

**City Auditor's Office
2001 Annual Report**

September 2001

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

September 5, 2001

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, 2001, is presented for your review.

In fiscal year 2001, we released 18 reports, including 6 audits, 6 follow-up audits and 6 special reports. Our audits covered a variety of issues such as the assignment and use of take-home vehicles, the adequacy of city food protection ordinances, and the use of sales tax money on the Liberty Memorial restoration. Among the topics covered in our special reports were a comparative analysis of citizen satisfaction with basic city services; a comparative analysis of the city's tax structure, ability to generate revenue, and level of taxation compared to other cities in the area and region; and performance measures for the Information Technology Department.

In 2001, we continued our series of reports on the operations of the Police Department. Our performance audit, *Consolidating City and Police Support Services*, focused on the advantages and disadvantages of consolidating administrative and support services between the city and the Police Department. This report was among the topics identified in our June 1996 Preliminary Review of the department's operations. The next in the series, an evaluation of police fees, is currently underway.

In the last several years, the focus of our work has shifted from audits identifying economic impact such as increased revenues or reduced costs, to projects addressing broad policy and management issues. Citizen surveys and reports on performance measures, tax effort, budget process practices, and good governance practices provide management and elected officials with valuable tools to use in conducting their work, but they do not provide a dollar-defined benefit. As a result, for the last two years, we have not met our goal of identifying \$3 of potential economic impact for \$1 of audit costs. We are reviewing our performance measures and how we define them to ensure they are the most appropriate method to measure our performance. In addition, we want to ensure that we focus on reports that are useful to management and elected officials and that also fulfill our mission of improving city government and increasing public accountability.

In 2001, we completed our third external quality control review. The reviewers determined that the City Auditor's Office complies with government auditing standards issued by the U.S. Comptroller General. In addition, we received a 2000 Knighton Award for our performance audit, *Emergency Medical Services*

System. The award, given annually by the National Association of Local Government Auditors, is the highest award given by the association to local government audit agencies.

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

Mark Funkhouser
City Auditor

City Auditor's Office: 2001 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 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 be a catalyst for improving city government. The mayor and the City Council and the public need timely, objective, and accurate information about what departments and programs are doing and how they could do it better. By providing the information, we help to hold government accountable in its stewardship of the public trust, and assist elected officials and management staff in using resources to maximize effectiveness and productivity.

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

- To evaluate the faithfulness, efficiency, and effectiveness with which city departments carry out their financial, management, and program responsibilities.
- To assist the mayor, 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 work of the City Auditor's Office includes different types of auditing and research. Audit work is conducted in accordance with government auditing standards. These standards require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting of audit results, and periodic review of the office by outside professionals. In 2001, we completed our third external quality control review under the guidelines of the National Association of Local Government Auditors. The reviewers determined that the City Auditor's Office complies with government auditing standards issued by the U.S. Comptroller General. (See Appendix C for the reviewers' report and our response.)

The work of the City Auditor's Office includes performance, financial-related, and follow-up audits. In addition, the office issues special reports, citizen and business surveys, and when requested, councilmember or management memoranda. Most reports result in recommendations that will improve resource utilization, reduce the risk of loss or abuse of assets, increase productivity, and 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 mayor and City Council in carrying out their oversight responsibilities. The following briefly describes the scope of work performed.

Performance Audits

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.¹

Financial-related Audits

Financial-related audits examine various topics related to an entity's finances and operations, such as determining whether financial information is presented in accordance with established criteria, the program has adhered to specific financial compliance requirements, and internal controls over financial reporting and/or safeguarding assets are suitably designed and implemented to achieve their objectives.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p.14.

Follow-up Audits

The City Auditor's Office conducts follow-up audits to determine the progress made in addressing findings and recommendations identified in previous audits.

Special Reports

The office also performs other studies and investigations 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. As part of this effort, 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. In addition, we occasionally issue special reports presenting research and analysis on significant policy issues.

Citizen and Business Surveys

The City Auditor's Office conducts surveys of citizens and businesses to determine their views on Kansas City, including the quality of city government services and contacts. The citizen survey results are compared to benchmark data from other jurisdictions. These surveys allow residents, elected officials and city management to assess the quality and effectiveness of city government and services.

Memoranda

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

Office Operations

Audit Selection

We emphasize audit topics expected to yield cost reductions, increased revenue, improved services, and improvements in major control systems. Our process for selecting audit topics includes considering the volume and pattern of complaints, as well as concerns and requests from the mayor, City Council, and management. The city auditor assigns projects to audit teams.

Expenditures

The City Auditor's Office had expenditures of about \$1.2 million in fiscal year 2001. (See Exhibit 1.)

