

City of Seattle

Office of City Auditor



Susan Cohen, City Auditor

February 28, 2003

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

Dear Mayor Nickels and Councilmembers:

I am pleased to present the Office of City Auditor's 10th annual report, which highlights our 2002 activities. This report describes our completed 2002 audits and studies, and provides background information about City audit operations.

Since the Office of City Auditor was established in 1993, we have completed more than 175 audits, consulting projects, and training sessions. During 2002, we completed 18 projects, including seven performance audits, six compliance audits, and five internal control reviews. We also completed two additional management reviews, initiated work on six new projects to be completed in early 2003, and participated in the City Council's 2003-04 Budget Review.

Please contact me at 233-1093 if you have any questions, or would like additional information regarding this report or other reports produced by our office. Please note that most of our published reports are posted online at <http://www.seattle.gov/audit>.

Sincerely,

A handwritten signature in black ink that reads "Susan Cohen".

Susan Cohen
City Auditor

SC:tlb

Enclosure

Office of City Auditor 2002 Annual Report

The City of Seattle established the independent Office of City Auditor in 1993 after voters approved a proposed 1991 amendment to the City Charter. In approving the amendment, the voters placed the City's audit function under the direction of an appointed rather than elected auditor. The City Auditor serves a six-year term of office.

The Office of City Auditor's mission is to promote efficient management and full accountability throughout City government. We serve the public interest by providing the Mayor, the City Council, and City managers with accurate information, unbiased analysis, and objective recommendations on how best to use public resources to benefit Seattle citizens.

The City Auditor determines the annual audit work program after considering input from elected City officials, department managers and employees, and citizens. The City Auditor has the authority to access all City department accounts and records needed to complete audit assignments. The three primary types of audits conducted by the Office of City Auditor are performance, compliance, and internal control reviews.

The following section provides an overview of the performance, compliance, and internal control reviews completed in 2002. For additional information about our 2002 audits and studies, please refer to Appendix 1 or our Web site at <http://www.seattle.gov/audit>.

Performance Audits

Auditing approaches expanded during the past 30 years to include reviews of governmental operations in addition to traditional financial matters. These expanded audits, initially developed by the United States General Accounting Office (GAO) in the late 1960s, are commonly referred to as performance audits. Performance audits include economy and efficiency audits as well as program and operational reviews. Successful performance audits provide independent, systematic examinations of organizations, programs, activities or functions of importance to decision-makers, and offer recommendations and suggestions to improve government operations.

Most state and progressive local governments,¹ including the City of Seattle, conduct performance audits. Seven of the Office of City Auditor's 2002 published audits and studies were performance audits. Published performance reports included reviews of Seattle City Light's financial and risk management practices; the Department of Design, Construction and Land Use (DCLU) code amendment process; the Department of Parks and Recreation (Parks) athletic field scheduling processes; Seattle City Light's teambuilding activities; two Citywide assessments of workforce reduction strategies and personnel functions; and the Seattle Public Library's new Central Library capital project.

¹ "Audit Function Restores Credibility," Mark Funkhouser, *American City & County*, May 2000, page 8.

Seattle City Light Reviews—Because Seattle City Light’s rates escalated by 58 percent during the past two years due to a significantly increased debt load exacerbated by the energy crisis, the Council asked us to review the utility’s debt and risk management practices. We determined that City Light should improve its strategic and financial planning and risk management practices. Although City Light’s current governance structure is reasonable, City decision-makers will need to allocate more time and resources to City Light issues.

Land Use Code Amendment Process—The Council’s request to review the City’s Land Use Code amendment process stemmed from concerns about the efficiency of the process. Our review found that DCLU produces high-quality research and analysis, but could strengthen the amendment process by enhancing its project management systems, formal communications, internal management structure, and staff training.



Athletic Field Scheduling Reviews—Councilmembers requested both an audit and a field capacity analysis in response to numerous citizen complaints regarding the scheduling of athletic fields. We determined that Parks consistently schedules athletic fields in compliance with established policies, but could increase the efficiency of its field scheduling practices by documenting its standard operating procedures and by upgrading its field scheduling software.

Seattle City Light Teambuilding Review—The second Seattle City Light review was prompted by Council concerns regarding a televised KIRO 7 Eyewitness News Investigation report on City Light employees’ participation in questionable teambuilding activities during City business hours. Councilmembers asked us to determine whether any timekeeping abuses occurred in reporting teambuilding activities on the City’s record-keeping system. Our review found that City Light employees’ use of executive leave and timekeeping practices for teambuilding activities were consistent with City policies. However, the Mayor and City Council could consider instituting teambuilding guidelines and project tracking systems for salaried employees to improve accountability.

Citywide Personnel Reviews—The Council requested a study of employee transition programs and benefits that could potentially mitigate the effects of an anticipated 2003 budget and workforce reduction. Although the City’s workforce expanded and contracted during the past decade, we found that the City was able to minimize annual layoffs by offering effective employment services that encouraged voluntary separations and facilitated job transitions. Our second review of Personnel Department functions and services, based on a satisfaction survey completed by eight City departments, concluded that all but two Personnel Department functions were satisfactory.

Library Construction Review—Because the City will spend \$2.3 billion on capital improvement projects during the next six years, our office conducts reviews of major capital projects. The construction reviews focus on City processes and procedures for managing project scope, schedule and budget, including change control processes, document management systems,

contract administration efforts, and communication processes. Our 2002 report on the Libraries for All Program concluded that the new Central Library project management team had not made substantial progress in addressing the significant backlog of unresolved change orders and monthly project schedule inconsistencies.

