

City Auditor's Office 2015 Annual Report

June 2015



**Office of the City Auditor
City of Kansas City, Missouri**



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HEART OF THE NATION



KANSAS CITY
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Office of the City Auditor

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June 17, 2015

Honorable Mayor and Members of the City Council:

The City Auditor's Office promotes government accountability, transparency, and improved city operations through independent evaluations of city departments and programs. This annual report summarizes our activities, results, and audit reports issued for the fiscal year ended April 30, 2015.

We released seven audits in fiscal year 2015, which was one less than our goal. The audits evaluated a range of city programs and activities across the City Council goal areas of Finance & Governance, Infrastructure & Transportation, Neighborhoods & Healthy Communities, and Public Safety. Our audits examined the following issues:

- the Fire Department's computer aided dispatch system;
- whether the Police Department established fees and charges at the Regional Police Academy that reflect all costs of providing training and other services;
- Neighborhoods and Housing Services Department's compliance from April 1, 2013 to April 30, 2014 with obligations under the Memorandum of Agreement with the U.S. Department of Housing and Urban Development;
- city employees' and the Information Technology Division's response to a phishing email test;
- management of the city's leasable property by the General Services Department;
- whether street-related permit fees are reviewed and updated regularly; and
- how the city protects the personally identifiable information it collects and maintains.

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. We made 52 recommendations last year and management agreed with 91 percent of them. We also identified almost \$500,000 in additional street-related permit fee revenues for the city.

The City Auditor's Office has a highly qualified professional audit staff. All audit staff members have masters degrees and seven of the staff hold a combined 11 professional certifications or licenses. We are also actively involved in our profession. Four staff members hold leadership roles in audit-related

professional associations and two staff members served as team leaders for peer reviews of three audit offices in other jurisdictions.

We appreciate the Mayor's, City Council's, and city manager's ongoing commitment and support of a strong and independent audit function. We look forward to continuing to work with elected officials and city 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.



DOUGLAS JONES
City Auditor

City Auditor's Office 2015 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 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 the 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 Mission

The mission of the City Auditor's Office is to provide elected officials, management, and the public with independent and objective information regarding the work of city government to help improve city operations and strengthen city government's accountability to the public.

We seek to accomplish our mission through performance audits conducted in accordance with *Government Auditing Standards* issued by the U.S. Comptroller General and our core values of accountability, transparency, integrity, and professionalism.

Our primary goals when evaluating department and program performance are to:

- evaluate the efficiency and effectiveness with which city departments and programs carry out their responsibilities;
- identify ways to improve city services and operations;
- identify ways to reduce, avoid, or recover costs;
- provide information, analysis, and recommendations to elected officials and management to facilitate decision making;
- strengthen public accountability; and
- identify emerging issues elected officials and management should consider.

Our Work Products

The City Auditor's Office conducts performance audits and prepares memoranda. Audit work is conducted in accordance with *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 councilmembers request information about 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

How Audits Are Selected

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.

The city auditor is required to conduct some audits on a regular basis. Ordinance 090034 requires the city auditor to distribute a governance assessment checklist to boards and commissions once every four years and to report the results of the assessment. Beginning in fiscal year 2014, the city auditor is required to audit annually compliance with a Memorandum of Agreement between the city and the U.S. Department of Housing and Urban Development regarding the completion of activities and projects that had been under federal receivership and ongoing administration of the CDBG and HOME programs.

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 considers a variety of factors including risks, Council priorities, KCStat, citizen surveys, and past audits. We also consider complaints we receive, as well as concerns, requests, and suggestions from the City Council, management, and the public.

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.

Expenditures

The City Auditor's Office had expenditures of about \$1.2 million in fiscal year 2015. Personnel costs account for about 96 percent of our budget. (See Exhibit 1.)

Exhibit 1. City Auditor's Office Annual Expenditures

Category	Fiscal Year		
	2013	2014	2015
Personnel	\$1,206,949	\$1,229,133	\$1,174,179
Contractual	60,620	68,766	45,710
Commodities	3,876	3,017	2,473
Capital Outlay	0	0	0
Total	\$1,271,445	\$1,300,916	\$1,222,362

Source: PeopleSoft Financials.