Exhibit 1. City Auditor's Office Annual Expenditures

| Category | Fiscal Year | | |
|----------------|-------------|-------------|-------------|
| | 1999 | 2000 | 2001 |
| Personnel | \$942,907 | \$965,104 | \$1,095,654 |
| Contractual | 85,096 | 116,984 | 85,352 |
| Commodities | 9,084 | 5,831 | 5,792 |
| Capital Outlay | 49,610 | 6,906 | 600 |
| Total | \$1,086,697 | \$1,094,825 | \$1,187,398 |

Source: AFN System.

Staffing

Staff Qualifications

The office was authorized 19 full-time equivalent positions in fiscal year 2001: the city auditor, a deputy city auditor, 16 auditors, and an administrative secretary. All professional staff have advanced degrees in such fields as accounting, business administration, finance, law, public administration, social sciences, and psychology. Several staff members have previous auditing and management experience in the public and private sectors. As of May 2001, seven staff members had one or more certifications each, including Certified Internal Auditor, Certified Management Accountant, Certified Public Accountant, Certified Government Financial Manager, and Certified Information Systems Auditor.

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 2001, auditors received an average of almost 56 hours of training by attending seminars, workshops, and conferences. Topics included report writing, controlling construction costs, and information systems auditing.

Professional Associations

Several staff members are active in organizations of auditors, accountants, and public managers. The city auditor and other staff are active in organizations such as the National Association of Local Government Auditors, the Association of Government Accountants, the Institute of Internal Auditors, the American Society for Public Administration, the Missouri Society of Certified Public Accountants, the Information Systems Audit and Control Association, and the Intergovernmental Audit Forum. In addition, the deputy city auditor is a member of the Advisory Council on Government Auditing Standards appointed by the Comptroller General of the United States; a staff member is president of the local chapter of the Association of Government Accountants; and another staff member is on the National Association of Local Government Auditors' Peer Review Committee.

In 2001, the City Auditor's Office was awarded a Knighton Award for best audit for its 2000 *Emergency Medical Services System* audit. This award is presented by the National Association of Local Government Auditors and is awarded based on the scope of the audit and potential for significant impact, the persuasiveness of the conclusions, and the focus of the recommendations on effective and efficient government.

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 18 reports in fiscal year 2001, including 6 performance audits, 6 follow-up audits, and 6 special reports. In addition, we completed one Council memorandum.

Outcomes

Implementation of Audit Recommendations

Reduced costs, increased revenues, improved services, and government accountability to the public are the primary benefits of the work of the City Auditor's Office. However, auditing alone does not produce these benefits; they can only come from implementation of audit recommendations. It is up to management to implement most recommendations, while the City Council is responsible for ensuring that 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 2001, we met this goal.

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

recommendations to be implemented within two years of when a report is issued.² About 88 percent of recommendations for reports issued in 1999 were implemented within two years according to management's Audit Report Tracking System (ARTS). We expect the implementation rate for recommendations made in 2000 and 2001 to increase over time.

Audit Report Tracking System

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

In fiscal year 2001, about 74 percent of our recommendations were designed to strengthen management controls such as safeguards over city assets, compliance with laws and regulations, and procedures to achieve program objectives. About 12 percent of our recommendations addressed cost reductions or revenue increases, while 14 percent suggested ways to improve services.

Potential Economic Impact

The potential economic impact includes the estimated annual revenue increase or cost decrease associated with report recommendations with an estimated monetary impact. The potential economic impact identified in 2001 was almost \$700,000 due to recommendations to increase food establishment inspection fees and evaluate current take-home vehicle assignments.

² We look at a two-year period because often the most significant recommendations cannot be implemented immediately.

Some of our reports include potential economic impact that we could not or did not quantify. For example, our audit on consolidating city and Police Department support services determined that consolidating some computer services would provide both short- and long-term cost savings. In our sales tax study, we determined that the city's revenues from sales tax would be higher, if state law required vendors to return sales and use tax refunds and credits to the original purchaser. While our work on both reports found the potential for savings, we did not attempt to quantify the amounts.

Efficiency

Staff Hours Per Report

Hours per audit decreased in fiscal year 2001 to about 1,250 staff hours per report issued, down from about 1,860 in fiscal year 2000. In addition staff hours for special reports and follow-up audits also decreased as special reports averaged about 875 and follow-up audits averaged about 580 staff hours per report.

Economic Impact-to-Cost Ratio

This 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 2001, we identified almost \$700,000 in potential annual savings and increased revenue, resulting in a ratio of \$0.59 in potential economic impact for every \$1 of audit costs. We believe that our economic impact has fallen short of our goal in the last two years because of our emphasis on improving management controls and providing elected officials and management with information on the quality and effectiveness of city services.

