



# City of Seattle

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## Office of City Auditor

April 1, 2012

The Honorable Mike McGinn  
Seattle City Councilmembers  
City of Seattle  
Seattle, Washington 98104

Dear Mayor McGinn and City Councilmembers:

As required by Article XXII Section 12 of the Seattle City Charter, this is the 2011 annual report of the Office of City Auditor. It contains a description of the Office's 2011 activities and provides information on some of our plans for 2012.

If you have any questions or concerns about the report's contents, please contact me at (206) 233-1095.

Sincerely,

David G. Jones  
City Auditor

## Office of City Auditor 2011 Annual Report

As required by City Charter Article XXII Section 12, this is the Office of City Auditor's annual report about its 2011 activities.

In 2011, we completed a total of nine reports, consisting of three audits and six non-audit projects that either the City Council requested or the City Auditor initiated. Details on each of these reports can be found below in the section "Reports Completed in 2011". Furthermore, we participated in the following four projects that required significant staff time, but for which our office did not issue a report in 2011:

1. **Investigation Assistance:** Throughout the year, we assisted Seattle Public Utilities with its investigation of employees' misuse of the City's utility customer billing system, known as the Consolidated Customer Service System (CCSS). Based on our work with the investigation, we plan on issuing a report in 2012 summarizing the control improvements that we recommend be made to CCSS's transaction procedures.
2. **Data Mining Software:** We devoted a significant share of staff time to learn to use complex data mining software, which we expect will greatly aid our efforts to identify instances of inappropriate transactions. We are using the software in our ongoing review of the City's CCSS utility customer billing system to identify employee transactions worthy of further investigation.
3. **External Peer Review:** Our office prepared for and underwent an external peer review that was conducted in November 2011 by a team of outside auditors selected by the Association of Local Government Auditors (ALGA). The purpose of the peer review was to determine whether our office, during the period August 2008 – August 2011, had adhered to the requirements found in the U.S. Comptroller General's Government Auditing Standards. The peer review team concluded that our office had complied with the Standards. The ALGA team's report can be found on our office's website:

<http://www.seattle.gov/audit/peerreview.htm>

4. **Crime Reduction Conference:** We helped plan a May 2-3, 2011 conference on evidence-based approaches to crime reduction involving the City of Seattle and George Mason University's Center for Evidence-Based Crime Policy. The results of the conference can be found on our office's website:

<http://www.seattle.gov/audit/conference.htm>

## **Reports Completed in 2011**

The following provides descriptions of the focus and results of the audit and non-audit reports that we issued in 2011.

### **2011 Audit Reports**

#### **1. Promising Practices in Risk Management**

**June 22, 2011**

**Focus:** At the request of City Councilmembers Jean Godden and Bruce Harrell, we reviewed risk management best practices implemented by public entities within the State of Washington and around the country.

**Results:** In 2010, the City of Seattle spent \$11.08 million out of its Judgment and Claims Subfund to settle claims and lawsuits against the City.

- We identified five promising practices that are parts of robust risk management programs and found that the City's recently revised draft Enhanced Loss Control Procedures are consistent with these practices.
- The jurisdictions we surveyed varied in their organizational and legal structures and no one structure stood out as a risk management best practice.
- One tool, the Cost of Risk index (total claims/total budget), not currently used by the City of Seattle, is generally accepted as a standard risk management industry measure of effectiveness.
- All the jurisdictions we surveyed, except one, use a combination of setting aside reserves and insuring against catastrophic losses to cover their judgment and claims costs. We found only one jurisdiction, King County, which incorporates a direct financial incentive into its loss reserves cost allocation methodology.

#### **2. City of Seattle Anti-Litter Efforts**

**April 19, 2011**

**Focus:** At the request of City Councilmembers Tim Burgess and Tom Rasmussen, we examined what the City of Seattle (City) does to reduce and prevent ground/street litter in public spaces such as sidewalks, streets, and parks; examined the City's litter laws and enforcement rates; and researched other jurisdictions' successful litter laws and innovative efforts to abate litter.