Staffing

Staff Qualifications

The office was authorized 12 full-time equivalent positions in fiscal year 2015. All professional staff have advanced degrees in fields such as business, public, or health services administration, accounting, law, and psychology. Several staff members have previous auditing and management experience in the public and private sectors. As an office, we have 157 years of audit experience.

Seven staff members have one or more professional certifications or licenses. (See Exhibit 2.)

Exhibit 2. Professional Certifications and Licenses

Professional Certification/License	Number
Certified Internal Auditor	3
Certified Government Auditing Professional	2
Certified Information Systems Auditor	2
Certified Public Accountant	1
Certified Government Financial Manager	1
Certification in Risk Management Assurance	1
Licensed Attorney	1

Source: City Auditor's Office records.

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

We exceeded our requirements for continuing professional education hours. Government auditing standards require that each member of our staff complete at least 80 hours of continuing education every two years, with a minimum of 20 hours in each year.

In fiscal year 2015, auditors received an average of 45 hours of training by attending seminars, workshops, conferences, and in-house training sessions, including audio conferences and webinars. Training topics included auditing, data analytics, data security, evidence, fraud, information technology, internal controls, report development, risk, and statistical sampling.

In addition to conferences, staff attended free training sponsored by ACL, IBM, the Information Systems Audit and Control Association, and the Institute of Internal Auditors.

Professional Associations

The office as well as individual staff members belong to and are active in a number of professional associations of auditors, accountants, and public managers. Our 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.

We serve in leadership roles in our professional organizations. The city auditor is on the Mid-America Intergovernmental Audit Forum

Executive Committee and is the forum's local government representative to the National Intergovernmental Audit Forum. One staff member is on the Association of Local Government Auditors' Peer Review Committee and another is on the Survey Committee. 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, outcomes or results of these work products, and the efficiency with which we produce work products and results. Exhibit 3 includes our performance measures for the last three years.

Outputs

We completed seven audit reports in fiscal year 2015, one short of our goal. We also released two memorandums. (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.

We made 52 recommendations in fiscal year 2015. About 85 percent of them were designed to strengthen management controls, 13 percent to increase revenues or reduce costs, and 2 percent to improve services. 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 2015, management agreed with 91 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.

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. For recurring increased revenues or decreased costs, we estimate the savings/reduction for five years. The potential economic impact identified in 2015 was about \$494,000.

In our *Street-Related Permit Fees Need Review and Adjustment* audit, we determined that about \$21,000 additional street plate fees could have been generated had the fees been increased in 2014. In addition, Public Works could have collected an additional \$77,000 in fiscal year 2014 had excavation fee rates been adjusted to reflect inflation.

We recommended that the director of public works annually review, evaluate, and consider adjusting the street plate fees as part of the department's annual budget process and adjust the excavation fee when appropriate. We expect implementing these recommendations could increase revenues a total of \$494,000 over the next five years.

Efficiency

Staff Hours Per Report

In fiscal year 2015, we reduced the average number of staff hours per report issued by about 200 hours compared to fiscal year 2014. We continue to work towards reducing that number as we focus on more narrowly scoped audits.

Exhibit 3. City Auditor's Office Performance Measures

Performance Measures	Fiscal Years		
	2013	2014	2015
Inputs			
Expenditures	\$1,271,445	\$1,300,916	\$1,222,362
Auditors	9	8	8
Outputs			
Reports Issued	9	8	7
Memoranda	1	0	2
Outcomes			
Recommendation Agreement Rate ²	95%	97%	91%
Potential Economic Impact	\$144,607	\$202,000	\$493,845
Efficiency			
Average Hours per Report	1,486	1,744	1,534

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

² Percentage of recommendations with which management agreed.

Appendix A

Reports Released in Fiscal Year 2015

Performance Audits

Fire CAD System Preparedness (October 2014)

KC Regional Police Academy: Are All Costs Included in Academy Fees? (November 2014)

City's Performance Under the HUD Memorandum of Agreement (April 1, 2013 – April 30, 2014) (December 2014)

Employees' Response to Phishing Email Put City Information Systems at Risk (March 2015)

Leasing City-Owned Property (April 2015)

Street-Related Permit Fees Need Review and Adjustment (April 2015)

The City Should Follow Recommended Practices to Protect Personally Identifiable Information (April 2015)

Memoranda

Response to Request to Audit Airport Police Officer Compensation (July 2014)

Fire CAD Life Cycle (August 2014)

Performance Audits

Fire CAD System Preparedness (October 2014)

Because this report on the fire CAD system preparedness is a closed record under Sections 610.021 (18) and (21) RSMO, we cannot provide any details about our findings or recommendations.