Exhibit 2. City Auditor's Office Performance Measures

| Performance Measures | Fiscal Years | | |
|---|--------------|-------------|-------------|
| | 1999 | 2000 | 2001 |
| Inputs | | | |
| Expenditures | \$1,086,696 | \$1,094,825 | \$1,187,398 |
| Full-time Audit Staff | 16 | 16 | 16 |
| Outputs | | | |
| Reports Issued ³ | 16 | 18 | 18 |
| Memoranda and Other Projects ⁴ | 5 | 3 | 2 |
| Outcomes | | | |
| Recommendation Agreement Rate ⁵ | 98% | 91% | 90% |
| Recommendation Implementation Rate ⁶ | 88% | 29% | 10% |
| Potential Economic Impact | \$20,900,000 | \$596,910 | \$700,000 |
| Efficiency | | | |
| Hours per Audit | 2,426 | 1,860 | 1,253 |
| Hours per Follow-up | 1,022 | 685 | 582 |
| Hours per Special Report ⁷ | 1,417 | 1,245 | 874 |
| Ratio of Economic Impact to Cost | \$19.23:1 | \$0.55:1 | \$0.59:1 |

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

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

⁴ Includes City Council and management memoranda, and staff support to other projects. In 2001, we provided support to the Charter Review Commission.

⁵ Percentage of recommendations from audit, follow-up and special reports with which management agreed.

⁶ Percentage of recommendations from audit, follow-up and special reports reported by department as implemented in ARTS reports submitted through May 1, 2001. This rate changes over time because not all recommendations can be implemented immediately.

⁷ Figure for 2000 does not include the 2000 Kansas City Citizen Survey because we engaged ETC Institute to conduct the survey.

Appendix A

Reports and Memoranda Released in Fiscal Year 2001

Performance Audits

Review of the 1999 TIF Annual Report (August 2000)
Citywide Management of Take-Home Vehicles (November 2000)
Health Department Food Protection Program (January 2001)
Consolidating City and Police Support Services (January 2001)
Controlling Development's Impact on Storm Water Runoff (April 2001)
Liberty Memorial Restoration (April 2001)

Follow-Up Audits

Kansas City Street Lighting Costs and Funding Alternatives
(August 2000)
Fire Fighting Force Resource Allocation (September 2000)
Street Resurfacing Contracts (September 2000)
Fees and Service Charges Follow-up (September 2000)
Golf Course Retail Inventory Controls (October 2000)
Reporting Accidents, Damage and Loss (January 2001)

Special Reports

Comparative Analysis of Tax Effort (October 2000)
2000 Kansas City Citizen Survey: Benchmarking Report
(November 2000)
Review of Audits of Outside Agencies (January 2001)
Sales Tax Study (February 2001)
Review of the Submitted Budget For Fiscal Year 2002 (February 2001)
Information Technology Department Performance Measures
(March 2001)

Councilmember and Management Memoranda

Review of Audits of Outside Agencies (June 2000)

Performance Audits

Review of the 1999 TIF Annual Report (August 2000)

The City Council Finance and Audit Committee directed us to review *The Tax Increment Financing 1999 Annual Report* to determine what information was included and to identify other information that should be provided to the council.

The Tax Increment Financing 1999 Annual Report included information on the 37 individual TIF plans in Kansas City, as well as information from a survey of the developers of most of the plans. The report did not include a copy of each redevelopment plan, although such copies are required by state statute. The report also did not indicate how readers could obtain copies of the plans. We recommended that this information be included in the annual report.

In addition to the information presented in the report, decision-makers need information to examine the use of incentives in a broader context, particularly the context of the city's overall financial condition. We recommended that the Finance Department report aggregate measures to relate development incentives to the city's financial condition. The report should include measures of revenues and expenditures, debt, and associated tax base.

Citywide Management of Take-Home Vehicles (November 2000)

This audit focused on the assignment and use of take-home vehicles. We identified the use of assigned vehicles as an issue for further audit work in our 1999 audit of the Public Works Departments' Motor Equipment Division.

We determined that neither city departments nor the Police Department were managing take-home vehicles appropriately. Take-home vehicles represented an \$8.6 million investment, while over \$1 million was spent annually to support personal use of take-home vehicles for routine commuting to and from work.

We found that vehicles were assigned to employees who did not meet criteria for needing them, and whose emergency use of the vehicles was infrequent. The Police Department assigned nearly half of its fleet for take-home use, primarily based on rank or job assignment, without any specific criteria. Over 100 Police Department employees with assigned vehicles reported that they had returned to duty only once a month or less

during the 12 months preceding the audit. About 75 percent of city employees with take-home vehicles reported that they had responded to an after-hours emergency only once a month or less in the 12 months preceding the audit. By periodically evaluating the need for take-home vehicles, infrequently used vehicles could be reassigned or eliminated, resulting in lower fleet acquisition and operating costs.

