

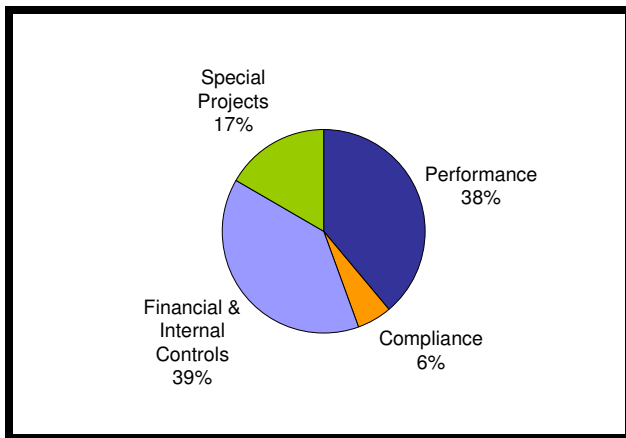


# Office of City Auditor 2006 Annual Report

## Overview of the Office of City Auditor’s Activities

As the City’s internal audit function, our role is to provide the City with independent, objective, and useful information regarding the work of City government so that City managers and policymakers may better exercise the power vested in them to improve Seattle citizens’ quality of life.

### 2006 Projects by Type of Audit



The primary types of work conducted by our office include: reviewing the performance of City functions; assessing the management of capital projects; determining programs’ compliance with laws, regulations, or City policies; and analyzing internal controls to ensure optimal use and protection of City assets.

**Performance audits** provide independent, systematic examinations of organizations, programs, activities, or functions of importance to decision-makers, and offer recommendations to improve government operations. Eight of our 2006 projects were performance audits, including reviews of the Department of Planning and Development’s Design Review Program, Parks Public Involvement, ProParks Levy Oversight, the Department of Information Technology’s Fiber Optics Program, Public Benefits, and Critical Systems Failures: Manual Operations. We also performed follow-up reviews of Quality Assurance for Information Technology and the TriData Report on Seattle’s emergency preparedness efforts.

**Compliance audits** determine whether an entity is complying with established laws, regulations, policies, or procedures. They focus on an organization’s compliance requirements, 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. In 2006, we completed one compliance review of the Citywide Payment Card Industry (PCI) Security.

**Financial and internal control audits** seek to ensure that financial and program objectives are achieved. A well-designed internal control structure provides reasonable, but not absolute, assurance that assets are protected and records are accurate, and promotes operational efficiency along with adherence to City policies. A general rule in designing control systems is that greater risks require more extensive controls. Too little control presents undue risk of loss, while excessive control is costly. Efforts must be made to ensure that internal control costs do not exceed expected benefits.

In 2006 we completed seven financial or internal control audits which included reviews of the Skagit Recreation Association, Cookhouse, and Store; Seattle Municipal Court Revenue Recovery Operations Benchmarking Study; SPU Transfer Station; Citywide Change Funds; and the Parks Department Purchasing and Accounts Payable.

**Construction audits** focus on City processes and procedures for managing project scope, schedule, and budget, including change control processes, document management systems, contract administration, and communication processes. In 2006, we did not perform any construction audits.

**Special reviews** are occasionally conducted in response to requests from the City Council, the Mayor’s Office, or department officials. In 2006, our special reviews included identifying best practices regarding capital projects estimating, working with the Department of Parks and Recreation and the Department of Information and Technology to redesign the internal controls of the Japanese Garden’s cash handling and controls over telephones, respectively.

# Summary of Projects Completed in 2006

## PERFORMANCE AUDITS



Design review helps form Seattle's changing landscape.

Photo Source: DPD Design Review Program

### Seattle's Design Review Program: Successes and Opportunities *December 5, 2006*

**Focus:** At the request of Councilmember Peter Steinbrueck, we examined Seattle's Design Review program to determine

its effectiveness in meeting its objectives and impact on the quality of design in Seattle's built environment.



Communities learn about new projects at Design Review Board meetings. Photo Source: DPD Design Review Program  
Photo Source: Department of Planning & Development

**Results:** We found that Seattle's Design Review Program generally complies with its legislative mandates.

We offered the Department of Planning and Development (DPD) options for strengthening the program in three areas:

facilitating more consistent and timely design guidance, enhancing public outreach efforts, and communicating a clear message throughout the City about the need for a high quality, well-designed built environment.

### Pro Parks Levy Oversight Review

*January 23, 2006*

**Focus:** A citizen inquiry prompted Councilmember Steinbrueck to request this audit. Our review addresses concerns about the role of the Pro Parks Levy's Citizen Oversight Committee, the timing of budget and financial information presentations to the committee, and overhead costs related to Pro Parks Levy projects.