Compliance Audits

Compliance audits determine whether an entity is complying with established laws, regulations, rules, policies, or procedures that guide significant operations. Compliance auditors review organizational objectives, identify the impact of non-compliance, and inform management of significant concerns. Auditors are also responsible for determining whether management objectives adhere to the organization's overall mission and culture.

We conducted six compliance audits of City departments and entities affiliated with the City in 2002, including four reviews requested by the City Council and two requested by City departments. The four Council-requested compliance audits included reviews of the administration of the Community Development Block Grant (CDBG) and of City consultant contracts; the Seattle Chinatown International District Preservation and Development Authority (SCIDPDA); and Citywide use of executive leave. The two requests from departments involved AT&T Broadband and Internet Services' compliance with the Cable Customer Bill of Rights and the Seattle City Light customer credit program for the California Energy Commission.

CDBG Administration—The CDBG allocation process was generally consistent with City policies and federal requirements. However, the CDBG Administration Unit needed to strengthen its monitoring and reporting practices to provide adequate information to City and federal decision-makers regarding the performance of CDBG-funded activities.

Administration of Consultant Contracts—City departments retained consultants for appropriate purposes and generally complied with contracting policies and rules. Based on the procedural issues identified, City departments could improve internal contract management practices and consult with the Contracting Services Division to avoid future errors and filing omissions.

Managing Executive Leave—City executive leave policies allow Fair Labor Standards Act exempt employees broad discretion in structuring their workday. Exempt employees' accountability in using executive leave could be improved by requiring City supervisors to confirm notification and maintain records on employees' leave time.



Seattle Chinatown International District Preservation and Development Authority—The Seattle Chinatown International District Preservation and Development Authority significantly contributed to the historic preservation and development of properties, and generally complied with its City charter and the City Code. One significant exception was non-compliance with the City's bond agreement requiring a \$300,000 minimum Village Square I Operating Reserve Account balance.

AT&T Compliance Review—We collaborated with Department of Information Technology staff on a review of AT&T Broadband and Internet Services’ compliance with the Cable Customer Bill of Rights. We found that AT&T did not comply with the Cable Customer Bill of Rights service center requirement, and did not adequately track information on residential installations, customer complaints, service requests and interruptions, and post-installation customer contacts.

Seattle City Light Customer Credit Program—Conducted at the request of Seattle City Light, this review of the California Energy Commission’s Customer Credit Program found that City Light complied with the Commission’s requirements for customer credit. We also determined that City Light provided proper credits to Nordstrom, and verified the City’s receipt of the green power credit payments.

Internal Control Audits

Internal controls are methods employed by local governments to ensure that financial and program objectives are achieved. Policies, procedures, budgets, and organizational and physical restrictions are examples of internal controls, which City managers use to ensure that operations are consistent with established missions and goals. A well-designed internal control structure provides reasonable (not absolute) assurance that City assets are protected and records are accurate, and that operational efficiency is promoted along with adherence to City policies. A general rule in designing controls is that greater risks require more extensive controls. Too little control presents undue risk of loss; excessive control is costly. A deliberate effort must be made to ensure that internal control costs do not exceed expected benefits.

Five internal control reviews were conducted in 2002. The projects included two assessments of the City’s management of business improvement area accounts, two reviews of cash-handling practices at City pools and solid waste disposal stations, and an evaluation of internal controls for the newly reorganized City Light Finance Division.

Treasury’s Management—Our review of the Chinatown-International District Business Improvement Area concluded that its assessments collection rate was very high. However, improvements are needed to prevent and correct assessment billing issues. Our second internal control review of the City’s management of Business Improvement Areas’ collections found that the Department of Executive Administration/Treasury management could strengthen procedures and oversight mechanisms to ensure that these business accounts are adequately managed.



Cash-Handling Operations—Our follow-up review of a 1997 report on cash-handling at Parks Aquatics facilities concluded that significant progress was made in improving the professionalism and accountability of its cash-handling system. These improvements provide Parks with reasonable assurance that its staff regularly collects and accounts for pool revenues.

We also found that the Seattle Public Utilities’ North and South Recycling and Disposal Stations could improve their operations by repairing video surveillance systems, installing security systems, and ensuring that cashiers use prenumbered deposit bags in the appropriate sequence.

Finance Division Reorganization—At the request of Seattle City Light, we reviewed the new Accounts Payable and Procurement Unit and determined that City Light had established reasonable controls for the unit’s use of City systems.

Other Performance Reviews

Council Budget Review

Local government audit offices frequently assist legislative bodies in analyzing proposed budgets.² Reviewing and commenting on the proposed budget is generally viewed as an extension of the oversight function that audit offices provide to elected officials and the public. Staffing the Council’s 2003–04 Budget Review was a new role for our office in 2002, resulting from Council interest in more comprehensive department-level budget reviews.

To ensure that audit personnel maintained their primary roles as impartial, objective analysts, the City Auditor and Council Central Staff Director developed a memorandum of understanding to establish budget assignment guidelines. Audit staff’s primary assignments focused on comparative surveys, budget trend and issue analysis, development of spreadsheets and issue options summaries, and the collection of best practices information for analyzing proposed budget changes associated with expanding or reducing the 2002 levels of service. To avoid an actual or perceived conflict of interest, auditors did not staff politically sensitive issues or issues that overlapped with recent or scheduled audit projects.

