

Office of City Auditor

2001 Annual Report

January 25, 2002

City Auditor: Susan Cohen

Deputy City Auditor: David G. Jones

City of Seattle

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Seattle, Washington 98104-5030



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City of Seattle

Office of City Auditor
Susan Cohen, City Auditor

January 25, 2002

The Honorable Greg Nickels
The City of Seattle
600 Fourth Avenue, Suite 1200
Seattle, WA 98104

Seattle City Councilmembers
The City of Seattle
600 Fourth Avenue, Suite 1100
Seattle, WA 98104

Dear Mayor Nickels and Councilmembers:

I am pleased to present The Office of City Auditor's 2001 Annual Report.

The City of Seattle established the independent Office of City Auditor in 1993 as a result of a 1991 amendment to the City Charter. In approving this amendment, the voters placed the City's audit function under the direction of an appointed professional with a protected six-year term, rather than an elected official.

Our mission is to help the City and Seattle's citizens obtain honest, efficient management and full accountability throughout City government. Projects focus on:

- ◆ improving the City's management accountability systems critical for preparing and maintaining accurate accounts, records and reports, and for the proper safekeeping and disbursement of public funds;
- ◆ saving the City money by recommending ways the City can become more efficient, effective, and equitable in providing services; and
- ◆ enhancing the City's efforts to use optimal public administration techniques.

Since our inception in 1993, we have completed almost 100 major audit projects, published 6 educational newsletters, performed over 80 consultations, and conducted a series of training seminars for the City.

Please call me at 233-1093 if you have any questions, or would like additional information regarding our 2001 Annual Report. I would note that most of our reports are posted online at <http://cityofseattle.net/audit>.

Sincerely,

Susan Cohen
City Auditor

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2001 ACCOMPLISHMENTS

PUBLIC SAFETY CIVIL SERVICE COMMISSION'S RENTAL CAR PRACTICES

The purpose of this review was to evaluate the Commission's policies and procedures for authorization of City rental cars and payment of related expenses, and to determine whether the uses of rental cars were justified on the basis of City business. We determined that the Commission did not establish clear guidelines or controls to ensure that rental cars were consistently justified on the basis of City business. In addition, expenses incurred while using City rental cars for personal business were approved for payment, which violated the Seattle Municipal Code. We recommended that the Commission develop a policy identifying the circumstances warranting the use of City rental cars and develop internal controls to ensure that rental cars are used for City business. We also recommended that the Commission ensure that the City is reimbursed for any prior personal use of a City rental car.

CITY AGENCIES' RENTAL CAR POLICIES & PRACTICES

The objective of this review was to determine the guidelines and conditions under which City agencies allow employees to secure rental car vehicles. Our review focused on City agencies with vehicles rented in Seattle and that involved weekend use. Only four City agencies rented vehicles that met these criteria. Three of four surveyed agencies had established internal procedures to ensure that rental car practices complied with City policies, and all agencies reported using rental cars exclusively to conduct City business. We recommended that agencies

without established guidelines develop policies and procedures to ensure that rental cars are appropriately justified and documented. As a result of the review, the Fleets and Facilities Department developed the *External Rental Vehicle Approval Form* to document the circumstances warranting the use of rental vehicles.

SKAGIT COOKHOUSE

The purpose of the audit was to identify expenditure reduction strategies at the Skagit Cookhouse. We concluded that the Skagit Cookhouse could reduce its annual operating deficit by decreasing labor costs, increasing tour meal prices, and improving monitoring systems used to control food expenses. Seattle City Light concurred with the audit recommendations. Skagit management implemented cost saving measures and monitoring systems for the cookhouse operations. In response to dramatically escalating energy prices, Seattle City Light discontinued the Skagit tour meals program in 2001 to reduce indirect operating expenses.

MANAGING CITY REAL PROPERTY ASSETS

City departments manage their own real property assets, but in the last ten years the City has taken steps to ensure that its real property assets are used as productively as possible for the City as a whole. A task force created a database of the City's real property assets, a Real Estate Services unit (RES) was established in the Fleets and Facilities Department, a Real Estate Oversight Committee (REOC) was created, and the City Council adopted comprehensive new policies and procedures for the evaluation

of City-owned real property. We concluded that this centralized management effort has benefited the City, especially in the contributions of RES and the REOC to the recent Neighborhood Planning projects. On the other hand, Seattle is a highly decentralized City, and departments are reluctant to dedicate scarce resources to efforts that do not provide clear benefits to them. We recommended several changes that we believe will improve the City's real estate asset management. The Fleets and Facilities Department generally agreed with our recommendations.

