

**City Auditor's Office
2007 Annual Report**

February 2008

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

February 13, 2008

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, 2007, is presented for your review.

In fiscal year 2007, we released 10 reports. Our audits examined issues such as the city's implementation of its new financial and human resources management systems; whether practices are in place to assure that the city's component units receive value for the public dollars spent on legal services; the monetary impact on a proposed change to the Share-a-Fare service delivery model and contractor reimbursement method; the condition of sales taxes since our 2001 study; whether satisfaction ratings reflect cleanliness conditions in the city; and whether tax increment financing plans met original revenue projections.

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 November 2006, we completed our fifth 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. Their report and our response are appended.

Fiscal year 2007 was a year of change for the Auditor's Office with the departure of the city auditor and several staff. We are now fully staffed and 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.

Gary L. White
City Auditor

City Auditor's Office 2007 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. In November 2006, we completed our fifth external quality control review. The reviewers determined that our work complies with government auditing standards issued by the U.S. Comptroller General. (See Appendix C for a copy of the 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.

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 audits 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 working 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 2007. (See Exhibit 1.)

Exhibit 1. City Auditor's Office Annual Expenditures

Category	Fiscal Year		
	2005	2006	2007
Personnel	\$1,197,842	\$1,227,831	\$1,147,043
Contractual	95,540	105,772	132,840
Commodities	5,539	5,105	3,816
Capital Outlay	2,318	206	0
Total	\$1,301,239	\$1,338,914	\$1,283,699

Source: PeopleSoft.

Staffing

Staff Qualifications

The office was authorized 16 full-time equivalent positions in fiscal year 2007: the city auditor, 14 auditors, and an executive assistant. All professional staff have advanced degrees in fields such as accounting, business administration, education, finance, law, and psychology. Several staff members have previous auditing and management experience in the public and private sectors. Seven 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 2007, auditors received an average of 79 hours of training by attending seminars, workshops, conferences, and in-house training sessions. Training topics included accounting and auditing, performance measurement, information technology, and assessing risk and internal controls.

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, 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 10 audit reports in fiscal year 2007. (See Appendix A.)

Outcomes

Implementation of Audit Recommendations

The primary benefits of the work of the City Auditor's Office include government accountability, reduced costs, increased revenues, and improved services. Auditing, however, does not directly produce these benefits; they only come from implementing 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 2007, management agreed with 86 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 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 an implementation rate for the last two years because the ARTS process was suspended. Between April 1, 2005 and April 30, 2007, only one ARTS report had been presented to the City Council.

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. Management is less likely to follow through on recommendations if they are not required to update the Council on the status. In fiscal year 2008, the chair of the Finance and Audit Committee directed the city manager to resume the ARTS process. Since then, 22 past due ARTS reports have been presented. Once the backlog of ARTS reports are presented and the process becomes current, we will be able to report our recommendation implementation rate.

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 reports completed in fiscal year 2007. However, some of our work includes significant potential economic impact that we could not or did not quantify. For example:

- Tax increment financing is an incentive to encourage real estate development and redevelopment. It is based on the premise that if an area of the city is improved, it will generate additional tax revenues. The additional tax revenues can then be used to reimburse developers for approved project costs, creating an incentive to developers, or to pay off bond debt incurred to finance development. Approving a TIF project, means the city foregoes the additional revenue. In our tax increment financing

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.

follow-up audit, we determined that active TIF plans produced only 50 percent of the promised revenues, a shortfall of about \$230 million through December 2005. To ensure that the council and the TIF Commission have realistic information on which to base decisions, we recommended that the city manager take steps to improve projections. In addition, to ensure that the millions of tax dollars used for TIF plans achieve the intended goals, we recommend comprehensive performance measures for TIF.

- Component units have a duty to be good stewards of the resources committed to their care. Although legal fees can be a significant expense, our audit of how the component units procure and monitor legal services found that the component units have not followed practices that would assure that the quality and value of legal services provided are commensurate with the public dollars expended. Implementing our recommendations should reduce the risk that component units spend too much for legal services, get lower quality legal services, or appear to display favoritism in retaining legal service providers.
- The city pays a significant amount of money to provide bus service in Kansas City. One of the objectives of our audit of the Kansas City Area Transportation Share-A-Fare Program was to determine whether the new Share-A-Fare service delivery model and contractor reimbursement method would cost taxpayers more money than the current method. We found that changes to the service delivery model and contractor reimbursement method did have the potential to cost significantly more money.