KC Regional Police Academy: Are All Costs Included in Academy Fees? (November 2014)

This audit focused on determining whether the Kansas City Police Department (KCPD) established fees and charges which include all costs associated with providing services at the Regional Police Academy.

We determined that the Police Department did not consider all costs, as recommended by the Government Finance Officers Association (GFOA), when setting fees for training and facility use at the academy. Staff only determined the salary and benefit costs of instructors before setting the fees for basic training, driving course, and firearms training. The department did not calculate any costs for its continuing education training courses and facility rentals.

Although, KCPD annually reviewed academy fees and submitted the fees to the Board of Police Commissioners for approval, staff had not recommended many fee changes over the last four or five years. Staff did not use long-term forecasting to anticipate future costs of providing academy training and facility use when setting fees and had not performed benchmarking of academy fees.

As recommended by GFOA, the Police have a formal fee setting policy and a legal review is performed for any proposed fees and charges to ensure compliance with applicable statutes. However, KCPD's fees and charges policy does not state whether KCPD intends to recover the full cost of academy training and facility use by outside entities.

We recommended that the Police Department calculate the full cost of training and facility rental, include long-term forecasting in its cost analysis, and conduct benchmarking analysis. In addition we recommended the Police Department state its cost recovery intentions in the fee and charges policy.

**City's Performance Under the HUD Memorandum of Agreement
(April 1, 2013 – April 30, 2014) (December 2014)**

This audit focused on whether the Neighborhoods and Housing Services Department fulfilled the city's contractual obligations under the MOA from April 1, 2013 to April 30, 2014. The MOA establishes performance measures to evaluate the city's development of properties previously held by the Housing and Economic Development Financial Corporation.

We determined that the city met most of the property development deadlines but the city was not always timely in requesting deadline extensions. The city also addressed most long-term reform measures required of the city in the MOA to resolve performance deficiencies in the city's administration of the Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) funds. The city, however, could improve its practices related to subrecipient contracts and fund reimbursement requests by not executing subrecipient contracts until HUD approves the subrecipients and by requesting fund reimbursements from HUD monthly.

We also found that the city had not taken steps suggested by HUD to implement new HOME Community Housing and Development Organization (CHDO) regulations and one new homebuyer regulation. NHSD has not revised its CHDO certification checklist or CHDO contract template to reflect all regulatory changes. Although, changes to regulations related to CHDO will affect NHSD's current practices and require faster commitment of CHDO funds, NHSD did not have a tracking system in place to ensure they will meet new commitment deadlines for CHDO projects.

We made recommendations intended to strengthen compliance with the MOA's development deadlines and the city's approval of subrecipients; help ensure faster reimbursement of grant funds for city expenditures; and improve the city's preparedness to implement the new HOME regulations and reduce future HUD monitoring findings of noncompliance.

**Employees' Response to Phishing Email Put City Information
Systems at Risk (March 2015)**

This audit focused on whether city employees were prepared to respond appropriately to phishing emails. To test how employees would respond, we sent phishing emails to all city employees with city email addresses enticing them to click on a link and provide their network login information.

Had our phishing email not been a test, some employees would have put the city's information systems at risk by clicking on the link of a fake website in the phishing email, providing their login credentials that could be used to hack the city's system, and not changing their passwords after they were alerted.

During our phishing test, ITD responded appropriately. Although ITD had practices in place to respond to phishing emails, they were not written. In addition, ITD did not have a comprehensive cyber security incident response plan and the city had not provided information technology security awareness training to staff.

We made recommendations to help ensure that employees respond to phishing emails and other social engineering attacks appropriately and that cyber incidents are promptly identified, exploited weaknesses are mitigated, loss and destruction are minimized, and IT services are restored.

Leasing City-Owned Property (April 2015)

This audit examined whether the General Services Department effectively managed the city's leasable real estate.

We determined that General Services improved its ability to manage leases by computerizing lease records, hiring a new real estate manager, and developing a business plan for the real estate office.

