 2005 citizen survey along with performance indicators in six areas related to city services: streets, public safety, parks and recreation, water and sewer, neighborhood livability, and overall quality of life. In addition to reporting satisfaction with city services during the last six years, the report also identifies significant differences in 2005 in satisfaction between four areas of the city – north, south, east, and west.

We found that citizens had a low level of satisfaction with many city services. Citizens expressed particular dissatisfaction with streets and rated the maintenance of streets, buildings, and facilities as a high priority. Crime remained a problem in Kansas City, though the level of reported crime was lower than it was four years ago. In addition, only about half of the respondents rated Kansas City as an excellent or good place to raise children.

Starlight Theatre Concession Agreement (December 2005)

This audit focused on the city's benefits and costs of the Starlight concession agreement and the agreement's consistency with the city's concession contract policy.

We found that although the Starlight Theatre Association provided citizens the opportunity to enjoy Broadway musicals and concerts and completed about \$18 million in theatre capital improvements, citizens may not have received all the benefits they could from the concession agreement. The Starlight Theatre Association paid nominal rent for use of both the theatre and Swope Interpretive Center, even though the facilities combined are worth millions of dollars. In addition, the city provided some maintenance support and money for capital improvements but did not receive any revenue from theatre operations.

Starlight Theatre Association has operated the Starlight Theatre since it was built in the early 1950's. Because the Parks Board never awarded the theatre concession agreement through a competitive process and continues to renew the association's agreement with little review, we could not determine whether the benefits citizens receive from the Starlight Theatre Association represent the best the city can obtain for exclusive use of the facility.

We recommended the director of Parks and Recreation develop a competitive process to award the Starlight concession contract; develop a concession policy; determine the market value of the Swope Interpretive Center and the market and business value of Starlight Theatre; establish a contract monitoring system; and ensure that appropriate earnings taxes are paid and business licenses obtained.

Employee Grievances Take Too Long to Resolve (February 2006)

This audit examined the barriers to the prompt resolution of employee grievances filed under the Memorandum of Understanding between the city and Local 500 of the American Federation of State, County, and Municipal Employees.

We found that it takes too long to resolve grievances – on average seven months. Actions of both the city and the union contributed to delays in resolving grievances. The city did not meet most deadlines in the sample of grievances we reviewed and forfeited opportunities to resolve grievances early in the process.

We also found that the city was not managing the grievance process. The city did not track all grievance activity; grievance documentation at the department level was insufficient or missing; Human Resources staff were not held accountable for meeting grievance deadlines and did not consider decisions made earlier in the grievance process; and forms submitted by the union did not always contain sufficient information.

We made recommendations to the Director of Human Resources aimed at resolving grievances sooner, ensuring better grievance documentation, and keeping management and the union informed about the status of grievances.

Police Department Property and Evidence (February 2006)

This audit focused on internal controls over collecting, maintaining, preserving, and disposing of property and evidence and the potential health risks to police staff working in the property unit.

We determined that controls over property and evidence are adequate. We inventoried a random sample of 1100 pieces of property (including guns, drugs, blood samples, and documents) and were able to account for all items. We also found that the Police warehouse roof leaks; a virus attacked some of the department's computers, making them inoperable; and civilian employees in the property unit used slightly more sick leave than civilians across the department.

We recommended that the City Manager ensure that the warehouse roof be repaired. We also recommended that the Chief of Police allow the city to provide the Police Department with network and PC support services, and develop an indoor air quality plan.

Review of Audits of Outside Agencies (March 2006)

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 received at least \$100,000 in city funding in fiscal year 2005.

We found that 46 outside agencies received almost \$134 million in funding or pass-through money to operate or administer programs or services. The proportion of agencies with findings remained unchanged since last year while the number of reporting agencies and number of findings increased. Five agencies did not provide their financial reports for our review and an additional ten agencies did not provide an internal control review. Our report also includes financial analysis for reporting agencies that received over \$1 million in fiscal year 2005. Eight of these 11 agencies had at least one weak financial indicator.

Review of the Submitted Budget for Fiscal Year 2007 (March 2006)

This annual review focused on financial pressures the city can expect to face in the next 5 to 15 years.