Efficiency

Staff Hours Per Report

Hours per audit increased in fiscal year 2007 to about 850 staff hours per report issued. That is up from the 700 in 2006 and up slightly from the 840 in fiscal year 2005.

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 2007 reports did not identify any quantifiable potential annual savings or increased revenue, our economic impact-to-cost ratio for the year was zero. Several of our 2007 audits focused on issues with broad policy implications, examining the quality and effectiveness of services and operations on a city-wide basis and although they have significant potential economic impact we could not quantify it.

Exhibit 2. City Auditor's Office Performance Measures

Performance Measures	Fiscal Years		
	2005	2006	2007
Inputs			
Expenditures	\$1,301,239	\$1,338,914	\$1,283,699
Full-time Audit Staff	13	13	11
Outputs			
Reports Issued	17	16	10
Memoranda	2	4	0
Outcomes			
Recommendation Agreement Rate ⁴	89%	81%	86%
Recommendation Implementation Rate ⁵	81%	Unknown	Unknown
Potential Economic Impact	\$4,351,693	\$0	\$0
Efficiency			
Hours per Report	838 ⁶	700	847
Ratio of Economic Impact to Cost	\$3.34:1	\$0	\$0

Sources: 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, 2007. This rate usually increases over time as more difficult recommendations are implemented. Consequently, the figure for 2005 would most likely be higher if we had received the ARTS reports we should have. We cannot determine the rate for 2006 or 2007 because only one ARTS report was presented between April 1, 2005 and April 30, 2007.

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 2007

Performance Audits

ERP Post-Implementation (August 2006)

Component Units' Legal Services Procurement and Monitoring
(September 2006)

Governance Assessment 2006 (November 2006)

Kansas City Area Transportation Authority Share-A-Fare Program
(November 2006)

Sales Tax Study Follow-up (January 2007)

Review of Audits of Outside Agencies (March 2007)

Review of the Submitted Budget for Fiscal Year 2008 (March 2007)

City Cleanliness (March 2007)

Kansas City Citizen Survey Report (April 2007)

Tax Increment Financing Follow-up (April 2007)

Performance Audits

ERP Post-Implementation (August 2006)

This audit focused on the city's implementation of the new financial and human resources management systems to determine whether PeopleSoft enabled the city to improve its financial and human resources management and to identify any barriers to improvement.

We found that implementing the new systems had not significantly improved the city's finance and human resources functions. Recruiting employees remained cumbersome; controls to ensure accurate payroll remained weak; tracking purchases remained difficult; and timely and accurate financial information and cost accounting was still a challenge. The implementation of the new systems, however, allowed the city to eliminate manual tasks, automate approval of transactions, and provide tools for employees and supervisors to manage information.

The city followed good practices in planning for the systems' acquisition, but a lack of leadership on the functional side and weak post-implementation support hurt the city's ability to go beyond simply replacing existing functions.

We recommended that the city manager strengthen the roles of the finance and human resources directors; develop a comprehensive training curriculum on the system and provide training to users; improve communications with users; and monitor system performance.

Component Units' Legal Services Procurement and Monitoring (September 2006)

The purpose of this audit was to determine whether the component units' procurement and monitoring practices ensured that they received value for the public dollars spent on legal services. A component unit is a legally separate organization that the city must include in its financial statements.

We found that most component units did not have procedures to assure that the quality and value of the legal services they obtained were commensurate with the public dollars paid. Few component units used a competitive process to select legal service providers. Not all of the component units adequately monitored their legal service provider's

performance or costs. In addition, not all of the component units evaluated their need for legal services or alternative delivery methods.

To address deficiencies in procurement practices, we recommended that the component units use a competitive selection process; provide more detail in the contract regarding scope of work, payment, and duration of the contract; monitor legal service provider performance and costs; and evaluate the need for and ways of receiving legal services.

Governance Assessment 2006 (November 2006)

This audit summarized city boards' and commissions' written response to questions about their governance practices. Each year we administer a governance assessment checklist to the boards and commissions and this audit provided the City Council with information to help understand the boards' and commissions' governance practices.

All the boards and commissions surveyed complied with the city's code and submitted a governance assessment checklist. Overall, the completed surveys indicated that respondents believe they were setting goals, ensuring accountability for achieving goals, and delineating board and staff responsibilities. The self-assessment survey response indicated some weakness in ensuring accountability for achieving organizational goals and ensuring management compliance with board directives.