**Results:** The City has litter programs and activities in a number of departments (including Seattle Public Utilities, Parks and Recreation, Transportation, Finance and Administration, Neighborhoods, and the Seattle Municipal Court) and spent about \$8.2 million on them in 2009. Most City litter programs operate effectively with little interdepartmental coordination required. The City has laws against littering and accumulation of solid waste but they are rarely enforced. Except for hazardous substances or litter that is an immediate threat to the health or safety of the public, City law is silent on responsibility for the removal of accumulated solid waste in amounts equal to or less than one cubic foot by property owners on their properties and adjacent rights-of-way. One recommendation we made is for the City to consider whether it makes sense to replace the current volume standard for removal of accumulated solid waste with a qualitative standard, such as "unsightly" or "unsanitary", to address the removal of all litter, not only from a public safety standpoint but also from a visual disorder or cleanliness standpoint. We also made five more recommendations on operational strategies, some of which have potential for cost recovery or additional revenue for the City.

### **3. Seattle Public Utilities Revenue Cycle Audit - Wastewater: Internal Controls Review**

**April 11, 2011**

**Focus:** Seattle Public Utilities (SPU) provides wastewater services to residential and commercial customers. SPU bills customers for wastewater services and in 2009 collected about \$187 million for providing these services. While SPU collects customer wastewater, King County conveys and processes the City's wastewater at the County's treatment plants, and SPU pays King County for these services. Our office evaluated the internal controls governing the charging and collecting of fees for SPU's wastewater services. We also evaluated the controls over the outsourced services provided by King County, especially controls related to service fees, rates, and contracts.

**Results:** Overall, we found that SPU had adequate internal controls for charging and collecting wastewater services fees. However, controls are not adequate over outsourced wastewater processing functions, specifically for vendor contracts and rates. SPU's wastewater rates are high compared to similar municipalities and this is partly driven by King County's rates for outsourced sewer processing services. In addition, King County's methodology for calculating sewer processing rates does not consistently align with a prior non-binding regional agreement or the King County Code's Wastewater Financial Policies. This results in somewhat higher rates for the majority of Seattle ratepayers. We also found that significant control improvements are needed in construction site dewatering billing and volume tracking, sewer submeter monitoring and accuracy verification, and collection of delinquent inactive tenant

accounts. We have discussed each issue with SPU management and they have committed to taking corrective action on everything within their power. We will follow up regularly on SPU's progress with implementing these corrective actions.

## **2011 Non-Audit Reports**

### **1. Seattle City Light Audit Risk Assessment**

**February 4, 2011**

**Focus:** At the request of the City Council, we developed a proposal for prioritized, future periodic performance audits of Seattle City Light that can be used to guide the allocation of the audit resources of the Office of City Auditor, the State Auditor's Office, and City Light's external auditors.

**Results:** Based on interviews with City Light branch officers and management, we developed a prioritized list of 70 potential audits that could be conducted on City Light activities.

### **2. Addressing Crime and Disorder in Seattle's "Hot Spots": What Works?**

**March 29, 2011**

**Focus:** At the request of Seattle City Councilmembers Tim Burgess and Tom Rasmussen, our office initiated audits to examine how well the City is currently addressing two types of physical disorder: graffiti and litter.

**Results:** Our work on graffiti and litter led us to a growing body of research evidence in the field of criminology that suggests that efforts focused on very small (e.g., one city block), discrete "hot spots" of crime and disorder can be effective in reducing crime and disorder in those areas. Further, this research shows that, rather than displacing the crime and disorder to adjacent areas, nearby areas often also benefit from the hot spot efforts.

In this paper, we:

- Summarized the latest criminology research regarding hot spots of crime and disorder in Seattle;
- Described efforts in other jurisdictions that have demonstrated, through outcome data and evaluation, evidence of success in reducing crime; and
- Recommended steps, based on research evidence, for how Seattle might bring about positive community change in its hot spots of crime and disorder.

### **3. Review of a Human Services Department Contract**

**April 8, 2011**

**Focus:** In response to a letter of concern from a citizen, we investigated whether a nonprofit agency funded by the City's Human Services Department was encouraging employees to falsify documents about the level of participation in the program.