REVIEW OF THE CIVIL SERVICE COMMISSION

We conducted this review to determine whether the Civil Service Commission could operate more efficiently and effectively. We concluded that the Commission could improve its operations and its appearance of objectivity, by: revising its rules and procedures; addressing departments' concerns about the pre-hearing process; and clarifying the roles of the Commissioners, Executive Director, and Hearing Examiner. The Commission is reviewing our recommendations, and had already implemented several when this report was published.

SEATTLE MUNICIPAL COURT COLLECTION SERVICES

The Seattle Municipal Court asked the City Auditor to conduct a compliance audit of its contract with Outsourcing Solutions, Inc., (OSI), which provides collection services for the Court. We concluded that OSI is managing the Court's collection efforts in an acceptable manner and has complied with most contract requirements. We made several minor recommendations to the Court and OSI, which they have agreed to implement.

REVIEW OF IT SECURITY IN THE CONSOLIDATED CUSTOMER SERVICE SYSTEM

The City of Seattle's Consolidated Customer Service System (CCSS) is a combination of computer software and hardware that was designed to replace two separate City utility billing systems. CCSS began operating in April 2001. We tested CCSS's security controls against a set of general information technology (IT) security standards, and concluded that the IT security controls over the CCSS system were generally adequate. However, we identified some internal control weaknesses in CCSS and provided recommendations to address these risks.

DEPARTMENT OF NEIGHBORHOODS: SERVICE CENTERS CASH HANDLING REVIEW

The Department of Neighborhoods (DON) operates 13 neighborhood service centers throughout Seattle. Seven of the centers accept cash payments for utility bills, parking citations, pet licenses, and other services. We reviewed cash handling procedures and safeguards at three of these locations, identifying several internal control and system concerns. In response, the Department developed and implemented an action plan to strengthen its cash handling procedures.

PERSONNEL DEPARTMENT: A GUIDE TO BENEFIT SUB-FUND BUDGETING & REPORTING

The purpose of this guide is to 1) report on budgeting and accounting practices that explain the cost and revenue information on which Personnel builds budgets for the Special Funds it administers, 2) explain the relationship between the sub-funds and the Department's program budget; and 3) develop reporting formats that will allow the Department to easily compare one year's revenues and expenditures to the next,

and thereby identify changes in administrative costs.

CONSTRUCTION QUALITY ASSURANCE REVIEWS (QAR)

The Office of City Auditor monitored three construction projects in 2001:

Libraries for All (LFA)

Quality Assurance Review #3 discussed 3 main concerns:

- ◆ Cost Management: Due to setting the maximum allowable construction cost so late (MACC), we were concerned that the start of construction would be delayed.
- ◆ Schedule Management: Concern that the schedule is too aggressive given design complexity.
- ◆ Document Management: LFA had not yet put in place a document management system. It is critical that a system be up and running prior to start of construction.

Justice Center/City Hall

To date, we have been able to comment on processes and suggest changes through meetings with the Project Team.

McCaw Performance Hall

QAR#2 was completed April 2001, which reviewed project status through March 2002. At that time, the MACC was signed and the Project Team was in the process of project initialization and startup of construction.

The dialogue established between projects on contract language and other construction-related issues is noteworthy, as the City has no centralized means for different projects to learn from the successes and mistakes of other projects.

PUBLIC SAFETY CIVIL SERVICE COMMISSION ORGANIZATIONAL OPTIONS

This organizational options paper explored four alternatives for realigning the Public Safety Civil Service Commission with other City agencies to strengthen its management structure and operational accountability. We concluded that the part-time, independent Commission was unable to provide comprehensive management oversight in dealing with day-to-day operational issues. We recommended realigning the Commission's non-appeal functions with the Personnel Department to provide full-time oversight of the Commission's recruitment, examination, and certification responsibilities. The City Council passed Ordinance 120658 on November 26, 2001, transferring non-appeal functions to the Personnel Department.