We recommended that the city manager and the police chief clarify criteria used for assigning take-home vehicles, and direct their staffs to evaluate current assignments based on the criteria.

Health Department Food Protection Program (January 2001)

This audit focused on the adequacy of city food protection ordinances as compared to current federal guidelines, and on identifying the resources necessary to implement a food protection program based on the current guidelines.

We found that Kansas City's Food Protection Program enforced ordinances based on outdated federal guidelines. By not updating its food ordinances to incorporate progress made on the federal level, the city Health Department was enforcing rules that, in some cases, may not have provided a sound scientific and legal basis for regulating retail food establishments. We recommended that the health director propose a city food code for City Council approval based on current FDA guidelines.

In addition, the city's inspection resources were not adequate to comply with even the outdated ordinances. Establishments were not inspected as frequently as required, with more than a third having not been inspected for over a year. Permit fees were last increased in 1989 and did not cover the cost of the program. We recommended that voters be asked to increase permit fees.

Consolidating City and Police Support Services (January 2001)

This audit focused on determining the advantages and disadvantages of consolidating administrative and support services between the city and the Police Department. We also identified the barriers to consolidation and explored ways of reducing the barriers. We identified the issue of consolidating services between the city and the Police Department as a priority following our June 1996 preliminary review of potential audits in the Police Department. We did not attempt to estimate potential savings from consolidating these services.

We determined that consolidating network and PC support services between the city and the Police Department would provide short- and long-term cost savings. Ultimate consolidation of mainframe applications and operations would provide the Police Department with expertise to migrate to new technology, avoid costly duplication of information technology infrastructure, and allow for law enforcement supervisors to be reallocated. We recommended that the city manager and chief of Police appoint a transition team to develop a performance agreement between the Board of Police Commissioners and the city for the provision of information technology services. The agreement should address differences in pay and job qualification, define the levels of service, and include mechanisms for accountability. We also recommended that the board and City Council create a joint committee to oversee service provision.

We also determined that consolidating accounting and payroll, purchasing, and building maintenance functions did not appear to be feasible due to high resistance and limited potential for cost savings.

Controlling Development's Impact on Storm Water Runoff (April 2001)

Councilman Ed Ford asked us to prepare a memorandum reviewing the city's methodology for determining development's impact on storm water runoff and its process of evaluating runoff analyses submitted by developers. The councilman's request followed public testimony in the Planning, Zoning, and Economic Development Committee regarding increased storm water runoff resulting from new development. We determined that the potential issues were too significant to be addressed in a memorandum and initiated this audit, focusing on the city's efforts to control runoff and on identifying ways that those efforts could be improved.

The city's policies and regulations attempt to minimize storm water runoff caused by new development, but do not address runoff problems that existed prior to the development's construction. Public Works staff review the storm drainage studies submitted by developers that quantify the additional runoff the development will generate and the proposed method for controlling it. Project files included approved studies, as well as evidence that some studies were originally rejected, with revised studies approved.

Detention facilities, built by developers as a means of controlling increased runoff, may contribute to flooding if multiple facilities release collected storm water simultaneously. We recommended the city

eliminate or further restrict the use of one method of estimating runoff, consider reducing the maximum allowable rate at which storm water can be released from detention facilities, and consider using regional public facilities, paid for through fees paid by developers in lieu of constructing their own detention facilities.

Liberty Memorial Restoration (April 2001)

We undertook this audit due to concerns raised about the use of sales tax money and whether the new museum design would harm the historical integrity of the Memorial. The audit assessed accounting controls over the use of restricted sales tax money and the Parks and Recreation Department's decision-making processes throughout the Liberty Memorial restoration project.

We determined that the accounting methods used by the Parks and Recreation Department did not ensure that sales tax money was spent only for restoration and future maintenance of the Memorial as required by ordinance and public vote. The City Council explicitly rejected using sales tax money to fund the museum expansion, yet the department put the project out for bid in a way that could not separately identify restoration costs. The department's cost allocation method, developed after the contract was awarded, was too broad and shifted substantial amounts of museum expansion costs to restoration.

The Board of Parks and Recreation Commissioners took steps that should protect the historical integrity of the Memorial. An independent architect reviewed plans, the design review committee included preservationists, and an agreement was made with the State Historic Preservation Officer. However, the museum design proceeded without public discussion regarding the need for a museum and what it should cost to build and operate, restoration was deferred while the department focused on the museum, and the department did not develop a credible business plan for the expanded museum prior to moving ahead.

We recommended that the director of the department develop a cost allocation plan, reimburse the sales tax account for expenditures improperly spent to prepare for a new museum shell, and move ahead with plans to develop a credible business plan for the new museum. We also recommended that the director engage the board, mayor, and City Council in an open public discussion regarding whether the museum should be built and how its operations should be funded.