King County Council Administration Review

The King County Council Administration contracted with our office to evaluate its financial processes. The Council Administration provides administrative support to the King County Council and performs select administrative services, such as payroll, for the five Council divisions. The Council Administration was interested in an external review of its current internal control systems, including financial and record-keeping processes, to ensure conformance to legal mandates and accepted business practices.

SeaTran Interim Construction Report

The interim SeaTran (currently known as the Seattle Department of Transportation) construction report identified specific solutions to reduce or eliminate many of the issues that challenge the department’s effective implementation of its capital improvement program.

²Many local government audit offices model budget review practices on those of the United States General Accounting Office, which annually assists the Congress in analyzing the federal budget. The degree of local government involvement in budget work varies. Some local government audit functions assign staff for a limited duration to verify data or certify budget assumptions (e.g., Cities of Savannah and Philadelphia); others assign full-time staff to thoroughly analyze and comment on the budget (e.g., Cities of Honolulu and Kansas City).

Office of City Auditor Mission and Background

Mission Statement

As noted earlier, the Office of City Auditor's mission is to promote honest, efficient management and full accountability in City government operations. We serve the public interest by providing the Mayor, the City Council, and City managers with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in offering services to Seattle citizens.

What the Office of City Auditor Does

Our reviews are often initiated in response to specific requests from the Mayor, City Councilmembers and City department directors. Since 1993, our reviews have covered the entire spectrum of City activities. Reports on topics of Citywide significance include the *CityWide Collection of Accounts Receivable* and *Seattle Can Reduce Long Distance and Cellular Telephones*. Reports on department-specific topics include the *Municipal Court: Oversight System for Collection Services Contract* and *Seattle Police Department: Forfeiture Funds and Investigative Fund*. Reports on general topics include *Making Effective Use of Managed Competition* and *Focus on Performance*.

Frequent Questions Addressed by Office of City Auditor

Audits and studies are frequently initiated in response to specific questions or issues raised by the Mayor and City Councilmembers regarding City programs and services. Examples of questions and issues addressed in audits and other studies include:

- Are City programs managed and operated in compliance with applicable laws and regulations?
- Is the information provided to the Mayor and City Councilmembers on City operations accurate?
- Do opportunities exist to improve the efficient use of public funds and eliminate potential waste?
- Are public funds accounted for adequately?
- Are programs achieving the desired results?
- Can program objectives be achieved more economically?
- Can the quality of City services be improved without increased cost?
- What emerging or key issues should the Mayor and City Council consider in taking action on particular programs or services?

Office of City Auditor Adheres to Professional Standards

Our primary goal is to provide the City with audit and evaluation services that are useful, objective, and accurate. In performing our work, we adhere to the professional auditing requirements described in the government auditing standards.³ These standards provide

³United States General Accounting Office, *Government Auditing Standards: 1994 Revision* (June 1994).

guidelines for planning our work, determining the audit objectives, developing the scope of work and methodology, selecting the criteria to evaluate the matters subject to audit, and ensuring that our evidence is sufficient, competent and relevant.

Relevant and Timely

In performing work that meets the needs of the Mayor, City Councilmembers, and department managers, we consider whether the work is relevant and timely to the City. The criteria used in selecting our reviews, consistent with professional audit standards, include:

- Level of City Council, Mayor, public and media interest
- Relative risk and exposure
- Significant environmental changes
- Service management issues
- Quality of internal controls
- Risk of losing outside funding
- Historical issues or concerns
- Potential of the audit topic to benefit more than one department

The Office of City Auditor Is Independent

Our office is independent of the Mayor and the City Council in developing its annual work program, conducting audits and other studies, and reporting the results. This ensures that our work is objective and credible. The City Auditor is hired by and reports to the City Council. The City Auditor's independence is protected by an appointment to a six-year term, and the incumbent City Auditor can only be removed from office for cause (i.e., misconduct) and by a majority vote of the City Council. The current City Auditor's term began in June 1998.

How Does the Office of City Auditor Conduct Audits?

Audits typically consist of four phases: planning, data gathering and analysis, report drafting, and presentation of audit results.

First, during the **planning phase**, auditors collect sufficient information to determine the audit objectives. Auditors then develop a project work plan that specifies the information required to address the objectives, and how the data will be obtained (e.g., interviews, surveys, etc.). During this initial stage, auditors also decide whether the audit should proceed into the next phase. Some audits may not be feasible if the data needed to support the audit objectives are not available, or if the audit entity is undergoing significant change (that may ultimately address the major audit objectives).

Second, during the **data gathering and analysis phase** of the audit process, auditors collect the information they need, analyze it, and formulate conclusions and recommendations. Auditors have a variety of means for gathering and analyzing data such as:

- Interviewing knowledgeable officials, subject matter experts (e.g., academics, nonprofit research institutes), and citizens

- Creating descriptions of processes (e.g., flowcharts, narrative descriptions)
- Reviewing laws, regulations, rules, policies, procedures, industry best practices, and comparing the audited entity’s performance against those standards
- Examining paper and/or electronic documents and files
- Conducting on-site inspections
- Compiling data and performing calculations
- Conducting surveys using questionnaires
- Performing tests of sample data to verify its accuracy

When analyzing information, auditors typically adhere to a format referred to as the “elements of a finding” to organize their evidence, and to formulate conclusions and recommendations. The elements of an audit finding are the:

- Condition—A description of an existing situation or a problem.
- Criteria—The ideal situation or the standards (e.g., laws, comparison of performance with similar entities, expert opinion, common sense) that will be used to evaluate the condition.
- Cause—Factors contributing to any differences between the criteria and the condition.
- Effect—The actual or potential consequences or risks resulting from a condition that differs from the standard. The significance of the effect will determine the need for corrective action.
- Recommendation—Actions that can be taken to correct the problems, or reduce the consequences of an unsatisfactory (or undesirable) condition.

