

**City Auditor's Office
2012 Annual Report**

April 2013

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

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
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April 24, 2013

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, 2012, is presented for your review.

In fiscal year 2012, we released five audit reports and one memorandum. Our audits examined the following issues: whether Time Warner Cable was remitting fees for all Kansas City, Missouri, subscribers; the effectiveness of internal controls over the city's trash tag program; and the percentage of streetlights illuminated after dark. We also conducted a citizen survey to obtain citizens' satisfaction with city services and administered a governance assessment checklist to boards and commissions to provide the City Council with information on the boards' and commissions' governance practices.

Our reports balanced our goal of suggesting ways the city could achieve quantifiable improvement in its efficiency and effectiveness, against a competing goal of ensuring appropriate controls are in place to prevent misuse or loss of city assets. Some recommendations, such as the Finance Department collecting the amount due from Time Warner Cable for incorrectly coded accounts located in the city and ensuring payments are received timely, increase revenue for the city. Other recommendations, such as negotiating contracts with sponsors to require them to pay for trash tags after delivery rather than on consignment improves efficiency and reduces the risk of loss or theft.

The City Council's decision in June 2011 to transfer the citizen survey from my office to the city manager, will allow us to focus our efforts on other areas. We look forward to continuing to work with elected officials and management staff on finding ways to strengthen public accountability, improve the efficiency and effectiveness of city government, reduce costs and increase revenues, and provide information to facilitate decision making.

Gary L. White
City Auditor

City Auditor's Office 2012 Annual Report

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Mission and Goals

Charter Authority of the City Auditor

Article II, Section 216 of the Charter of Kansas City, Missouri, establishes the position of the city auditor as independent of the city manager. The city auditor is appointed by and reports 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, Governance, and Ethics Committee oversees the activities of the city auditor.

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 the 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 and prepares memoranda. Audit work is conducted in accordance with generally accepted government auditing standards. These standards require:

- Professional judgment in conducting and reporting on audits
- Professionally competent staff
- Independence
- Audit quality control and assurance
- Adequate supervision and planning of audit work
- Sufficient and appropriate evidence
- Reporting of audit results
- Periodic review of the office by outside professionals

A performance audit provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.¹ A follow-up audit is a performance audit that determines the progress made in addressing findings identified in previous audits.

Occasionally the City Council requests information about pending legislation and other issues coming before them. Staff may be assigned to research costs and other effects of proposed legislation or to provide independent assessments of financial information and other proposals by city management. The resulting memoranda are distributed to the mayor, City Council, and management staff.

Most audits result in recommendations that should 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.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

Office Operations

Audit Selection

Audits can be initiated one of three ways:

- The City Council as a body may direct us to do an audit.
- The City Council's Finance, Governance, and Ethics Committee may direct us to do an audit.
- The city auditor can initiate an audit.

Previous City Councils have required the city auditor to conduct some audits on a regular basis. Ordinance 090034 requires the city auditor to distribute a governance assessment checklist to boards and commissions no less than every four years and to report on the results of the assessment. Resolution 090340 directed the city auditor to prepare and present the results of quarterly citizen satisfaction surveys. However, in June 2011, Ordinance 110445 repealed Resolution 090340, and transferred responsibility for the citizen survey to the city manager.

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 audits 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.

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.

Expenditures

The City Auditor's Office had expenditures of about \$1.2 million in fiscal year 2012. (See Exhibit 1.)

Exhibit 1. City Auditor's Office Annual Expenditures

Category	Fiscal Year		
	2010	2011	2012
Personnel	\$1,069,019	\$1,030,738	\$1,162,150
Contractual	94,156	102,489	81,262
Commodities	3,216	10,261	2,466
Capital Outlay	0	1,294	0
Total	\$1,166,391	\$1,144,782	\$1,245,878

Source: PeopleSoft Financials.

Staffing

Staff Qualifications

The office was authorized 12 full-time equivalent positions in fiscal year 2012. All professional staff have advanced degrees in fields such as accounting, business administration, finance, law, public administration, and psychology. Several staff members have previous auditing and management experience in the public and private sectors. In addition, one staff member is a licensed attorney. 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 2012, auditors received an average of 99 hours of training by attending seminars, workshops, conferences, and in-house training sessions, including audio conferences and webinars. Training topics included accounting, auditing, ethics, fraud, information technology, internal controls, and performance measures.

To minimize our training costs, we partnered with the Finance Department's Accounts Division to provide audio training (sponsored by the Association of Government Accountants) for staff in both departments. In addition, staff attended free training sponsored by ACL Services Ltd., the Information Systems Audit and Control Association, the Institute of Internal Auditors, and the University of Kansas.