Follow-up Audits

Kansas City Street Lighting Costs and Funding Alternatives (August 2000)

Since the release of our 1993 audit, the city negotiated a new agreement with Kansas City Power and Light (KCPL) that provided for the city's purchase of the KCPL system, lower rates to KCPL-powered lights, system expansion and upgrades, and maintenance. Under the new agreement, street lighting improved significantly, with more lights, increased brightness, and more even distribution of light. The cost per light was reduced by almost one-third, although the total cost of the system is higher due to the increased number of lights. We recommended that the director of Public Works report on the street light system to comply with new financial reporting requirements of the Governmental Accounting Standards Board.

Fire Fighting Force Resource Allocation (September 2000)

Our follow-up audit determined that the Fire Department made progress in improving its allocation of resources for the fire fighting force. The department reduced the number of pumpers and trucks and replaced squads with urban rescue units capable of responding to most emergencies. Maintenance costs dropped from almost \$1.7 million in fiscal year 1996 to about \$660,000 in 2000. The minimum staffing level increased from 190 to 193 in 1993. The increase in minimum staffing and a continued pattern of greater sick leave on weekends contributed to the department's overtime. We recommended that management develop and consistently enforce a sick leave policy that clearly communicates provisions such as the definition of excessive absenteeism.

We also found that management had not developed performance measures or workload measures that could provide better information about the performance of the department or information to help make resource allocation decisions. We recommended that the fire chief set response time goals and report these to City Council periodically. The goals and performance should be used when staff is to be reallocated or stations or equipment are to be relocated.

Street Resurfacing Contracts (September 2000)

Since the release of our 1997 audit, the Public Works Department improved bid practices and strengthened controls over contracts. Our follow-up work found that the amount of asphalt used was monitored

more closely, the reimbursement of state sales tax has almost been eliminated, and bid specifications focused on major items. Lists of streets to be resurfaced, however, were only provided to contractors who bid regularly, giving the appearance of favoritism. Warranty inspections were not documented, and changes in the dollar amount of contracts remained high. Repair work performed for the Water Services Department totaled over \$400,000, and the method of payment—25 percent on top of the contractor's material, labor, and equipment costs—could serve as a disincentive for keeping costs low. We recommended that the Public Works Department contract for repair work separately or revise the resurfacing contracts to include street repairs made for Water Services.

Fees and Service Charges (September 2000)

Subsequent to the release of our 1998 report, the city manager drafted a user fee policy and review process, but did not submit it to the full City Council for deliberation. Our follow-up audit reported that information regarding user fees remained inadequate. The city's Office of Management and Budget (OMB) began compiling information, but focused on fees that generate at least \$50,000 in annual revenues. As a result, some fees were excluded from OMB's monitoring efforts. Information on the revenues and direct expenses of all fee-based activities is needed to satisfy new government accounting reporting standards. We also found that information on indirect costs remained largely unknown. Information on these costs would allow the city to seek reimbursement of administrative costs connected with some federal grants, and would help the city determine whether fees are adequate.

We recommended that the city manager submit his proposed user fee policy and review process to the City Council, and ensure that the city complies with the new government accounting standards reporting requirements. We also recommended that indirect costs be identified, with administrative costs sought from grant-funded activities.

Golf Course Retail Inventory Controls (October 2000)

Our follow-up to our 1996 audit found that the Parks and Recreation Department implemented a new inventory system for golf merchandise, and that responsibilities for ordering, receiving, and distributing merchandise are now shared among department staff. Physical security at the pro shops was improved, and surprise inventory counts have been conducted. Written inventory procedures were expanded to include policies for merchandise pricing, trade-ins, and returns and minimum proshop appearance standards. Inventory turnover has improved and the

mix of merchandise offered included less emphasis on higher priced items. We recommended that concession items be added to the inventory system; written procedures be developed for merchandise discounts, recording sales transactions, and analysis of pro shop performance; and incompatible duties be segregated.

Reporting Accidents, Damage, and Loss (January 2001)

Since the release of our 1997 audit, the city consolidated and revised regulations regarding collecting and managing accident, damage, and loss information. A new reporting form and management information system were developed, and key positions were added, including a security manager, risk manager, and internal auditor. Despite the establishment of a uniform policy for collecting information, however, departments were not reporting incidents consistently, and the information collected did not meet the needs of some stakeholders. Information was maintained by department and was not centralized. We recommended that reporting requirements and instructions be simplified, dollar-reporting thresholds be established, and information be incorporated into a comprehensive risk management information system. We also recommended that policies and procedures for conducting periodic physical inventories of the city's fixed assets be established.