**Results:** In response to our findings, Parks developed an action plan for the Pro Parks Levy Citizen Oversight Committee (Committee). Elements of the plan include: establishing guidelines for Committee discussion of expenditure issues, clarifying roles with and soliciting ideas for improvement from Committee members, establishing a schedule for Committee action, and developing a primer on project costs. The primer was approved by the Committee in November 2005. It includes cost detail for three levy projects, an explanation of how overhead costs are calculated, and answers to frequently asked questions.

### Parks Public Involvement Audit

*September 20, 2006*



Board of Park Commissioners Meeting

Photo Source: Parks Website

**Focus:** City Councilmember David Della asked the Office of City Auditor to review Seattle Parks and Recreation's (Parks) public involvement practices due to his concerns about controversies in the spring of 2006 regarding Parks projects. In this first phase of our review, we examined current

Parks processes for public involvement, and we polled Seattle residents on their views. We received 846 responses to our web questionnaire.

**Results:** Based on this work, we identified three areas for improving Parks' public involvement processes:

- Reaching hard-to-reach communities
- Using tools and technology for better public involvement
- Maintaining the integrity of the process.

Within these areas, we found nine specific opportunities for improving Parks' public involvement practices. We collaborated with the Department of Finance and Parks to develop an action plan with 16 recommendations to address the issues uncovered in the first phase of our review.



**In exchange for City assistance, the Seattle Symphony Orchestra signed a contract with the City of Seattle to allow public access to and use of Benaroya Hall.**

Photo Source: Seattle Municipal Archives

### **Public Benefits**

*February 14, 2006*

**Focus:** At the request of City Councilmember Nick Licata, we reviewed contracts that the City of Seattle has with private, non-profit entities that own and/or operate arts and cultural facilities. The objectives of our review were to 1) identify the contractual obligations imposed upon each entity, 2) determine the extent the entities are fulfilling their contractual responsibilities, 3) assess the extent public use and access is occurring (and by whom), and 4) evaluate the City's level of monitoring and oversight of these contracts.



**The Seattle Asian Art Museum located in Volunteer Park**

Photo Source: Seattle Municipal Archives

**Results:** We found that while arts and cultural entities are fulfilling their contractual obligations, these limited-term facility use easements are largely untapped by the City and City-designated parties. With respect to limited-term facility easements, not all uses by non-City parties may be appropriate, and it may be that not all appropriate uses are being credited against the terms of agreement.

Contractual terms vary widely, and the City does not consistently monitor their implementation.

### **Follow-up on Quality Assurance for Information Technology**

*May 1, 2006*

**Focus:** Follow-up on our July 2004 response to the 2003-2004 Statement of Legislative Intent #10 on Quality Assurance (QA) for information technology (IT).

**Results:** Since 2004, we observed significant improvements in the Chief Technology Officer's monitoring of the progress of expensive and complex City IT projects. We also noted that one recommendation from 2004 remains unaddressed.

### **Review of Internal Controls Related to the Accounts Receivable System in the Department of Information Technology's Fiber Optics Program**

*October 2, 2006*

**Focus:** The Department of Information Technology's (DoIT) Fiber Optics Program relies on full and timely payments from external project partners (i.e., other government agencies) to share the cost of constructing and maintaining the City's fiber optics network. Our focus was to determine whether the Fiber Optics Program's internal controls help ensure that funds collected from partners are valid, accurate, and collected in a timely manner.

**Results:** While DoIT generally receives all funds due to it, internal controls related to the Fiber Optics Program's accounts receivable system could be improved to support financial information accuracy, integrity, and security to ensure that the City fully bills and recovers project-related costs from its partners. DoIT management and the Fiber Optics Program Team developed a detailed action plan that responds to each audit recommendation and many actions are underway.

### **Follow-Up on the TriData Report's Recommendations for Emergency Preparedness**

*December 12, 2006*

**Focus:** Determine the implementation status of the 111 recommendations concerning Seattle's emergency preparedness program made by the TriData consulting firm in a September 2003 report. TriData, which specializes in public safety and emergency management planning, was hired by the Seattle Legislative Department through a competitive process.

**Results:** We concluded that about 75 percent of TriData's recommendations have been successfully addressed by the City, while the remaining 25 percent have yet to be fully addressed.