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 Missouri Society of Certified Public Accountants, the Information Systems Audit and Control Association, the Intergovernmental Audit Forum, and the Missouri Bar Association. In addition, one 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 five audit reports and one memorandum in fiscal year 2012. (See Appendix A for a list and summary of the audits and memoranda.)

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 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.

In fiscal year 2012, 90 percent of our recommendations were designed to strengthen management controls and 10 percent addressed cost reductions or revenue increases. 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 2012, management agreed with 100 percent of our report recommendations.

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. 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 appropriate council committee.

Agreeing to implement a recommendation does not guarantee that it will or can be implemented. Therefore, 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.² We use the responses in the ARTS report to determine our implementation rate. About 83 percent of recommendations for reports issued in 2010 were implemented within two years.

Potential Economic Impact

The potential economic impact includes the estimated one-time and recurring annual revenue increase or cost decrease associated with report recommendations with an estimated monetary impact. The potential economic impact identified in 2012 was \$42,251 from our *Video Service Provider – Time Warner Cable* audit. We estimated that the city could recoup this money by collecting the amount due for incorrectly coded Kansas City, Missouri, accounts; billing interest for late filings; and ensuring all video service providers are making their quarterly payments.

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.

Efficiency

Staff Hours Per Report

In fiscal year 2012, we averaged 683 staff hours per report issued, down from almost 1,530 hours in fiscal year 2011.

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 2011, we identified about \$42,000 in potential increased revenue or cost saving, resulting in a potential economic impact of \$0.03 for every \$1 of auditor costs.

Exhibit 2. City Auditor's Office Performance Measures

Performance Measures	Fiscal Years		
	2010	2011	2012
Inputs			
Expenditures	\$1,166,391	\$1,144,782	\$1,245,878
Auditors	8	8	9
Outputs			
Reports Issued	4	9	5
Memoranda	4	5	1
Outcomes			
Recommendation Agreement Rate ³	88%	99%	100
Recommendation Implementation Rate	82% ⁴	91%	83%
Potential Economic Impact	\$0	\$4,139,181	\$42,251
Efficiency			
Hours per Report	1,847	1,528	683
Ratio of Economic Impact to Cost	\$0	\$3.62:1	\$0.03:1

Sources: PeopleSoft Financials; City Auditor's Office time and utilization records; City Auditor's Office audits; and ARTS reports.

³ Percentage of recommendations with which management agreed.

⁴ We excluded the recommendations from *Capital Improvements Management Office Follow-Up and Review of Submitted Budget for Fiscal Year 2009* because no ARTS reports were issued for these reports.

Appendix A

Reports Released in Fiscal Year 2012

Performance Audits

Controls Over Trash Tag Program (May 2011)
Kansas City Street Lighting Program (May 2011)
Governance Assessment 2011 (July 2011)
Kansas City Citizen Survey Report, Fiscal Year 2011
(August 2011)
Video Service Provider Fees – Time Warner Cable
(September 2011)

Memoranda

Fiscal Year 2011 Fourth Quarter Citizen Satisfaction Survey Results
(May 2011)

Performance Audits

Controls Over Trash Tag Program (May 2011)

This audit focused on the internal controls over the trash tag program. The city collects up to two bags of trash per household per week without charge, but will collect additional bags if residents attach a trash tag purchased from a local retailer.

We identified a number of weaknesses in internal controls over trash tags. Incompatible duties were not segregated; Public Works did not perform periodic inventories of trash tags in their possession; trash tag records were not reconciled; trash tags were sold out of sequence; and not all staff had received cash handling training. In addition, the medical trash tag program, which distributes free trash tags to indigent residents with medical conditions that create extra trash, did not have written policies and procedures.

We made a number of recommendations to deter and detect inventory losses, improve physical security of tags, enhance employee knowledge of cash handling procedures, and establish accountability. We also recommended negotiating new contracts with the retail sponsors to require them to pay for tags after delivery rather than on consignment to make the city's billing process more efficient and reduce the risk of loss or theft.

Kansas City Street Lighting Program (May 2011)

This audit was conducted to determine what percentage of the city's street lights are illuminated after dark.

We determined that the Public Works Department is effective at keeping street lights illuminated. Staff from our office examined 1,435 streetlights after dark during a two-week period in March 2011. Based on a statistically valid sample, we determined that 98.7 percent of the city's streetlights are illuminated after dark.

Governance Assessment 2011 (July 2011)

This audit, required by Section 2-722 of the Code of Ordinances, summarized the city's component units' and Board of Parks and Recreation Commissioners' written responses to questions about their governance practices. This audit provides the mayor and City Council

with information to help understand the governance practices of boards and commissions in Kansas City.