Special Reports

Comparative Analysis of Tax Effort (October 2000)

This report examined Kansas City's tax structure, ability to generate revenue, and level of taxation compared to nine other cities in the metropolitan area and region. We did not make recommendations in the report, but provided the information to the mayor, City Council, and city management for use when considering the difficult issues of what city services to provide and how best to pay for them.

We concluded that Kansas City's tax structure is sound. The city has a variety of tax sources, with no single tax providing more than a third of the city's tax revenues. Revenue growth is strong, producing \$447 million in fiscal year 1999, and the city's major taxes are efficient to administer. Sales and utility taxes are regressive, however, and the city's sales tax rates are among the highest in the metropolitan area. Kansas City's overall level of taxation is relatively high compared to the area and other cities.

Measures of the city's social and economic condition are also sound. The city's income and employment compare favorably to other urban cities, but lag area suburbs. The population grew in the 1990s, and the economy is diverse and growing.

2000 Kansas City Citizen Survey: Benchmarking Report (November 2000)

This report compared the results of the 2000 Kansas City Citizen Survey to survey results for other communities in Missouri and Kansas. The surveys and analysis were done by ETC Institute and represent the first-year results of ETC's DirectionFinder project.

Compared to 17 other cities in the metropolitan area, Kansas City respondents rated most services related to public safety, parks and recreation, infrastructure maintenance, and codes enforcement below the average or mid-range rating. Overall perceptions of water, sewer, and stormwater services, customer service by city employees, public communication and involvement, and value for taxes paid also were rated lower in Kansas City than in many surrounding jurisdictions. The top two priorities for city residents—maintenance of streets and buildings, and stormwater runoff—also ranked first and second, on average, for all communities surveyed. The survey results confirm the continuing importance to citizens of basic services, and support the emphasis Kansas City's elected officials and management staff have placed on such services during the last few years.

Review of Audits of Outside Agencies (January 2001)

The report, which was required by the Code of Ordinances, focused on reviewing the financial audit reports, internal control reports, and compliance report of those agencies that received at least \$100,000 in city funding annually. This was our third report on audits of outside agencies.

In fiscal year 2000, 44 outside agencies received almost \$93 million in funding or pass-through money to operate or administer a program or service that furthers the public good. The financial statement audits and compliance reports of agencies receiving at least \$100,000 in city funding annually showed improvement. None of the agencies received negative opinions on their financial statement audits. Auditors for a slightly higher proportion of agencies had concerns regarding the agencies' internal control structures or compliance, but fewer agencies had material weaknesses and non-compliance with laws, regulations, and/or contract or grant agreement provisions than in previous reviews.

Sales Tax Study (February 2001)

We conducted this study to identify factors contributing to lower than expected and erratic growth in sales tax revenue. The city manager and budget officer were concerned that sales tax revenue was not growing as expected and was difficult to forecast.

We reported that lower than expected sales tax revenue, along with the erratic growth of that revenue, was the result of refunds and other adjustments on individual returns, and loss of sales to other jurisdictions. Sales and use refunds and other adjustments amounted to about \$73 million between 1995 and 1999. Unlike surrounding states, Missouri state law does not require vendors to return the tax refunds to the original purchaser, thus creating a windfall for vendors. We recommended that the city support legislation to require vendors to return sales and use tax refunds and credits to the original purchaser.

The slow growth in sales tax revenue was also the result of loss of sales to other jurisdictions. The city's rank among metropolitan area cities declined from 3rd to 5th as Leawood and Olathe moved ahead of Kansas City, in terms of adjusted per capita sales tax revenue.

The Office of Management and Budget's forecasting methods were reasonable. We recommended that the budget officer annually request and review sales and use tax filing detail available from the state. We also recommended that the Finance director work with the state to develop a procedure to verify that businesses within the city have proper state sales tax licenses.

Review of the Submitted Budget for Fiscal Year 2002 (February 2001)

We reported that although the city has instituted better financial management practices, the structural imbalance remains a long-term problem. Over the next five years, revenues are expected to grow at an average annual rate of 3.7 percent while expenditures will grow at a faster rate of 5.7 percent.

Three areas of expenditures account for 60 percent of the growth in the submitted budget: tax increment financing (TIF), personnel costs, and information technology investments. We recommended that while TIF and Super TIF incentives represent obligations the city must honor, these programs warrant careful management. Implementing recommendations from prior audit work would mitigate risk and establish accountability in the use of development incentives to achieve public goals. We also

recommended that the city track outcomes resulting from recent changes in how the city manages and compensates personnel, in order to determine whether the changes are achieving the desired goals. Finally, we recommended that the city carefully monitor and manage the risks associated with new technology investment.

Information Technology Department Performance Measures (March 2001)

We conducted this study in order to recommend a set of performance measures for the Information Technology Department to regularly report to the city manager, mayor, City Council, and public. This was our third in a series of reports to recommend performance measures for a city department or function.