We concluded that the city would face significant financial pressures over the next 5 to 15 years including: adequately funding the city's pension systems; making debt service payments; addressing deferred capital maintenance; identifying revenue to meet unfunded commitments; identifying revenue to meet future public safety needs; and addressing low citizen satisfaction with many services.

We found that the city's financial flexibility was limited by a high percentage of restricted operating revenues as well as growing fixed expenditures. In addition, a low fund balance diminished the city's ability to respond to unanticipated emergencies. We also found that the five-year financial forecast showed improvement in the budget's structural balance.

We recommended that the City Manager propose a strategy for dealing with medium-term financial obligations; provide the City Council with timely financial reports; and develop debt and other financial policies.

Mission and Performance Reporting Requirements for Non-Municipal Agencies (March 2006)

We conducted this audit at the request of the then Budget and Audit Committee, which expressed a need for more information on the mission and performance of non-municipal agencies that receive city funding.

We found agencies were required to submit mission and performance information to the departments that administer their contracts. We also found that monitoring activities varied by department. While non-municipal agencies were contractually required to report on their progress at least quarterly, not all monitoring departments enforced that requirement. In addition, some monitoring departments made site visits to the agencies to review files and verify information, and others did not.

We recommended the City Council enact an ordinance requiring departments to report to the City Council regularly about the mission and performance of agencies that receive city funding.

Benchmarking Report and Citizen Survey Results by Geographic Area (March 2006)

This audit compared results of Kansas City's citizen survey to those of 13 large regional U.S. cities and 21 metropolitan communities. The audit also included analyses of survey results by four geographic areas in the city – north, south, east, and west.

We found that Kansas City residents had low satisfaction with city services compared to other regional cities and area communities. Citywide, most respondents rated Kansas City as a good or excellent place to live and work; but just 49 percent rated the city as a good or excellent place to raise children. Respondents from the east area rated the city significantly lower as a place to live, work, and raise children.

Council Oversight of Housing Programs (March 2006)

The City Council directed us to identify procedures for Council oversight of the city's contracts for housing and community development programs and to recommend procedures or best practices for Council involvement in housing activities.

We determined that the Council's role in housing oversight begins with policy development; however, the city's housing policies were inadequate to effectively direct the city's housing efforts. We determined that the city's housing policy should identify Council priorities; require progress reports; require the city identify projects before selecting a contractor; establish formal criteria for contractor selection; ensure staff meet federal reporting and compliance requirements; identify the threshold for Council approval of housing-related contracts; and specify information on housing conditions that will be collected and shared. In addition, the Council should seek public input when developing the housing policy.

We also concluded that once housing policies have been developed and adopted, the Council's role was oversight. City staff implements housing policy while the City Council monitors the work completed by city staff. We determined that Councilmembers can and should request information on housing efforts to fulfill their oversight responsibilities, while city staff should share their responses with the entire Council to avoid misunderstanding and improve transparency. Councilmembers should also discuss housing successes and failures with city staff in public forums, to hold staff accountable for improving the city's housing conditions.

We recommended that the Chair of the Neighborhood Development and Housing Committee develop a city housing policy to improve oversight of housing activities and transparency, involve the public in its development, and bring it before the full Council. We also recommended that the City Manager ensure staff share responses to councilmember questions with all councilmembers.

Kansas City's Financial Future Forum (April 2006)

This audit focused on the potential impact the nation's fiscal challenges could have on Kansas City and steps the city could take to address the impact of those challenges.

In November 2005, we held a forum with 28 leaders from business, government, academia, and other areas. Participants discussed the impact the nation's fiscal challenges could have on Kansas City's budget and what actions the city could take to mitigate the risks. Based on the participants' discussion and our prior audit work, we determined that the nation's long-term fiscal policy was unsustainable and that Kansas City has little margin for error in managing its fiscal condition going forward.

We recommended that the City Manager develop financial policies; analyze the future consequences of proposed actions; and establish a citizens working group to pursue regional strategies.

Sidewalk Management (April 2006)

This audit examined how other cities managed their sidewalk programs and how Kansas City could better manage its sidewalks.