**Results:** We found that the Human Services Department had authorized minor changes to the contract verbally (an acceptable practice) that the Department and the nonprofit agency did not adequately communicate to the agency's personnel. We also found evidence that agency program supervisors may not have adequately reviewed some of the forms filled out by agency interns. Our memo provides details on the steps we took to investigate the allegation, states our conclusions, and describes four actions the Human Services Department took to correct areas in which the program was not consistent with contract provisions.

### **4. Seattle City Light Leasehold Excise Tax Memo**

**April 18, 2011**

**Focus:** We reviewed Seattle City Light's assessment and collection of the leasehold excise tax.

**Results:** We found inconsistency in City Light's assessment of the leasehold excise tax, apparently caused by City Light staff not understanding two provisions of the tax law. We issued a memo describing our findings and recommending that City Light develop written procedures to assist staff in correctly charging the leasehold excise tax, and recommending they maintain updated records on the exempt status of each lessee.

### **5. Update on Action Items: City Should Take Steps to Enhance Pedestrian and Cyclist Mobility through and around Construction Sites**

**September 20, 2011**

**Focus:** To report on the implementation status of nine action items the Seattle Department of Transportation (SDOT) agreed to perform to improve pedestrian and cyclist access and safety through and around construction sites. The items were prompted by our office's August 2008 report that was requested by City Councilmembers Conlin, Licata and Rasmussen.

**Results:** SDOT has made progress on all nine action items, either implementing them as intended (seven action items) or choosing an alternative approach to address the issue (two action items). However, because many of the action items resulted in the creation of new policies and procedures, we recommended that the Seattle City Council monitor their effectiveness by asking SDOT to provide additional information.

## 6. Status Report on Implementation of Audit Recommendations 2007 - June 2011

**September 20, 2011**

**Focus:** To report on the implementation status of recommendations from audit reports published by our office from 2007 through June 2011.

**Results:** We reviewed the status of 267 recommendations contained in 29 audit reports published by our office from January 1, 2007 through June 30, 2011. As of June 30, 2011, 61 percent of our recommendations (163 out of 267) were implemented, 32 percent (86 out of 267) were pending, 7 percent (18 out of 267) did not warrant further follow-up, and fewer than 1 percent were recommendations with which auditees disagreed. The report also discusses our process for tracking and following up on audit recommendations, and lists each recommendation by audit report title, recommendation description, implementation status, and date of implementation.

### Progress on 2011 Goals

In our 2010 Annual Report, the following items were mentioned as “2011 focus areas”, i.e., certain goals for our office to achieve in 2011. Here is a summary of how we did in 2011 with respect to those goals:

- **Goal:** Apply data mining techniques to some of our projects. **Action:** We purchased data mining software, some of our staff members have taken training on how to use it effectively, and we are currently using it to analyze data contained in the City’s utility customer billing system (i.e., CCSS).
- **Goal:** Continue reviewing major City revenue sources and expenses. **Action:** We completed an audit of Seattle Public Utilities’ wastewater revenue stream.
- **Goal:** Complete an assessment of Seattle City Light to identify the best areas for potential audits. **Action:** We completed an initial audit risk assessment of Seattle City Light in February 2011 and delivered it to the City Council.

- **Goal:** Engage in a hiring process to increase the office’s program evaluation and quantitative analysis capabilities. **Action:** We hired Cindy Drake, an experienced auditor with strong quantitative analysis skills, to fill our vacant position for a quantitative analyst.
- **Goal:** Work with the City Council to explore the idea of establishing an audit committee. **Action:** The City Council solicited our input on the formation of an audit committee, and then passed an ordinance (Seattle Municipal Code 3.40.100) that created an audit committee that will provide advice to our office.
- **Goal:** Continue to encourage City departments to adopt metrics that can be used to conduct rigorous program evaluations. **Action:** Oversaw contract with George Mason University's Center for Evidence-Based Crime Policy to conduct a systematic examination of the research evidence for 63 City programs that have the goal of crime prevention. The report, which is in draft, identifies research that can be helpful in evaluating the performance of these crime prevention programs.