BASIC LIFE SUPPORT CONTRACT MONITORING

The Office of City Auditor participated in the Basic Life Support Contract Committee, the purpose of which was to review the City's draft Request for Qualification and Request for Proposal documents for the solicitation of a qualified contractor to provide basic life support transport services in the Seattle area. The Office of City Auditor was interested in ensuring that the Request for Qualifications and Request for Proposals and subsequent basic life support transport contracts contained measurable performance standards, such as clinical and response time criteria, to provide a basis for future audits. The Contract Services Division released the Request for Qualifications and Request for Proposals on November 19, 2001.

DOWNTOWN TRANSFER DEVELOPMENT RIGHTS (TDR) & BONUS AMENDMENTS

Office of City Auditor staff (a former Council Central Staff member) assisted the City Council in the final steps of reviewing and adopting substantial revisions to the Downtown Land Use Code. The new ordinance completed an important phase of the City's extensive work on the Downtown Neighborhood Plan. The ordinance fundamentally changes the methods developers may utilize to increase base building size. In addition to the ordinance, the Council adopted a resolution calling for periodic evaluation of the downtown bonus and TDR system to determine whether they continue to meet public policy objectives. The City is now preparing an Environmental Impact Statement that will guide policymakers as they make decisions on downtown Seattle's future growth.

BUSINESS IMPROVEMENT AREAS & LOCAL IMPROVEMENT DISTRICT FINANCIAL POLICIES

The purpose of this project was to compile and review existing City financial policies related to Business Improvement Areas and Local Improvement Districts. This project was completed as part of a review of the City's financial policies conducted by the Department of Finance. As a result of the study, the City Council passed Resolution 30387, which reaffirmed the City's existing Local Improvement District financial policies. The City Council also passed Resolution 30389, superceding Resolution 29706 and adopting updated Business Improvement Areas financial policies.

CREATING A RESPECTFUL WORKPLACE

The purpose of this review was to both (1) provide a meaningful work opportunity to

two MESA¹ interns and (2) determine whether the Creating a Respectful Workplace Training was effective based upon employees' perceptions. The experience proved very beneficial for the two interns. The result of their survey showed that survey respondents were highly satisfied with the Creating a Respectful Workplace Training. Approximately 82 percent of the survey respondents provided positive feedback about the program. Respondents favorably commented on the opportunities to hear others' perspectives during the training, and the increased knowledge and tools provided to handle workplace issues. The Personnel Department's Performance Resource Group was pleased with the survey results, which are being used to refine the Creating a Respectful Workplace course that will be offered to City employees in 2002.

ACEC² OF WASHINGTON (FORMERLY CECW)

The ACEC/City Liaison Committee meets monthly to discuss ways to improve the City's contracting practices. Audit staff are members of this joint committee. In 2001, the Committee split into three subcommittees to address delivery systems, insurance, and overhead rates. Each group met several times to identify issues and develop recommendations. The groups' recommendations were delivered to the City's Contracting Services Division in March, 2001. The Overhead Rates Subcommittee identified a wide range of overhead rate issues many of which were assigned to other subcommittees: definition of allowable costs, overhead rate cap vs. direct rate, national vs. regional overhead rates, invoicing - whether it is an overhead or

¹ Mathematics, Engineering, and Scientific Achievement

² American Council of Engineering Companies.

direct cost, communication costs, B&O taxes not adequately covered in overhead rates, equal benefits, and built-in salary increases to keep up with private industry. The Delivery Systems Subcommittee addressed issues related to scoping projects, the consultant selection process, allocation of fee, markups on subconsultants, B&O taxes, and defining allowable costs. The Insurance Subcommittee made suggested changes to clarify contract language related to insurance, indemnification, ownership of documents, disputes and standard of care.

DYE MANAGEMENT GROUP'S SEATRAN CIP STUDY

Audit staff served on the Steering Committee that managed the Dye Group's work in SeaTran. Significant portions of the Dye Study focused on existing capital improvement projects (CIP) operations and management processes and how to work within SeaTran's existing boundaries or conditions. There was less emphasis in the Dye Study on providing recommendations that specifically address/resolve root causes of the major problems identified in report.

ASSESSING RISK IN CITY-WIDE OPERATIONS

In assessing risk, we focused on two areas:

- ◆ City warehouses; and
- ◆ Cash handling.