We found that the city did not manage its sidewalk system. The city did not have a systematic sidewalk inspection program, did not know how many miles of sidewalk it had, and did not know the condition of its sidewalks. In addition, it could take years to repair a sidewalk.

We also found that some property owners paid nothing while others paid almost all of the sidewalk repair costs. The condition and location of the sidewalk, the cooperation of neighbors, and the ability to navigate the PIAC process all influenced the program used and the amount a property owner paid for sidewalk repairs.

We made several recommendations to improve the city's management of its sidewalks and decrease repair times including: implementing a systematic sidewalk inspection program; coordinating bidding for sidewalk repair/replacement; providing adequate training and supervision for sidewalk inspectors; improving communication with citizens; and considering financial assistance to property owners with limited income.

Memoranda

ERP – Acquisition Testing (July 2005)

The objective of this memo was to ensure that the city defined its testing requirements for the PeopleSoft Financial and Human Resources packages prior to their purchase, and effectively carried out testing and acceptance procedures to verify the system meets the city's needs. We found that the city generally defined testing procedures in the contract. The city and Maximus conducted the required tests. While some problems, not discovered through testing, had been identified after the system went live, the city and Maximus staff corrected these problems. As the contract is a deliverables-based contract, the city's acceptance procedures seemed to be working to ensure that the systems meet the city's needs before the final payment is made.

Effects of Incentives on City's Financial Condition and Developing Financial Policies (October 2005)

In his charter duty to keep the Council informed of the financial affairs of the city, the City Auditor issued this memo. The memo informs the Chair of the Finance and Audit Committee that the City Manager has not analyzed the effects of incentives on the financial condition of the city, as the City Council directed two years prior. It also provides a copy of the TIF policy that former City Councilmember Evert Asjes introduced in June 2001.

Summary of Issues Reported by KPMG and JMA Chartered for Fiscal Year 2004 (December 2005)

This memo summarizes problems identified by the city's commercial auditors when they completed the city's annual audit for fiscal year 2004. The auditors found that because the city hadn't made financial reporting a priority, significant errors and irregularities could occur in the city's financial records without being quickly identified by employees. Some of the problems included: limited supervisory review; lack of routine analysis or review; difficulty with some reconciliations; and lack of knowledge or training. In addition, the city hadn't adequately monitored activities funded by federal grants.

Potential Police Audits (January 2006)

The Police Board requested that we provide them with potential audit topics we might conduct in the Police Department. This memorandum describes 10 potential audit topics and objectives.

Appendix B

Reports Issued, Fiscal Years 2003-2005

KCATA Follow-up (July 2002)
Fire Prevention Division (August 2002)
Financial Condition Forum (September 2002)
Governance Assessment Fiscal Year 2002 (October 2002)
Park Conditions (November 2002)
Telephone Billing Process (January 2003)
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)
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)
KCI Terminal Improvement Project (May 2004)
Food Protection Program Follow-up (June 2004)
The City's Housing Program and the role of the Housing and Economic Development Financial Corporation (August 2004)⁷
Street Maintenance (August 2004)
Kansas City, Missouri, Police Department Patrol Deployment: Blackout Analysis Follow-up (September 2004)
Governance Assessment Fiscal Year 2004 (October 2004)
Survey Results for Citizens and Neighborhood Contacts (November 2004)
Citizen Survey Results by Geographic Area (December 2004)

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

Capital Improvements Management Office (January 2005)
Firefighter Time Trading (January 2005)
Arena Construction Manager Selection (January 2005)
Tow Lot Site Selection Process (February 2005)
Review of Audits of Outside Agencies (February 2005)
Review of the Submitted Budget for Fiscal Year 2006 (March 2005)
Estimating Tax Dollars Owed to the TIF Commission (March 2005)
Police Community Complaint Process (April 2005)
Performance Management (April 2005)

City Auditor's Office Staff
(as of April 2006)

Mark Funkhouser, City Auditor

Michael Eglinski
Mary Jo Emanuele
Dottie Engle
Brandon Haynes
Nancy Hunt
Deborah Jenkins
Sharon Kingsbury
Joyce A. Patton
Sue Polys
Joan Pu
Julia Talauliker
Gary L. White
Vivien Zhi