Third, during the **report-drafting phase**, auditors prepare a written product that summarizes the results of their work. Before the report is finalized, auditors usually obtain feedback from the audited entity to ensure that the report is accurate and fair. The burden of proof is on the audited entity to provide sufficient evidence to justify changes to the draft report.

Audit reports typically contain sections on: 1) the audit objectives; 2) specific questions or issues that will be addressed; 3) background information to familiarize the reader with the audit environment; 4) an explanation of the audit scope and methodology; 5) audit findings, conclusions, and recommendations; and 6) the views of the City officials or department directors responsible for the audited program.

The fourth and final audit phase is the **presentation of audit results**. Audit offices typically issue a written report that is distributed to the audited entity, appropriate officials, and interested citizens. The auditors may provide a formal presentation or briefing to interested parties such as elected officials or department directors. Following the audit presentation, the Office of City Auditor also posts its audits and studies on its Web site.

How the Office of City Auditor Communicates the Results of Its Work

The format for reporting the results of a particular assignment depends on the project’s objectives and the needs of the Mayor, City Councilmembers or department directors. We communicate results in a variety of ways.

- Testimony—We testify at City Council hearings and meetings on the content and results of our reviews and projects.
 - Briefings—At the request of the Mayor, City Councilmembers or department directors, we provide individual briefings on the results of our reviews.
 - Written Reports—Upon the completion of each audit or study, we issue written reports. The format of our written products varies according to the content and complexity of the information that will be conveyed. Written reports may be brief memorandums, or lengthy, detailed reports. Regardless of the report format and length, the document will cover the objectives of the work, the scope and methodology, and the results of the work. When appropriate, reports will also include suggestions or recommendations.
 - Newsletters—Periodically, the Office of City Auditor publishes the audit results in its newsletter, *Performance Perspectives*. The newsletter’s purpose is to highlight general management principles and to disclose successful, useful or problematic program management issues. For example, our first newsletter issue focused on the connection between auditing and reinventing government, the second issue addressed performance measures, and the third issue discussed management controls.
 - Brochures—Brochures are a useful approach to convey general information on auditing issues or other management topics of broad interest.
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Appendix 1 Overview of 2002 Performance Audits

Review of Seattle City Light

Purpose:

Our objective was to evaluate Seattle City Light's debt, financial and risk management policies and practices, operational issues, and the City of Seattle's governance structure for City Light.

Methodology:

We retained Vantage Consulting, Inc. (Vantage), a firm experienced in evaluating electric utilities, to conduct this review. Vantage and audit personnel interviewed about 60 individuals, including five City Councilmembers, relevant senior City Light managers and employees, Department of Finance and Office of Policy and Management executive personnel, and other relevant groups such as the Municipal League, the Mayor's City Light Review Committee, and concerned citizens. Vantage personnel reviewed City Light reports submitted to the City Council; studies and reports from financial advisors, credit rating agencies and City Light branches; and an August 2000 Deloitte & Touche audit of City Light's Power Marketing Group.

Results:

City Light's financial situation deteriorated significantly, leaving ratepayers saddled with heavy debt and higher rates. This was largely the responsibility of City Light senior management, although the Mayor and the City Council did not hold City Light management accountable for creating and sustaining effective financial and risk management systems.

Financial/Debt Management: City Light currently faces long- and short-term debt of \$1.7 billion. Utility rates rose 58 percent in the last two years and are likely to remain high in the foreseeable future. Yet, City Light has not initiated significant cost-cutting measures, and faces significant risks in restoring financial stability if its operating and capital budgets are not controlled. Weaknesses in the current financial model for establishing rates also need to be addressed.

Risk Management: Vantage based its risk management analysis on current practices in other utilities and City Light's efforts to position itself to respond to changing industry demands and expectations. Vantage concluded that City Light power marketing and risk management functions have serious shortcomings, and its Risk Management Manual is outdated and inadequate. City Light does not have suitable measures to define loss limits or prompt an appropriate management response when limits are threatened. City Light has not effectively integrated its risk analysis and decision-making processes despite sufficient skills and tools. In addition, the City Council's risk management oversight responsibilities were not adequately defined, and the Council's and City Light's working relationship impeded adequate oversight of the utility.

Operational Analysis: Vantage also reviewed City Light's strategic, financial and operational planning; operating and maintenance budget, capital budgeting levels and decision methods; staffing levels; the impact of the corporate culture on effectiveness; and the senior management

team's performance. Vantage determined that City Light has not undertaken major initiatives to determine the optimum operating and maintenance budget, and did not provide adequate justification for new capital projects given the long-term budget and financial model. In addition, its staffing level appears to be relatively high based on a staffing analysis of other large public electric utilities. City Light's senior management team lacks in-depth utility management experience, and the senior management culture does not seem adequate given the issues and problems facing the utility. Its senior management team must improve operations to meet accepted utility management performance standards.