Kansas City Area Transportation Authority Share-A-Fare Program (November 2006)

The Finance and Audit Committee directed us to look into issues regarding a Kansas City Area Transportation Authority request for proposal (RFP) for paratransit services. This audit focused on whether the new service delivery model and contractor reimbursement method would cost taxpayers more than the current method; whether the proposed delivery method was commonly recognized by the paratransit industry; and whether the Kansas City Area Transportation Authority (KCATA) complied with federal disadvantaged business enterprise (DBE) regulations in the request for proposal.

We found that the changes to the Share-A-Fare service delivery model and contractor reimbursement method had the potential to cost significantly more money; the proposed service delivery method was a commonly recognized model in the industry; and KCATA did comply with DBE regulations.

Sales Tax Study Follow-up (January 2007)

This audit was a follow up to our February 2001 Sales Tax Study.

We found that sales and use tax refunds and adjustments grew and remained significant; that Kansas City was maintaining a proportionate share of the metropolitan area's retail sales; and that internet sales probably had not had a significant impact on the city's tax revenues.

We recommended monitoring sales and use tax refunds and adjustments and obtaining information explaining the reason for them. We also recommended the city include in its legislative agenda state legislation requiring vendors to return refunds and adjustments to the original purchasers instead of letting vendors retain them.

Review of Audits of Outside Agencies (March 2007)

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 2006.

We found that 41 outside agencies received over \$152 million in funding or pass-through money to operate or administer programs or services that further the public good. Commercial auditors for nine of these agencies reported accounting, internal control, or material compliance problems. One agency did not provide its 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 2006. Ten of these 11 agencies had at least one weak financial indicator.

Review of the Submitted Budget for Fiscal Year 2008 (March 2007)

This annual review, which is directed by a council resolution, 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: addressing growth in employee salary and benefits costs; adequately maintaining city infrastructure; identifying funding to meet growing public safety needs; and dealing with unfunded commitments.

We found that the city's financial flexibility was limited, posing additional challenges to addressing the medium-term issues.

Maintenance was underfunded; the city had a high percentage of restricted operating revenues; and fixed expenditures, like debt service were high as the city more than doubled its debt in recent years. In addition, the city's fund balance was low, diminishing the city's ability to respond to unanticipated emergencies. Although the city manager improved the timeliness of the annual and monthly financial reporting, he did not present the five-year financial forecast as part of the budget process, limiting the city's ability to budget and plan for the coming year.

We recommended that the city manager propose a strategy for dealing with medium-term financial obligations; present the five-year forecast in October as part of the budget process; and incorporate funding discussions on special projects within the regular budget process.

City Cleanliness (March 2007)

This audit focused on whether citizen satisfaction ratings reflected cleanliness conditions in Kansas City and whether the city could expect to improve citizen satisfaction with cleanliness.

We found that residents' dissatisfaction reflects cleanliness problems in the city. Residents who attended meetings to discuss neighborhood conditions frequently cited specific conditions including: maintenance and upkeep of housing, commercial property, and vacant lots; overgrown vegetation; illegal dumping; trash and litter; and water runoff. We also found that Kansas City could do better. A city with a population and housing age similar to Kansas City should have significantly higher cleanliness satisfaction levels.

We recommended that the city manager develop cleanliness measures, propose goals for the measures, and monitor and publicly report on progress toward the goals.

Kansas City Citizen Survey Report (April 2007)

This audit provides results of the 2006 Kansas City citizen survey and compares the results 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' satisfaction with city services improved slightly after a general decline over the last few years. Compared to other area communities and large U.S. cities, however, Kansas City's citizen satisfaction was still near or at the bottom. Within

the city, satisfaction with most city services was not statistically different between areas.

We also found that citywide, most respondents rated the city as a good or excellent place to live and work. But, only about half 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.

Tax Increment Financing Follow-up (April 2007)

This audit focused on how the city guides the use of tax increment financing and whether TIF plans met original revenue projections.

We found that as required by the new city charter, the city needed to develop an economic incentive policy. We also found that redirected TIF revenues were less than original projections for about 78 percent of the plans. Active TIF plans produced only 50 percent of promised economic activity taxes and payments in lieu of taxes revenues, a shortfall of about \$230 million through December 2005. In addition, revenues from five city-backed TIF plans were insufficient to cover debt service payments.

We recommended strengthening the TIF program and better ensuring that decisions regarding TIF proposals represent the public interest by developing an effective economic incentive policy. We also recommended improving projections used when evaluating TIF proposals and requiring reporting annual comparisons of actual and projected revenues and verified job data on TIF plans. In addition, we recommended reporting of comprehensive performance measures consistent with the Government Finance Officers Association's best practices.