## FINANCIAL, COMPLIANCE, AND INTERNAL CONTROL AUDITS

### Benchmarking Study: Seattle Municipal Court Revenue Recovery Operations

June 21, 2006

**Focus:** At the request of the Seattle Municipal Court, we compared Seattle with ten other large municipal courts (or jurisdictions) to help evaluate the effectiveness and efficiency of the Court's revenue recovery functions, and to examine alternative options (e.g., outsourcing versus handling in-house). We developed a web survey tool to help gather the information from other jurisdictions.

**Results:** We reported findings in several areas: fees for time payments, organizational structure, collections contracts, other outsourcing, and IT systems. Based on these findings, we identified seven key issues for Seattle Municipal Court to consider.



**SPU Transfer Station**  
Photo Source: Office of City Auditor

the transfer stations' coordination of cash deposit monitoring tasks with SPU Accounting.

**Results:** We recommended that 1) the current safes, until they can be replaced, be used differently than they are being used today, 2) SPU request its vendor to provide the change funds for Friday, 3) cash count out and safe reconciliation forms be revised, and 4) SPU Accounting provide the crew chiefs with information about scale house cash activity.



**Seattle Municipal Court is located in the new Seattle Justice Center**  
Photo Source: City of Seattle Website

### Citywide Change Funds (Continuous Auditing)

Throughout 2006

**Focus:** This survey and risk assessment of the City's change fund sites stemmed from the City Council's July 1997 passage of Council Resolution 29604 which directed our office to continuously review the City's cash handling operations. Change funds are cash in a drawer used to receive customer payments and/or make change.

**Results:** We sent cash handling questionnaires to the City's 165 change fund sites and made site visits to 80 of them. The questionnaires addressed the internal control components of physical safekeeping of cash and checks, segregation of duties, cash receipting and deposits, and monitoring. Using the data we obtained from the questionnaire responses and sites visits, we compiled a risk score for each site, and shared these with ten departments via a memorandum (Executive Administration, Fire, Fleets and Facilities, Neighborhoods, Parks and Recreation, Planning and Development, Seattle Center, Seattle Public Library, Seattle Public Utilities, and the Office of Hearing Examiner).



**Ballard Neighborhood Service Center**  
Photo Source: City of Seattle Website

### Department of Parks and Recreation Purchasing and Accounts Payable

February 21, 2006

**Focus:** The Department of Parks and Recreation's purchasing and accounts payable internal controls for preventing fraud and loss of assets.

**Results:** We found three areas that could be strengthened: 1) consistently complete packing slip coding blocks and forward them within the established two day timeframe; 2) keep a file of authorized signatures; and 3) discuss the definition of fraud and the consequences of employee fraud in the resource materials related to department purchasing. The Department of Parks and Recreation responded with a plan to address each of our findings and recommendations.



**The Office of City Auditor conducted three audits of Seattle City Light Skagit facilities.**

Photo Source:  
Seattle City Light Website

### **Skagit Recreation Association**

*January 18, 2006*

**Focus:** At the request of Seattle City Light, we conducted a compliance audit of the agreement between the Upper Skagit Athletic Association and Seattle City Light.

**Results:** The Association is maintaining adequate

records. Though it is contractually required to pay for all operational costs, the Association is not. It also did not submit yearly financial reports. The Association used some of its funds inappropriately. It needs to use its funds to cover necessary pool repairs including repair to two electric heaters and the replacement of the filter assembly. Most importantly, the Association needs to acquire liability insurance.

### **Skagit Cookhouse**

*January 18, 2006*

**Focus:** The effectiveness and efficiency of the Skagit Cookhouse operations; in particular, its staffing, hours of operation, and food ordering processes.

**Results:** Expenses have increased dramatically at the cookhouse—from \$53,000 in 2001 to \$102,000 in 2005. Current staff levels should be maintained, and additional positions are not justified. Hours of operation need to be modified based on SCL crew demand and the cookhouse should close on weekends. The food order list needs to be reduced by at least 50 percent.

### **Skagit Store Report**

*January 18, 2006*

**Focus:** The effectiveness and efficiency of the Skagit Store's operations, specifically its staffing, hours of operation, and inventory.

**Results:** Sales volumes do not support early morning or weekend store hours. The store should not open before 7:30 a.m. or on the weekends between Labor Day and Memorial Day. Off season staffing should be reduced to only the storekeeper. The storekeeper should review vendor orders and invoices. Inventory levels of \$120,204 are too high.

Merchandise discounts and pricing are inconsistent and vary from day-to-day. All customers should pay the same prices.

## **SPECIAL PROJECTS**

### **Japanese Garden Cash Handling**

*March 31, 2006*

**Focus:** The Department of Parks and Recreation (Parks) asked us to review the Japanese Garden's cash register operations and cash receipting forms, and to provide general recommendations regarding cash transaction controls.