The city plans to invest \$44 million over the next few years in new technology systems. Closely monitoring IT performance is one way to reduce the risk that expensive technology projects will fail. We identified 17 measures that focus on reducing risk, ensuring cost-effectiveness, and meeting user service expectations. We recommended that the director of Information Technology adopt the measures and develop an implementation plan including a timetable for implementation; definition of terms; and a method for regularly collecting, analyzing, reporting, and auditing data.

Councilmember and Management Memoranda

Review of Audits of Outside Agencies (June 2000)

Our review found that auditors for 9 of the 43 agencies receiving annual city funding of \$100,000 or more to provide a public good or service had concerns that they were required to report. Last year, 15 of 41 agencies reviewed had problems. Fewer agencies received qualified opinions, had reportable conditions, or had instances of material noncompliance in the reports we reviewed this year compared to those reviewed last year.

Appendix B

Reports Issued, Fiscal Years 1998-2000

Performance Audits

Golf Operations (June 1997)
Garage Storeroom Privatization Contract (September 1997)
Kansas City, Missouri Police Department, Patrol Deployment: Blackout Analysis (January 1998)
Port Authority of Kansas City, Missouri (February 1998)
Contract Renewal Options (April 1998)
Tax Increment Financing (September 1998)
Implementation of the Red Flag Commission's Recommendations (December 1998)
Financial Management System Controls (December 1998)
Public Works Motor Equipment Division (February 1999)
Ryan White Funding Equity (March 1999)
Emergency Medical Services System (January 2000)
Land Trust of Jackson County, Missouri (February 2000)
Police Citizen Complaint Process (March 2000)

Follow-Up Audits

Milk Inspection Program (May 1997)
Public Contact (May 1997)
City Vehicle License Fees (April 1998)
Liquor Control (October 1998)
Neighborhood Tourist Development Fund (March 1999)
Street Cut Inspection Program (March 1999)
Minor Home Repair Program (March 1999)
Childhood lead Poisoning Prevention (July 1999)
Snow Removal (July 1999)
Tow Service Program (August 1999)
Water Services Department: Backflow Prevention Program (August 1999)
Vital Registry and Health Statistics Program (March 2000)
Solid Waste Management and Illegal Dumping (April 2000)
Cash Handling (April 2000)
Consolidation of Selected Activities of the Parks and Recreation and Public Works Departments (April 2000)
Public Works Department: Street Closure Permit Activities (April 2000)
Solid Waste Division: Apartment Rebate Program (April 2000)

Special Reports

Fees and Service Charges: A Comprehensive System Is Needed
(February 1998)

Review of the Submitted Budget For Fiscal Year 1999 (April 1998)

Police Retirement Funds (August 1998)

Report of the Public Safety Radio System Investigating Committee
(September 1998)

Kansas City, Missouri Police Department: Opportunities for
Civilianization (September 1998)

1998 Kansas City Citizen Survey (January 1999)

Report of the Council Ethics/Relations Committee (February 1999)

Review of the Submitted Budget for Fiscal Year 2000 (March 1999)

Kansas City, Missouri Police Department: Performance Measures for
Patrol and Investigations (April 1999)

1999 Survey of Kansas City Businesses (February 2000)

Review of the Submitted Budget for Fiscal Year 2001 (March 2000)

Parks and Recreation Department: Recreation Program Performance
Measures (March 2000)

Kansas City Needs a Housing Policy (April 2000)

2000 Kansas City Citizen Survey (April 2000)

Appendix C

Results of External Quality Control Review

N.A.L.G.A.

National Association of Local Government Auditors

N.A.L.G.A. Peer Review Committee
2401 Regency Road, Suite 302
Lexington, KY 40503
(606) 276-0686

May 17, 2001

Mark Funkhouser, City Auditor
City Auditor's Office
21st Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

Dear Mr. Funkhouser:

We have completed an external quality control review of the Kansas City, Missouri Auditor's Office for audits issued during the period May 1, 1995, through November 1, 2000. In conducting our review, we followed standards and guidelines contained in the *NALGA Quality Control Review Guide* published in May 1995, by the National Association of Local Government Auditors.

As prescribed by the *NALGA Guide*, we reviewed the internal quality control system of your audit organization and tested a sample of audits conducted by your office for compliance with government auditing standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgement, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the City Auditor's Office of Kansas City, Missouri was in compliance with government auditing standards during the period May 1, 1995, through November 1, 2000. We have prepared a separate letter to management that offers suggestions for further strengthening your internal quality controls.