We determined that the city could strengthen its leasing of city-owned property through additional business practices, including implementing a policy for evaluating and reporting on below market rent leases; developing comprehensive written procedures for its leasing program; and obtaining the technical expertise needed to evaluate the appropriateness of leasing city-owned antenna sites to wireless communication providers.

We found that staff did not always record lease payment information, property addresses, or expiration dates correctly. We also determined that staff did not follow the city's policy pertaining to contacting past due lessees every 30 days about their balances, did not always apply lease payments to the oldest debt first, and did not always calculate annual rental rate increases correctly.

We made several recommendations intended to improve the efficiency and effectiveness of the lease program through the creation of policies and procedures; enhanced transparency; proper oversight of lease

approvals; improved tools for managing leases; and increased lease revenues and protection of the city's financial interests.

Street-Related Permit Fees Need Review and Adjustment (April 2015)

This audit focused on whether street-related permit fees are regularly reviewed and updated.

We found that Public Works street-related permit fees have not been updated in accordance with recommended practices and as authorized by city code, and as a result, the Public Works Department could have generated about \$100,000 in additional fee revenue in fiscal year 2014 if street plate and excavation fees had been adjusted. We also determined that all street-fee related revenue was going into the street maintenance fund although code sections and a council resolution specified other uses for certain fees. In addition, requests to waive some permit fees did not meet city code criteria.

We made a number of recommendations intended to strengthen controls and increase revenue.

The City Should Follow Recommended Practices to Protect Personally Identifiable Information (April 2015)

This audit focused on whether the city was following recommended practices for protecting personally identifiable information. Personally identifiable information is any information that could be used to identify an individual or could be linked to an individual, such as names, addresses, social security numbers, date and place of birth, financial account numbers, medical information, and employment information.

We determined that the city was not following recommended practices related to protecting personally identifiable information. The city had not identified and did not have citywide policies and procedures for protecting the personally identifiable information it collected. The city's training efforts and safeguards for protecting personally identifiable information were fragmented and needed to be strengthened. In addition, the city did not have an incident response plan to handle breaches involving personally identifiable information

We made recommendations to improve the city's protection of personally identifiable information through identifying what information the city collects, training staff on how to protect it, and applying safeguards.

Memoranda

Response to Request to Audit Airport Police Officer Compensation (July 2014)

Councilmember Jermaine Reed requested an audit of the adequacy of compensation for the Airport Police Officer job classification but the City Auditor's Office cannot initiate audits at the request of individual councilmembers. In an attempt to address Councilmember Reed's concerns, this memo provides information about compensation for the Airport Police Officer job classification and the Human Resources Department's most recent compensation market study.

Fire CAD Life Cycle (August 2014)

This memo was in response to the Finance, Governance and Ethics Committee's inquiry regarding the life cycle of software and hardware for the Fire Department's Computer Aided Dispatch (CAD) System.

Based on a review of professional literature, we determined there were no industry standards for the life cycle of CAD software. Whether or not to replace CAD software depends on several factors, such as whether the software meets the needs of the operation; whether the vendor is providing a reliable and stable product; whether the vendor is still supporting the product; and whether the vendor is still in business.

Appendix B

Reports Issued, Fiscal Years 2012 - 2014

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)
Regulated Industries: Underage Liquor Sales Inspections (May 2012)
Collection, Deposit, and Recording of Fees by City Planning and
Development (May 2012)
Neighborhood Preservation Division (September 2012)
Ambulance Response Time Reporting (October 2012)
Cramming on City Phone Bills (October 2012)
Kansas City, Missouri Police Department: Video Records Management
(January 2013)
City's Payment Process (January 2013)
Use of 24-Hour Shifts for Ambulance Crews (February 2013)
City Should Seek to Recover Improper Payments Made to the Port
Authority (April 2013)
Timeliness of Water System Repair and Surface Restoration (May 2013)
TWS Technical Services, LLC, Improperly Certified as a Minority
Business Enterprise (June 2013)
Traffic Management Center (October 2013)
Citywide Overtime (November 2013)
Fire Code Inspection Program (January 2014)
City Owned Surplus Personal Property (February 2014)
Municipal Court Docketing System Security (February 2014)
Managing Community Center Facility Use: Summer 2013 Hockey
League at Line Creek (April 2014)

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(As of April 30, 2015)

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