All 13 boards and commissions surveyed completed the checklist. The responses to the assessment identified strengths and weaknesses in the six core governance functions. Most of the boards and commissions have adopted governance practices to lead their organizations, define responsibilities, and establish accountability for achieving goals. Monitoring compliance with board directives, strengthening board performance, and focusing on the recruitment and appointment of new board members to better represent the interests of the public could strengthen governance.

Kansas City Citizen Survey Report Fiscal Year 2011 (August 2011)

This audit provides results of the 2011 citizen survey and compares the results to those of 14 large regional U.S. cities, 25 metropolitan communities, and national survey results from cities with populations over 250,000. The audit also includes analyses of survey results by four geographic areas in the city – north, south, east, and west.

Kansas City residents' overall satisfaction with the city improved compared to 2010. Satisfaction with 19 of 70 services had statistically significant increases while satisfaction with 6 city services had statistically significant decreases. Maintenance of city streets, buildings, and facilities received the lowest satisfaction rating and continued to receive respondents' highest rating for a service area that should receive added emphasis from city leaders.

Fire protection and rescue services was the highest rated service, but it also had a statistically significant decreased satisfaction score from the previous year. The overall effectiveness of appointed boards and commissions and the overall quality of leadership provided by elected officials were the two lowest rated services.

Compared to metropolitan area communities and national surveys results for cities with populations greater than 250,000, Kansas Citians' satisfaction was higher for 4 of 50 benchmarked services. Citizen satisfaction with public transportation, and recycling collection services was higher than the metropolitan area average and satisfaction with the quality of customer service received from city employees and the overall flow of traffic was higher than the national results. In addition, citizen satisfaction with public safety services (police, fire, and ambulance) was higher than the large regional U.S. cities average.

We found that over half of those surveyed were satisfied with the overall quality of life in Kansas City. The majority of respondents rated the city as a good or excellent place to live and work and half rated the city as a good or excellent place to raise children. Compared to 2010, a statistically significant greater number of respondents reported feeling safe in city parks at night and downtown during the day and night.

Video Service Provider Fees – Time Warner Cable (September 2011)

This audit was conducted in order to determine whether Time Warner cable remitted all video service provider fees owed to the city.

We found that Time Warner Cable had not paid the city the video service provider fees for 93 subscribers because the account locations were incorrectly coded as being located in other jurisdictions. We determined that Time Warner Cable owed the city approximately \$15,000 for underpayment of video services provider fees.

We also discovered that the Revenue Division of the Finance Department did not monitor video service payments from the providers. We also found that the division was not charging interest on late filings by providers because staff mistakenly believed that the city's automated revenue system (ARS) calculated interest for late payments.

We recommended that the director of finance collect the amount due from Time Warner Cable for incorrectly coded accounts located in Kansas City, Missouri, and ensure video service providers' quarterly payments are received.

Memoranda

Fiscal Year 2011 Fourth Quarter Citizen Satisfaction Survey Results (May 2011)

This memo presented the fourth quarter results of the Fiscal Year 2011 Citizen Satisfaction Survey. Council Resolution 090340 directed the city auditor to prepare quarterly citizen satisfaction surveys and present the results in City Council business sessions.

Appendix B

Reports Issued, Fiscal Years 2009 - 2011

Review of 2003 – 2006 Commercial Audits of Jackson and Platte Counties (June 2008)
Police Case Clearance (September 2008)
Governance Assessment 2008 (October 2008)
Kansas City Citizen Survey Report (November 2008)
Kansas City Global Commission (January 2009)
Review of Audits of Outside Agencies (February 2009)
Minority and Women Business Enterprise Program (April 2009)
Listening to the Workforce 2008 Employee Survey (April 2009)
City Purchasing Card Program (April 2009)
The City Could Do More to Reduce the Risk of FMLA Abuse (October 2009)
Resolution Tracking (October 2009)
E-Service Systems Security (October 2009)
Master Vendor File Data Reliability (April 2010)
Involuntary Collections of Business Taxes (May 2010)
Kansas City Citizen Survey Report, Fiscal Year 2010 (August 2010)
Pension Payment Controls (September 2010)
Police Department Workers' Compensation (November 2010)
City Should Document GIS Data (November 2010)
Urban Redevelopment Contracts Should Be Monitored and Enforced (December 2010)
City's Efforts to Encourage Ethical Conduct (February 2011)
Collection, Deposit, and Recording of Community Center Fees (March 2011)
Financial Condition Indicators (April 2011)

City Auditor's Office Staff
(As of April 30, 2012)

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