TRAINING & FACILITATION SERVICES

Office of City Auditor staff provided the following training and facilitation services in 2002:

- ◆ Internal Controls Training
- ◆ New Supervisor Orientation
- ◆ Facilitation Training

- ◆ Seattle City Light Retreat Training and Facilitation
- ◆ Human Resources Forum Facilitation
- ◆ Seattle Jobs Initiative Facilitation

CONSULTING SERVICES

- ◆ SPU Resource Conservation Incentives
The Office of City Auditor provided recommendations to protect two SPU water conservation financial incentive programs from fraud and abuse.
- ◆ SPU Toilet Round-Up Project
The Office of City Auditor helped SPU design safeguards for its toilet rebate process, in which customers can replace old toilets with water-efficient models.
- ◆ Pools Swim Registration and Attendance Process
The Office of City Auditor worked with the Parks Department to develop an improved swim lesson registration form that allows tracking of attendance and cash receipts.
- ◆ Parks Department Drop Off Payment Process
The Office of City Auditor worked with the Parks Department to design a process so that Parks customers can now drop off payments without having to deal directly with a cashier. Payments can also now be dropped off after hours.
- ◆ Cable Franchises
The Office of City Auditor assisted the Office of Cable Communications in its audits of AT&T Broadband and Internet Services' and Millennium Digital Media's compliance with the City's Cable Customer Bill of Rights.

OFFICE OF CITY AUDITOR STAFF

Susan Cohen, City Auditor

- ◆ Served in Office of City Auditor since 1993
- ◆ U.S General Accounting Office (GAO), 1987-1993
- ◆ Adjunct Instructor, Seattle University
- ◆ Master in Public Administration, The Evergreen State College

David Jones, Deputy City Auditor

- ◆ Served in Office of City Auditor since 1996
- ◆ U.S. General Accounting Office 1985-1996
- ◆ Instructor, Institute of Internal Auditors
- ◆ Master in Public Policy, Harvard University

Susan Baugh

- ◆ Audit Manager, 1998 to Present
- ◆ King County Auditor's Office 1985-2001
- ◆ Adjunct Faculty, Seattle University
- ◆ Master in Public Administration, Seattle University

Eileen Norton

- ◆ Assistant City Auditor, 1996 to Present
- ◆ Law & Legislative Departments 1990-1996
- ◆ Juris Doctorate, University of Oregon
- ◆ Certificate in Construction Management, University of Washington

Jerry Stein

- ◆ Assistant City Auditor, 1997 to Present
- ◆ City Auditor's Office, Kansas City, Missouri, 1990-1997
- ◆ Instructor, Institute of Internal Auditors
- ◆ Juris Doctorate, University of Kansas

Linneth Riley-Hall³

- ◆ Assistant City Auditor, 1998 – 2001
- ◆ Certified Financial Services Auditor
- ◆ Instructor, Institute of Internal Auditors

Scottie Veinot-Nix

- ◆ Assistant City Auditor, 1998 to Present
- ◆ Over 20 years of state and local government auditing experience
- ◆ Certified Government Financial Manager

Yanira Cuellar

- ◆ Assistant City Auditor, 2000 to Present
- ◆ Over 20 years business and management experience
- ◆ Master in Business Administration, St. Mary's College

Megumi Sumitani

- ◆ Assistant City Auditor, 2000 to Present
- ◆ Instructor, U.W. Construction Management Program
- ◆ Master in Architect, University of Washington

Joyce Kling

- ◆ Assistant City Auditor, 2001 to Present
- ◆ City of Seattle in 1976-87, 1996 to Present
- ◆ Juris Doctorate, Georgetown University

Dan Nygaard

- ◆ Assistant City Auditor, 2001 to Present
- ◆ Executive Director of Seattle Management Association 1993-2001
- ◆ Master in Public Administration, University of Washington

³ In December, 2001, Ms. Riley-Hall accepted management position with the Contracting Services Division, Department of Finance.