Governance: Vantage concluded that the governance structure is appropriate, but has not been effective due to the lack of communication between the City Council, the Mayor, and City Light management. City Light's management practices and poor communication with the City Council will not be improved by altering the governance structure. Significant findings indicated that: 1) authority and oversight responsibilities for City Light were not consistent; 2) increased focus was needed by elected officials on major issues; 3) the governance and oversight function was too dependent upon limited City Council analytical resources; and 4) the governance and oversight could be improved with better role definition and communications between the Council and City Light.

Vantage developed 39 recommendations for improving City Light's financial, risk management, operational, and governance policies and practices. The City Light Superintendent accepted all the recommendations and submitted a work program to implement them.

Managing the Land Use Code Amendment Process

Purpose:

Our primary objective was to determine whether the Department of Design, Construction and Land Use (DCLU) could enhance the Land Use Code amendment process to produce high-quality products in a more predictable and reasonable time frame.

Methodology:

We based our analysis on the Canadian Institute of Chartered Accountants control model, which emphasizes organizational capacity to identify and exploit opportunities, and resilience to respond and adapt to unexpected risks and opportunities. The focus of our analysis was on the development of management controls to guide the highly complex Land Use Code amendment process. The methodology included an analysis of the Land Use Code Unit's workload from 1999 through mid-December 2001. We also reviewed all laws and procedures relevant to the Land Use Code amendment process, and conducted more than 40 interviews with City and other agency officials, managers, and staff.

Results:

We concluded that DCLU produces high-quality research and analysis on a wide array of land use and environmental topics and issues. We also determined that DCLU could improve the Land Use Code amendment process by: 1) enhancing project management systems to project, prioritize, schedule, and monitor workload to ensure its completion in a more predictable and timely manner; 2) establishing a more formal communication process given the extensive interactions of essential participants from DCLU, the Mayor's Office, the City Council, other

executive departments, and the Law Department on proposed code amendments; and 3) strengthening the internal management structure and training programs for Land Use Code Unit staff to enable them to more effectively analyze and prepare amendments to the City's complex and highly technical Land Use Code. The Executive Response indicated that DCLU had already begun implementing many of the report recommendations.

Department of Parks and Recreation Athletic Field Scheduling Review and Capacity Analysis

Purpose:

We evaluated the Department of Parks and Recreation's (Parks) assignment of athletic fields to determine whether Parks practices consistently adhered to departmental policies, and whether available fields were effectively allocated to meet user demands. We also reviewed Parks complaint process to determine whether it effectively resolved athletic field prioritization and assignment issues.

Methodology:

We assessed Parks policies and procedures for scheduling athletic fields and analyzed athletic field scheduling data for 1995, 1997, and 2000 to determine their effectiveness in maximizing field usage. In addition, we analyzed the capacity for two of the 318 fields currently scheduled by the Department of Parks and Recreation to illustrate the complexity of scheduling athletic fields to maximize field usage, and reviewed Parks' complaint process policies and procedures.

Results:

We determined that Parks consistently schedules athletic fields in compliance with established policies for their prioritization and assignment. However, athletic field use is at or near capacity during peak times, which will restrict future field scheduling for expanding sports organizations. Parks could improve the efficiency of its field scheduling practices by documenting standard operating procedures and enhancing athletic field scheduling software. We also determined that Parks could also update and improve its complaint procedures. The department's response to the audit indicated concurrence with the report's suggested improvements, and offered timelines for implementation of seven major action items.

Seattle City Light Teambuilding Memorandum

Purpose:

The purpose of this review was to respond to televised KIRO 7 Eyewitness News allegations that Seattle City Light employees misused executive leave to attend two teambuilding functions during July and December 2001. Our primary objective was to determine whether any time-card fraud occurred related to the events investigated by KIRO 7 Eyewitness News.

Methodology:

We interviewed Seattle City Light's Deputy Superintendent of the Distribution Branch and Director of Power Stations to identify City Light's policies and past practices for employee recognition and teambuilding activities. We also reviewed timekeeping policies and practices with a City Light Human Resources Division Payroll Supervisor, and examined the time cards of those employees who participated in the teambuilding events.

Results:

We did not find any evidence of fraud, and concluded that the City Light employees acted within the parameters of established City policies in their use of work time and timekeeping practices. For management and cost accounting purposes, however, City departments could institute a policy requiring project tracking or timekeeping systems for salaried employees' actual work hours. The project tracking systems would ensure that the City is receiving full value from its personnel investments. City decision-makers may want to consider developing formal, Citywide guidelines to ensure that only appropriate employee teambuilding and recognition activities are sanctioned during work hours.

Mitigating the Effects of City Workforce Reductions**Purpose:**

This study provided historic and current information on the City's workforce, evaluated the cost and effectiveness of the City's 1996 Job Security Program, and explored both traditional and unique benefits provided by public and private employers to employees at risk of layoff.

Methodology:

Our methodology included a review of City, Washington State, and federal employment policies and procedures. In addition, we analyzed fluctuations in the City's workforce between 1989 and 2002, including changes in the workforce by program category; estimated lifetime costs and total savings achieved by the City's 1996 Job Security Program; and conducted extensive research regarding human resources best practices related to workforce reductions and the traditional and unique services provided to employees who were at risk of layoff in 2001 and 2002.