**Results:** We made recommendations about how Parks could strengthen the Garden's cash register operations, cash handling forms, and cash deposit process.

### **Telephone Usage Internal Controls**

*September 12, 2006*

**Focus:** Internal controls over the City's long distance telephone calls.

**Results:** We recommended changes to the internal controls over long distance phone usage.

### **Capital Projects Estimating**

*June 28, 2006*

**Focus:** At the request of Councilmember Della, we reviewed and summarized research into reasons for inaccurate capital project estimates and suggestions for improved approaches.

**Results:** Many estimates for public projects are much lower than actual costs. This often is a result of intentionally low estimates that are made to get a project established. Other reasons for overruns include technical errors, changing market conditions, increased financing charges, and lower than expected revenues. The City could ensure more accurate project estimating if it takes the following actions:

1. Conduct pre-feasibility analysis before major commitment of resources
2. Conduct thorough, credible risk analysis
3. Quantify the impact of risk on the project using a probabilistic analysis
4. Require that private capital be at risk for at least 1/3 of the total project cost
5. Hold responsible parties accountable

## OUR ONGOING PROJECTS AND 2007 WORK PROGRAM

Our overall goal in developing the office's work program is to choose projects that will help City departments improve services and citizen satisfaction, inspire positive innovations, and increase City revenues and/or reduce the City's costs. We encourage City officials and citizens to make suggestions for our work program. We will consider the needs of departments, the quality of their internal controls, program funding and changes, time elapsed since the last audit, and the skills and availability of audit staff.

Projects underway or planned for 2007:

- Cash Handling Reviews
- City Overpayment Identification
- City Travel
- Collections Controls Review
- Comcast Compliance with Cable Customer Bill of Rights
- Communication of Emergency Management Information
- Critical System Failures: Manual Operations
- Data Mining Auditing Project
- DPD Code Enforcement Effectiveness and Efficiency
- DPD Housing Code Enforcement to Preserve Low Income Housing
- External Funding of Capital Projects
- Fire Levy Project Management
- Information Technology Security Training Course
- Internal Quality Assurance Review
- Millennium Digital Media Compliance with Cable Customer Bill of Rights
- Paper Cuts Campaign
- Park's Citizen Participation Phase 2
- Public Defense Services
- Seattle Public Utility Billing and Accounts Receivable Audits
- Special Events Permitting

Throughout the year, we re-prioritize our work program to ensure that we are addressing those audits most important to the City's decision-makers. As described in Council Resolution 30175 Section 3:

"The Council ... recognizes that the City Auditor is committed to providing independent and objective reports that address City problems and issues in a timely manner. To accomplish this goal, the Council acknowledges that the City Auditor will periodically during the year re-prioritize the Office of City Auditor's work program so that it will continue to address emergent critical issues in a timely manner."

## Transitions and Achievements

2006 was a productive and eventful year for the Seattle Office of City Auditor. Voters amended the City Charter in November, changing the City Auditor's term of office from six to four years. The amendment also specified that the City Auditor will be appointed by a majority of the City Council, rather than by the Chair of the Council Finance Committee. As stated in the 2006 Voter's Pamphlet:

"...the Auditor's independence is enhanced by requiring appointment by a majority of Council. If this individual were inclined to respond to political pressure, a single person – the Finance Chair – could exert extraordinary pressure. The selection by entire Council of an Auditor of great personal integrity – such as the incumbent – protects against political pressures." (2006 Voters Pamphlet regarding Seattle Charter Amendment No. 9)

Other notable transitions and achievements included:

- The City of Tacoma appointed Scottie Nix, formerly Seattle Assistant City Auditor, as Tacoma's first city auditor;
- Seattle Public Utilities' selected Aurora Mendoza to serve as Strategic Advisor in their Asset Management Unit;
- The Office of City Auditor recruited Virginia Garcia, former Council Central Staff Analyst, to return to auditing;
- The National Research Council of the National Academies, recognizing the City of Seattle's leadership in climate change, requested the Office of City Auditor's participation in discussing five papers. These papers were commissioned by the Study Committee on Climate Change and U.S. Transportation to explore various aspects of the potential impacts of climate change on U.S. Transportation infrastructure and possible adaptation strategies;
- The Northwest Intergovernmental Audit Forum requested a presentation of our audit, *Seattle's Design Review Program: Successes and Opportunities*;
- The Office of City Auditor collaborated with the Snohomish County Performance Auditor and the King County Auditor to establish the Washington State Local Government Auditors Association.