Thyra Brooks

- ◆ Office Manager, 2001 to Present
- ◆ Over 13 years administrative experience with City of Seattle

Wendy Soo Hoo

- ◆ Assistant City Auditor (Diversity Intern), 2000 to Present
- ◆ MPA Candidate, University of Washington

Michelle Bates Benetua

- ◆ Assistant City Auditor (Diversity Intern), 2002 to Present
- ◆ MPA Candidate, University of Washington

Minh Pham

- ◆ Work Study Intern, University of Washington
- ◆ Joined office in June 2001 as City MESA Intern

Thao Vu

- ◆ Work Study Intern, North Seattle Community College
- ◆ Joined office in June 2001 as City MESA Intern

OFFICE OF CITY AUDITOR SERVICES

POLICY LEVEL SERVICES

Performance Auditing and High-Level Financial Auditing

Performance and high-level financial auditing provides objective and systematic assessments of government activities to improve public accountability and facilitate decision-making by parties responsible for overseeing or initiating corrective action.

- Some examples include: span of control; organization of the City's transportation functions; and use of performance measures.
- Our primary customers are: Mayor; Councilmembers; department directors; and Public Development Authority boards.
- Distribution of Final Reports: Mayor; Councilmembers, department directors, media representatives, and interested citizens.

Quality Assurance Services

In providing quality assurance services, the Office of City Auditor will monitor and assist ongoing projects to ensure that:

- Project objectives are reasonable and will be achieved;
- All options have been identified and thoroughly analyzed;
- Quantitative and qualitative analyses are complete and accurate; and
- A project plan has been established and project staff are adhering to that plan.

In addition, we will assist in identifying best practices used by other jurisdictions to accomplish project objectives. We can also help determine whether the project management team possesses the core competencies needed to ensure a successful project.

- Some examples include: City Hall cost estimations; Municipal Court Collection Request for Proposals and contract negotiation; and IT development.
- Our primary customers are: Mayor; Councilmembers; department directors; and project managers.
- Distribution of Final Reports or Memorandums: Mayor, City Councilmembers, department directors, project managers, and interested citizens.

PROGRAM MANAGEMENT SERVICES

Consulting Services and Training

Audit staff is available to provide assistance and training to City staff in designing management accountability systems and re-engineering operations.

Cash Handling Audits

Each of the City's cash handling sites submits a cash-handling self-assessment questionnaire to the Office of City Auditor every two years. Audit staff then analyze the questionnaires, conduct surprise visits to verify information, and work with sites to strengthen cash handling procedures.

Operational Auditing

Operational audits review business functions to ensure that they are operating in the most efficient, effective, and equitable manner.

- Some examples include: Treasury functions; accounts receivable and payable; and travel management.
- Our primary customers include: program managers; division directors; and departmental finance directors.
- Distribution of Final Reports or Memorandums: Mayor; Chair of relevant City Council committee; Finance and Budget Committee Chair; department director(s) of program reviewed; program manager(s) of program reviewed; and interested citizens.

Control Self Assessment (CSA) Facilitated Workshops

In a CSA workshop, audit staff facilitate a work group's discussion on how to achieve its objectives in the most efficient and effective way. Action plans, rather than a formal audit report, are developed to address any obstacles to meeting the work group's objective(s).

- Some examples include: Seattle Public Utilities Real Property Services and Municipal Court Customer Services.
- Our primary customers are generally program managers.
- Generally, only program managers receive our final report on the CSA workshop. We may provide high level summaries to the department director, City Council, and/or Mayor's Office.

OTHER ACTIVITIES

Audit Recommendation Tracking

The Office of City Auditor works with departments to ensure that they adopt, or explain why they cannot adopt, significant audit recommendations made by the Office of City Auditor, the State Auditor's Office, and/or external auditors.

Contract Services

Audit staff is available to perform contract audit services, including consultant pre- and post-award audits.

AUDIT PROTOCOL

This protocol summarizes the activities the Office of City Auditor typically performs in conducting an audit or other project.

Step 1. Inclusion in Work Plan: The Office of City Auditor selects audits for its work plan that are most likely to significantly improve services, enhance innovation, increase revenues, or reduce costs. In its selection process, the Office also considers potential risks and the quality of internal controls, department needs, changes in programs and funding levels, adverse publicity and political exposure, the time that has elapsed since the last audit, and the skills of available audit staff. Prior to the official start of an audit (step 3), audit staff will gather preliminary information on the subject.