Pamela Markham
Council Auditor's Office
City of Jacksonville, Florida



Elizabeth Moore
Internal Audit Office
City of Memphis, Tennessee



Jeffrey Griffiths
City Auditor's Office
City of Toronto, Ontario, Canada

N.A.L.G.A.

National Association of Local Government Auditors

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2401 Regency Road, Suite 302
Lexington, KY 40503
(606) 276-0686

May 17, 2001

Mark Funkhouser
City Auditor
21st Floor, City Hall
414 East 12th Street
Kansas City, MO 64106-2715

Dear Mr. Funkhouser:

We have reviewed the system of quality control for audits issued by the City Auditor's Office during the period May 1, 1995 through November 1, 2000. We have issued a separate report, dated May 17, 2001 on our review of that system. This letter should be read in conjunction with that report.

We did not find significant weaknesses, but we noted opportunities to strengthen and enhance the existing system. We found that most issues addressed by the 1995 Quality Control Review Team have been satisfactorily addressed by the City Auditor's Office.

Overall Impressions

We would like to commend the Kansas City Office of the City Auditor for their impressive operation. We found that a lot of time and effort was put in the planning of the audits as well as the supervisory process. Audit reports were well organized, concise, logical, and persuasive. In particular the transmittal summary letter contained in each report provided an excellent executive summary of the issues identified in the audit. The quality of the report has been significantly enhanced by the inclusive team-work approach to each audit.

The audit policies and procedures manual is a comprehensive and impressive document that identifies all relevant and necessary procedural issues. The files we reviewed were in all material respects in accordance with the procedures required by the manual. The audit work papers supported the recommendations contained in each report. Work papers also included an impressive list of extensive research documentation that was used to identify best practices. The work papers were thorough, but in our view, in certain cases, were too voluminous and included information that was not especially relevant.

Recommendations Concerning Strengthening Compliance with GAS

We make the following observations and recommendations to improve your internal quality control system.

1. Although it is addressed in your Policy and Procedures Manual, we did not find evidence in the audits we reviewed that consideration was given to any "noteworthy accomplishments" or "significant issues needing further study". We recommend that an audit step be added to all audit plans that noteworthy accomplishments and issues needing further study be considered. If none can be cited, the audit plan should note that nothing came to your

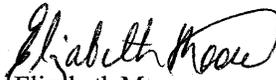
attention that should be included in the audit report.

2. Field Work Standards for Performance Audits requires that a “sufficient number of appropriately skilled staff” be assigned to perform an audit. While it is evident after our review of personnel qualifications that you have a very qualified staff, quality control could be enhanced by identifying why staff are assigned to a particular audit especially if any special qualifications are required by the audit.
3. Field Work Standards for Performance Audits require that an understanding of relevant management controls be obtained and Reporting Standards require that the scope of work on management controls and any significant weaknesses found be included in the report. Although we were able to surmise from our review of the audits sampled that management controls were considered, the audits could be improved by separately identifying and analyzing the management controls significant to the audit objectives.
4. Field Work Standards for Performance Audits requires that supervision be documented in work papers. Evidence relative to the review of certain work papers is not apparent. Procedures to address this issue need to be documented.

This report is intended solely for the use of the City Auditor and should not be used for any other purpose, except at the discretion of the City Auditor. We appreciate the cooperation and assistance provided by the management and staff of the Office of the City Auditor.



Pamela Markham
Council Auditor’s Office
City of Jacksonville, Florida



Elizabeth Moore
Internal Audit Office
City of Memphis, Tennessee



Jeffrey Griffiths
City Auditor’s Office
City of Toronto, Ontario, Canada

CITY OF FOUNTAINS
HEART OF THE NATION



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MISSOURI

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May 18, 2001

Pamela Markham
Council Auditor's Office
City of Jacksonville, Florida

Dear Ms. Markham:

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

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

I agree with the review team's recommendations to strengthen our internal quality control system. With input from the audit staff, I will review office procedures and direct appropriate revisions to address the issues you raise:

- consideration of noteworthy accomplishments by management and significant issues needing further study in every audit;
- documentation of reasons for staff assignments to particular audits;
- identification and analysis of management controls significant to the audit objectives; and
- documentation of supervision in the audit work papers.

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: Jeffrey Griffiths, City Auditor's Office, City of Toronto, Ontario, Canada
Elizabeth Moore, Internal Audit Office, City of Memphis, Tennessee

City Auditor's Office Staff
(as of July 2001)

Mark Funkhouser, City Auditor
Leslie E. Ward, Deputy City Auditor

Anatoli Douditski
Michael Eglinski
Mary Jo Emanuele
Dottie Engle
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Douglas Jones
Sharon Kingsbury
Amanda Noble
Joyce A. Patton
Sue Polys
Joan Pu
Robin K. Reed
Martin Tennant
Julia Terenjuk
Gary L. White
Vivien Zhi