Results:

We determined that the City's workforce expanded by approximately 10 percent from 10,355 positions in 1989 to 11,113 positions in 2002. Although the City's workforce fluctuated during this period, the City was able to successfully mitigate the impact of workforce reductions on its employees by providing cost-effective transition services and benefits to encourage voluntary employee separations. We suggested that the City's Personnel Department and other City agencies develop formal communications plans and consider providing low- and moderate-cost transition services and severance pay options to City employees who were at risk of layoff in 2002.

Personnel Satisfaction Assessment**Purpose:**

We surveyed City departments on their satisfaction with Personnel Department services to assist the Personnel Department's internal review of its role, services, and resource requirements. The internal review was initiated in response to a 2002 City Council Statement of Legislative Intent.

Methodology:

Our report summarized eight City department responses regarding various Personnel Department operations. We assessed 13 Personnel Department functions and two specific services within its Employee Services Unit. City departments' general comments were incorporated into the assessments.

Results:

The assessments indicated above-average performance for the Personnel Department's Policy Development Unit, Safety Unit, Records and Information Management Unit, and the Performance Resource Group that provides employee training. The assessments indicated below-average performance for the Recruiting Services Unit and Labor Relations Unit. The remaining assessments indicated average or slightly above-average performance for the Benefit, Classification, Compensation, Employment Services, Special Employment Services, Equal Opportunity, and the Worker's Compensation functions.

Libraries for All Quality Assurance Review #4**Purpose:**

This report was the fourth in our ongoing series of quality assurance reviews (QARs) of the City's eight-year \$239.5 million Libraries for All Capital Program. The fourth QAR focused on the scope, schedule, and budget for the \$162.3 million new Central Library Project.

Methodology:

We met with the Library Capital Program Director and project management staff to discuss project events that occurred following the completion of the third Libraries for All QAR. We also reviewed and analyzed documentation on the current status of the project scope, schedule, and budget.

Results:

As of May 2002, the general contractor/construction manager (GCCM) forecasted a project delay of approximately three months. Inconsistencies were identified in the GCCM's monthly schedules as well as a significant backlog of unresolved change order proposals resulting from incomplete documentation and untimely quotes from the GCCM. These issues prevented the Seattle Public Library Capital Program management team from accurately assessing and forecasting schedule risks, financial exposure to potential contractor claims, and project contingency requirements.

We recommended that the Seattle Public Library Capital Program management team improve schedule and change order management, as cited in prior QARs, to mitigate potential risks for the new Central Library Project. We also made recommendations to improve cost management, particularly management of project contingency funds, and to implement an aggressive program to validate and document all past and future GCCM monthly construction schedules. This would include verifying the logic of the critical path, and reconciling all project schedule revisions before acceptance. The GCCM should also develop a new baseline recovery schedule that resolves the outstanding schedule and change issues.

Compliance Audits Completed in 2002

Administration of Seattle's Community Development Block Grant

Purpose:

Our primary audit objectives were to review the City's processes for allocating and administering Community Development Block Grant (CDBG) funds, and the roles and responsibilities of the CDBG Administration Unit in providing financial and technical services to City implementing departments and community-based agencies that received CDBG funds.

Methodology:

Our methodology included a review of City policies and procedures; U.S. Department of Housing and Urban Development grant regulations and guidelines; Seattle's Consolidated Plan for Housing and Community Development; and the Consolidated Annual Performance and Evaluation Report. We also reviewed the CDBG Administration Unit's 2000 and 2001 operating budget and staffing allocations along with previous CDBG program audits and studies; interviewed City managers and staff regarding the CDBG Administration Unit's financial and technical services, and conducted desk reviews of CDBG-funded human services and capital facilities projects.

Results:

Overall, we found that the CDBG allocation process was consistent with City policies, and that the CDBG Administration Unit's financial management and technical coordination services were generally consistent with federal requirements and City policies. However, the CDBG Administration Unit needed to expand the U.S. Department of Housing and Urban Development-mandated monitoring and reporting to provide sufficient information for City decision-makers to assess the performance of CDBG grant-funded activities. The Mayor's response concurred with the audit recommendations and indicated that the Department of Finance would oversee the CDBG Administration Unit's compliance with its monitoring and reporting requirements to improve oversight of CDBG-funded organizations and use of funds.

Administration of City Consultant Contracts

Purpose:

We initiated the review of the City of Seattle's consultant contracting practices in response to a 2002 City Council Statement of Legislative Intent. The Council Statement asked our office to determine whether City departments retained consultants for appropriate purposes and adhered to City consultant contracting policies and general rules.

Methodology:

The audit included a review of the City's decentralized consultant contracting process and an in-depth analysis of 39 sample consultant contracts that were active in 2001. The methodology also included an analysis of City policies and procedures; a review of financial and accounting reports; and interviews with City departments' contracting staff and analysts. City departments' documentation justifying the retention of a consultant to perform the scope of work described in each sample contract was also reviewed.

Results:

City departments retained consultants for appropriate purposes and generally complied with contracting policies and rules, with the exception of contract filing requirements. City departments most frequently retained consultants for projects that required specialized knowledge and expertise, or when existing City staff or other resources were unavailable to complete project assignments.