Step 2. Coordination of Audit Efforts: The Office of City Auditor coordinates with the State Auditor's Office, the Seattle Ethics and Election Commission, and other relevant offices to ensure that its work will not duplicate other efforts.

Step 3. Engagement Letter: The Office of City Auditor sends a letter to all relevant parties to formally announce an audit and describe its general scope.

Step 4. Entrance Conference: Staff from the Office of City Auditor meet with program officials to discuss the audit's broad objectives, and any concerns or suggestions program officials have for expanding or adjusting the focus of the audit.

Step 5. Job Design: During job design, the Office of City Auditor seeks

- a) to gain a broad understanding of the program; its functions, mission and objectives; key performance indicators; and areas of risk;
- b) to explore areas that appear to offer significant potential for impact; and
- c) to define the audit objectives and determine what specific audit steps and tests the auditors will need to perform.

Step 6. Job Agreement: The Office of City Auditor establishes the primary audit objectives and communicates them to program officials. To enhance this communication, the Office may hold a job agreement conference in which audit staff and program officials discuss the audit objectives in depth.

Step 7. Data Gathering and Analysis: During this phase, audit staff review, document, and evaluate processes in greater depth and document their findings. Their efforts include interviewing key staff, testing system controls, and analyzing data to determine the efficiency or effectiveness of programs or services.

Step 8. Technical Draft and Review: Once the Office of City Auditor has completed its initial data gathering and analysis, a technical draft audit report is prepared containing the preliminary audit findings, conclusions, and recommendations for improvement. Program management is asked to review the technical draft and provide comments on its accuracy

and tone. This draft gives program management an early opportunity to correct any factual inaccuracies, to suggest wording changes to improve the report's tone, and to describe any relevant changes or improvements that have been made in the audited activity, program or function. At this stage, only program officials, audit staff and, if appropriate, Law Department staff participate in these discussions. In reports that directly concern more than one program or unit, the Office of City Auditor makes every effort to share with each program or unit only those portions of the technical draft that pertain to that program or unit.⁴ Until the Office of City Auditor completes the technical review, it considers report findings confidential and shares them only with program management. The City Budget Office is, therefore, only part of the technical review process for Citywide programs.

In response to the comments and additional evidence program officials provide, audit staff may examine all relevant evidence anew; conduct additional research and analyses; or remove, change, or add to the findings, conclusions, and recommendations in the initial technical draft. The process of exchanging technical drafts and responses continues until the audit staff is satisfied that its findings, conclusions, and recommendations are objective and reasonable.

Step 9. Formal Draft Report: After incorporating the results of the technical review process, the Office of City Auditor sends a formal draft report of its significant findings and recommendations to the relevant department(s), City management, the City Budget Office, and the Law Department for formal review and comment.⁵ Each organization that receives a draft may comment on the draft either orally or in writing. In response, audit staff may meet with the organization making the comments and may conduct additional research. If program management formally responds to the draft audit, the Office of City Auditor will include that response as an addendum in the final report.

The City Auditor may publish any other written comments in the final report, along with the City Auditor's responses to those comments.

Step 10. Final Report: The final report is a public document that contains an executive summary highlighting the key issues, the detailed audit report, and, if the department desires, the department's response to the report (optional). All final reports are placed on the Auditor's public web page.

Step 11. Audit Follow-up: About eight to fourteen months after issuing an audit report, the Office of City Auditor will revisit the major audit findings and recommendations to determine whether program management has successfully resolved the issues raised in the audit.

⁴ For example, in the case of a Public Development Authority (PDA), a technical review draft on PDA management activities would be sent to the Executive Director of the PDA; a technical review draft on PDA Council activities would be sent to the PDA Council Chair; and a technical review draft on PDA Constituency activities would be sent to the PDA Constituency Chair.

⁵ At this point the Office of City Auditor also provides a copy of the draft report to the director or chairperson of any other organization or group that audit staff determine is factually and legally integrated with the audited organization.

SPECIAL NOTE: The Office of City Auditor recognizes the importance of communication throughout all project stages. In particular, the Office expects audit staff to discuss issues and findings with program officials. Auditors may also review and discuss information and draft documents with, for example, the State Auditor's Office, the Law Department, or the Seattle Ethics and Elections Commission. For Citywide and controversial issues, audit staff will meet with City Budget Office staff to solicit an appropriate overall City perspective.