Appendix B

Reports Issued, Fiscal Years 2004-2006

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)
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)

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

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)

Appendix C

Results of the External Quality Control Review 2003-2006



Association of Local Government Auditors

November 3, 2006

OFFICERS

President
Jim Williamson
Assistant City Auditor
Oklahoma City, OK

President Elect
George McGowan
Manager, Audit Services
and Management Support
Orlando, FL

Secretary
Lou Lassiter
Internal Audit Director
Chesterfield, VA

Treasurer
Jerry Shaubel
Director
Toronto, ON

Past President
Harriet Richardson
Performance Audits Director
San Francisco, CA

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

Dear Mayor Barnes and Members of the City Council,

We have completed a peer review of the Kansas City, Missouri City Auditor's Office for the period September 1, 2003 to August 31, 2006. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published in May, 2004, by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Kansas City, Missouri City Auditor's Office internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period September 1, 2003 to August 31, 2006.

We have prepared a separate letter offering suggestions to further strengthen your audit organization's internal quality control system.

Sincerely,

Jay Poole
City Auditor
City of Chesapeake, Va.

LaDonia Wilkins
Director, General Audits
District of Columbia OIG

Alan Gutowski
Audit Manager
City of Albuquerque, N.M.



Association of Local Government Auditors

November 2, 2006

Dr. Mark Funkhouser
City Auditor
City of Kansas City, Missouri
414 E 12th Street, 21st Floor
Kansas City, Missouri 64106

Dear Dr. Funkhouser,

We have completed a peer review of the Kansas City, Missouri City Auditor's Office for the period September 1, 2003 to August 31, 2006 and issued our report thereon dated November 3, 2006. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The office develops audits using a very innovative and unique approach that results in an outstanding and thought-provoking end audit product;
- The presentation format of the reports is impressive;
- The reports often have a powerful impact on the locality; and
- The staff is diverse, strongly qualified, very talented, and works well together.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to government auditing standards:

- Observation 1 – GAS 7.17 – Risk Assessment

GAS 7.17 states that "Auditors should include audit documentation on their assessment of risk". While it was very apparent that the staff evaluated risks as part of their audit processes, their assessment of those risks was not always formally documented. We recommend that the office develop a workpaper that formally documents the assessment of risk on each audit

- Observation 2 - GAS 7.68 – Audit Documentation

GAS 7.68 states that "Audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions the auditors reached, and it should be appropriately organized to provide a clear link to the findings, conclusions and recommendations contained in the audit report. We noted that, while extensive documentation was maintained for most of the projects, the volume of the documentation made it difficult to follow in several instances. We recommend that the office carefully consider the documentation required for the workpapers and ensure that it is necessary and its purpose is clearly understandable.

OFFICERS

President
Jim Williamson
Assistant City Auditor
Oklahoma City, OK

President Elect
George McGowan
Manager, Audit Services
and Management Support
Orlando, FL

Secretary
Lou Lassiter
Internal Audit Director
Chesterfield, VA

Treasurer
Jerry Shaubel
Director
Toronto, ON

Past President
Harriet Richardson
Performance Audits Director
San Francisco, CA

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City Auditor
Berkeley, CA

Amanda Noble
Deputy City Auditor
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Dr. Funkhouser

- 2 -

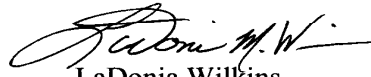
November 3, 2006

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Jay Poole
City Auditor
City of Chesapeake, Va.



LaDonia Wilkins
Director, General Audits
District of Columbia OIG



Alan Gutowski
Audit Manager
City of Albuquerque, N.M.

CITY OF FOUNTAINS
HEART OF THE NATION



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November 3, 2006

Jay Poole
City Auditor
City of Chesapeake, Virginia
PO Box 15225
Chesapeake, VA 23328

Dear Mr. Poole:

This letter is 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.

We have staff task forces currently looking at our internal controls and our quality control system. As part of their efforts, we will have them consider your comments for improving our adherence to government auditing standards.

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: LaDonia Wilkins, Director, General Audits, District of Columbia OIG
Alan Gutowski, Audit Manager, City of Albuquerque, New Mexico

City Auditor's Office Staff

(As of May 1, 2007)

Gary L. White, MBA, CMA, CGFM
City Auditor

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Linna Hung, JD

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Deborah Jenkins, MA, CIA, CGAP

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