We determined that City departments could strengthen internal contract management practices and consult more frequently with the Contracting Services Division to avoid future errors. The City's accounting and financial reporting system also needs to be improved to capture data needed to generate mandated, summary, management-level reports. The Department of Executive Administration's response indicated general concurrence with the report, but noted that additional contracting resources would be required to implement recommended improvements.

Memorandum Regarding City Executive Leave Policies**Purpose:**

The purpose of the review was to provide information to decision-makers on the City's executive and merit leave policies in anticipation of a KIRO 7 News Investigation. A KIRO 7 reporter informed the City Auditor that he videotaped Fair Labor Standards Act (FLSA) exempt and non-exempt City employees using executive leave for a "junket."

Methodology:

We reviewed City policies on executive and merit leave, and the FLSA. We also analyzed the relevant provisions of the City and federal policies in relation to employees' alleged misuse of leave, as reported in various KIRO 7 News Investigations.

Results:

We determined that the City's executive leave policies give FLSA exempt employees significant discretion in structuring their workday with the expectation that professional responsibilities will be met regardless of the time required. We suggested that City officials increase FLSA exempt employees' accountability in the use of executive leave, because the City deducts executive leave hours for full-day absences from employees' leave balances, but does not deduct occasional leave of four hours or less from leave balances.

Specific suggestions for improving accountability included modifying internal leave policies to reference supervisory notification provisions contained in the Seattle Municipal Code, and adopting a policy requiring all departments to maintain records regarding employees' use of executive leave.

Seattle Chinatown International District Preservation and Development Authority Compliance Review

Purpose:

This study, the fourth in a series of compliance reviews of Seattle's public corporations, focused on whether the Seattle Chinatown International District Preservation and Development Authority (SCIDPDA): 1) complied with its charter; 2) established financial policies and practices that consistently adhered to City requirements for bond-funded PDA facilities; and 3) maintained management and internal controls that provided reasonable protection of public assets.

Methodology:

Our analysis included a review of 82 requirements relevant to SCIDPDA's operations between March and July of 2002. We focused on SCIDPDA's compliance with Chapter 3.110 of the Seattle Municipal Code pertaining to public corporations as well as its charter, rules and regulations, management and internal controls, and reporting requirements. We also evaluated SCIDPDA's financial policies and practices to determine whether they were consistent with the City's Bond Payment Guaranty Agreement for Village Square I.

Results:

SCIDPDA generally complied with relevant laws and policies pertaining to public corporations and operations, and significantly contributed to the preservation and development of properties in the International District community. SCIDPDA did not comply with the City's Bond Payment Guaranty Agreement requirement to notify the City and propose a corrective action plan when Village Square I's net rental income, total expenses, or net operating income varied more than 5 percent from the pro forma budget. In addition, SCIDPDA did not comply with the City's Bond Payment Guaranty Agreement requirement to maintain a minimum balance of \$300,000 in the Village Square I Operating Reserve Account.

SCIDPDA management's response to the audit stated that an action plan would be developed to address the outstanding compliance issues. SCIDPDA also restored the Operating Reserve Account balance to \$300,000 before the release of our report.

AT&T Broadband and Internet Services' Compliance with the Cable Customer Bill of Rights

Purpose:

In October 2001, the City Offices of City Auditor and Cable Communications initiated a second audit of AT&T Broadband's compliance with the City's Cable Customer Bill of Rights.⁴ In addition to addressing current compliance issues, the audit reexamined areas of non-compliance identified during a 1999 compliance audit.

⁴Internet services were not included in the audit scope, because the Cable Customer Bill of Rights did not explicitly address such service requirements before April 2002.

Methodology:

The audit evaluated AT&T Broadband's compliance with the Cable Customer Bill of Rights, focusing on overall customer service requirements, service centers, the security fund, privacy of Seattle customers and the follow-up of the 1999 compliance audit issues. We reviewed AT&T's reports to compare actual performance to the applicable City requirements, and observed operations at AT&T's customer service centers.

Results:

AT&T provided courteous service to video customers, but customers were dissatisfied with the relocation of the AT&T's local call centers to other states and the poor communication between customer support offices and technical field staff. AT&T did not comply with requirements for service centers, but complied with the requirement to annually deposit an amount equivalent to 50 cents per customer in an escrow fund. We were unable to verify the accuracy of AT&T's performance information regarding installation appointments and customer privacy. AT&T continues to inadequately track and report customer complaints, service request disposition, service interruption disposition, residential installations and customer contacts following installations to the City. Customer credits also continue to be determined by AT&T policy and practices rather than the Cable Customer Bill of Rights.

Customer Credit Programs for the California Energy Commission**Purpose:**

We conducted this audit to assist Seattle City Light by verifying that it had complied with the requirements of the California Energy Commission's Renewable Energy Customer Credit Program. Under this program, a service provider receives payments from the Commission for purchasing energy generated from renewable sources ("green power"). The service provider must pass the California Energy Commission's payment on to the consumer. City Light qualified for the program by supplying power, purchased from renewable sources, to a Nordstrom, Inc., retail store in California. The Commission requires green power service providers to undergo an audit in accordance with its audit protocol.

Methodology:

To perform this audit we reviewed the Green Purchase Power Agreement that City Light entered into with its green power provider, Enron Power Marketing, Inc. We also reviewed the City Light records documenting how the green power was purchased and distributed to Nordstrom's meters, and recalculated the credit for the Renewable Energy Customer Credit Program to verify its accuracy based on the amount of power purchased. In addition, we verified that Nordstrom received timely and accurate credit payments from City Light, and that the California Energy Commission sent the proper credit payments to City Light.