### **Award Received in 2011 for Audit Report**

The Office of City Auditor was pleased to learn in 2011 that we had been awarded the “bronze” category Knighton Award from the Association of Local Government Auditors (ALGA) for our 2010 report on the City’s efforts to cope with graffiti (**Anti-Graffiti Efforts: Best Practices and Recommendations** July 28, 2010).

<http://www.seattle.gov/audit/awards.htm>

This is the second ALGA Knighton Award presented to our office. In 2007, we received the “silver” category Knighton Award for our report on the City’s indigent public defense program (**Seattle Indigent Public Defense Services** August 6, 2007).

### **Other 2011 Activities**

**Assisted School District:** We met several times with Seattle School District officials and Seattle School Board members to provide advice on how the District could strengthen its internal auditing capabilities.

**Hosted Humphrey Fellows:** We hosted two Humphrey Fellows, Salem Bin Talib from Yemen and Afifa Adouani from Tunisia, from the University of Washington’s Evans School of Public Affairs for six week internships, and provided them with training in performance auditing. The Hubert H. Humphrey Fellowship Program, sponsored by the U.S. Department of State provides a year of professional enrichment in the United States for experienced professionals from designated countries around the world.

**Auditor Passed CPA Exam:** Assistant City Auditor, Robin Howe, passed the Certified Public Accountant exam. We are very proud of Robin’s accomplishment.



**Race and Social Justice Initiative:** We submitted our office's 2011 Race and Social Justice Initiative (RSJI) Work Plan to the Seattle Office of Civil Rights in March 2011, and served as a financial sponsor of the October 6, 2011 RSJI Summit.

### **Plans and Goals for 2012**

In 2012, we plan to do the following:

**Utility Audits:** At the request of the Seattle City Council, we will expand our audit coverage of the financial controls over the City's two utilities – Seattle Public Utilities and Seattle City Light. One step towards achieving this goal will involve our hiring of a utility auditor. This hiring was authorized by the City Council during the 2012 budget process. We will also perform an audit in the area (i.e., water main extensions) in which an alleged fraud of over \$1 million occurred at Seattle Public Utilities, and issue a memo on control improvements needed in the City's utility customer account billing system (CCSS).

**Transportation:** At City Councilmembers Burgess and Rasmussen's request, we will also look for possible efficiencies in the Seattle Department of Transportation (SDOT) and help the Council plan for a broader review of SDOT's operations.

**Sick and Safe Leave Ordinance:** We will work with professors from the University of Washington to evaluate the impacts of the City's Sick and Safe Leave Ordinance requirements on both employers and employees.

**Grants Process:** During the 2012 budget process, the City Council in a budget "green sheet", directed our office to work with the Office of Economic Development, Seattle Public Utilities, and the Department of Information Technology to identify best practices and possible process improvements for administering certain City grant programs.

**Audit Recommendation Follow-up Report:** As we did in 2009 and 2010, we plan on issuing a report that summarizes the implementation status of recommendations made in our office's reports in recent years.

**Healthcare and Retirement:** If time and resources permit, our office would like to perform work on the City's healthcare and retirement programs, both of which involve large sums of money.

**Audit Committee:** We also look forward to working with the newly established Audit Committee on topics such as how to appropriately prioritize the many audits that could be performed throughout Seattle City government.

**Fraud Investigation:** Robin Howe will be sharpening her fraud investigation skills by studying to become a Certified Fraud Examiner and taking a course on fraud interviewing skills.

### **Office of City Auditor Staff**

During 2011, the Office of City Auditor was budgeted for eight full-time equivalent employees. The following is a current list of our employees:

- David Jones, City Auditor
- Mary Denzel, Deputy City Auditor
- Jane Dunkel
- Cindy Drake
- Virginia Garcia
- Claudia Gross Shader
- Robin Howe
- Megumi Sumitani

### **Ideas for Audits Welcomed**

We always welcome suggestions for future work our office could perform that will help the City of Seattle. Please contact our office if you have any questions or suggestions. We can be reached by telephone at (206) 233-3801, or via email at [davidg.jones@seattle.gov](mailto:davidg.jones@seattle.gov). Our mailing address is PO Box 94729, Seattle, WA 98124-4729.