Results:

Based on the work performed, we determined that City Light complied with the Commission's requirements for the customer credit and properly credited Nordstrom. We also located documentation verifying the City's receipt of the Commission's green power credit payments.

Internal Control Reviews Completed in 2002

Chinatown-International District Business Improvement Area

Purpose:

At the request of the Executive Director, we reviewed the Chinatown-International District Business Improvement Area's accounts because ratepayers were dissatisfied with the City's assessment billing, receipting, and account adjustment correction processes. The City of Seattle is responsible for collecting and accounting for Business Improvement Area (BIA) assessments.

Methodology:

We interviewed the BIA Executive Director, two BIA ratepayers, and City Department of Executive Administration/Treasury officials to clarify assessment issues. We examined and documented the BIA budget and billing database, as well as tested and analyzed the BIA assessments and payment histories to determine whether ratepayers were assessed at the correct rate and paid assessments in a timely manner. In addition, our analysis included a review of the effectiveness of the City Treasury's cash management practices.

Results:

The Chinatown-International District Business Improvement Area's assessments collection rate was very high, but serious issues were identified regarding the assessment billing practices as well as correction of billing errors. We collaborated with City Treasury officials to resolve the BIA assessment and billing issues, which are addressed in the *Treasury's Management of Business Improvement Area Accounts* report.

Treasury's Management of Business Improvement Area Accounts

Purpose:

This internal controls review focused on improving the City's management of Business Improvement Area (BIA) accounts, including the performance of Treasury personnel, customer service functions, and monthly reports and communication of account status.

Methodology:

We conducted interviews with City personnel, BIA executive directors, and some BIA businesses. We reviewed and tested the cash receipts, account adjustments, logging, and billing of BIA assessments for accuracy, timeliness and validity.

Results:

Treasury management needs to improve procedures and oversight mechanisms to ensure that the City provides adequate services to the BIAs. Specifically, Treasury management needs to continuously review personnel's performance of essential BIA functions; regularly monitor staff production to foster timely and accurate management of BIA Accounts; formalize BIA Account Management policies, procedures, and task outlines; and update and enhance its computer system, including interfaces with other database systems.

Department of Parks and Recreation: Improving the Aquatics Program's Cash-Handling Operations

Purpose:

This follow-up review evaluated the Department of Parks and Recreation's (Parks) Aquatics Program progress in improving its cash-handling system since the release of our 1997 report *Improving Accountability over Swimming Pools' Cash Handling*.

Methodology:

Audit personnel conducted cash counts at three pools and reviewed the procedures developed by Parks for depositing pool funds. We also met with the Aquatics Program Manager, staff from the Parks accounting office, as well as staff and managers at many City pool sites.

Results:

Parks made significant progress in increasing its professionalism and the accountability of its cash-handling system, including standardizing the type of cash register used at pools, updating the cash-handling policies and procedures in its Swimming Pool Finance Manual, and conducting annual reviews of cash operations at each pool. During the course of our work, Parks also responded diligently and quickly to additional practices that required "fine-tuning," but has not yet fully implemented audit recommendations regarding cash receipts. However, Parks now has reasonable assurance that its staff regularly collects, deposits, and accounts for pool revenues.

Review of Seattle Public Utilities North and South Recycling and Disposal Stations' Cash-Handling Practices

Purpose:

Seattle Public Utilities' Solid Waste Field Operations Division operates two disposal and recycling stations in Seattle. We conducted this audit to evaluate the effectiveness of internal controls for cash operations at both stations.

Methodology:

We conducted cash counts at both locations, and reviewed relevant records and other documents. Our review also included the use of control self-assessment techniques to interview Seattle Public Utilities personnel and collaborate on improving cash operations at the two stations.

Results:

We noted several concerns at both the North and South Recycling and Disposal Stations that Seattle Public Utilities should address, including the lack of functioning video surveillance systems and security systems, and the use of prenumbered deposit bags out of sequence. Seattle Public Utilities management indicated that it would conduct future unexpected cash counts at the stations.

Additionally, we recommended that the north station secure the cash drawers to the cashiers' workstations and repair its change safe. We recommended that Seattle Public Utilities request a Seattle Police Department security review of the south station, and that cashiers discontinue the practice of withdrawing change without depositing corresponding bills into the change safe.

Seattle City Light's Finance Division Reorganization

Purpose:

This review focused on the effectiveness of the new City Light's Accounts Payable and Procurement Unit that was consolidated to improve operational efficiency. Our objective was to determine whether the work responsibilities of the employees in the new unit were distributed in a manner that maintained internal controls, such as an adequate segregation of duties.

Methodology:

We reviewed the roles and responsibilities of the City Light Accounts Payable and Procurement Unit's managers and staff, and Summit⁵ operator class assignments to determine whether the level of security and employee access was reasonable. We also conducted a high-level review of the Accounts Payable, Contracts, and Material Control functions to identify internal control improvements, and reviewed and applied Summit guidelines for the new vendor approval process.

Results:

Overall, we determined that the new Accounts Payable and Procurement Unit established reasonable controls over its employees' use of City systems. Although we identified opportunities for improvements, we did not identify major issues or internal control weaknesses.

⁵Summit is the City's financial management and accounting information system.

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