



Office of City Auditor 2005 Annual Report

City of Seattle

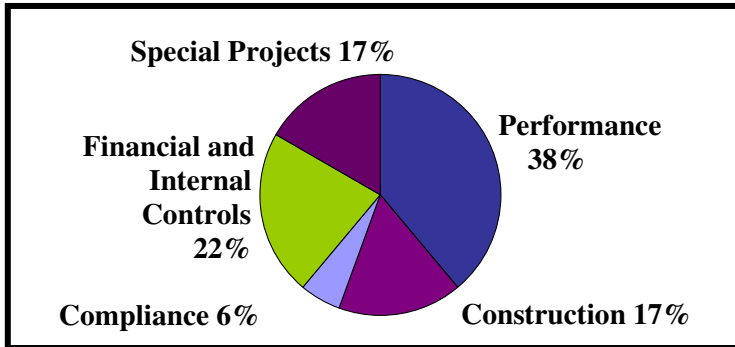
www.seattle.gov/audit

January 26, 2006

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.

Projects by Type of Audit (2005)



The four 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. Seven of our 2005 projects were performance audits, including reviews of the Seattle Channel, Seattle City Light's J. D. Ross Library, the City's span of control, and how climate change will impact the Seattle Department of Transportation. We also performed follow-up reviews of the Seattle City Employees' Retirement System and the Low-Income Rate Assistance Programs.

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.

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.

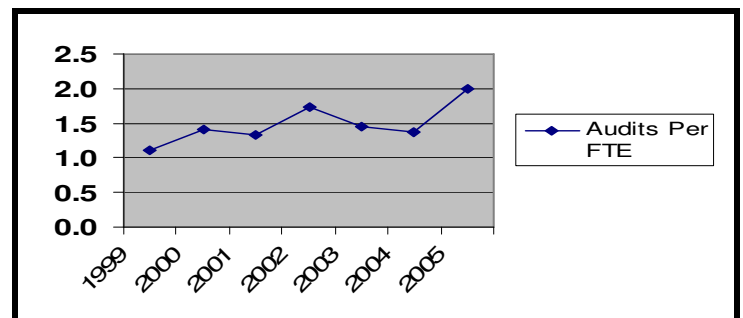
In 2005, we completed one compliance review of the Department of Parks and Recreation's credit card information security, and four financial or internal control audits which included reviews of the City's business taxes and licensing program, parking citation collection processes, the Project Share program, and the Seattle City Light's Employee Store.

Construction reviews 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 2005, we identified best practices regarding reliance on external funding sources for capital projects, assessed whether City departments have effective construction project closeout procedures, and reviewed construction contract management practices.

Special reviews are occasionally conducted in response to requests from the City Council, the Mayor's Office, or department officials. In 2005, our special reviews included: 1) homeland security funding and liabilities, and 2) election charges. In addition, we provided assistance to the Seattle School District.

In 2005, our office continued to show increased productivity, completing 18 major projects, an average of two audits per full-time equivalent (FTE) employee.

Performance



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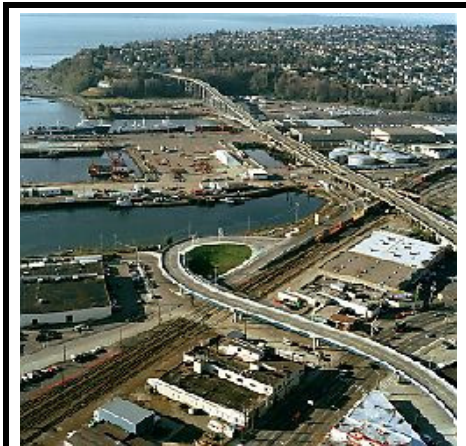
Summary of Projects Completed in 2005

PERFORMANCE AUDITS

Climate Change Will Impact the Seattle Department of Transportation

August 9, 2005

Focus: Global warming and the Seattle Department of Transportation's (SDOT) long-term planning efforts.



Rising sea levels could result in coastal inundation and impact land adjacent to major bodies of salt water.

Photo Source: Seattle Municipal Archives

Results: Climate change will significantly impact SDOT's planning for flooding and landslides, seawall conditions, bridge conditions, roadway conditions, and trees and vegetation in the public rights-of-way. The department has not included climate change as a factor in its overall long-term planning. The University of Washington Climate Impacts Group

indicated that the current sea level rise projections used by SDOT (0.9 foot over 75 years) appear to be underestimated, whereas the university group projects a rise of 1.0 to 2.8 feet over the same 75-year period.

City of Seattle Response to the Statement of Legislative Intent: Parking Enforcement Effectiveness

September 22, 2005

Focus: Seattle Police Department's (SPD) parking enforcement practices with regards to ticketing technology and pay station enforcement.

Results: The City's ticketing technology devices need to be replaced before 2008 due to their breakdown rate and because their vendor maintenance will end in 2008. Because it takes three times longer to enforce a block of pay stations compared to metered spaces, we recommended that SPD explore the use of bicycles for enforcement. We also advised SPD to capture additional information for performance measures, such as violation capture rates.

Seattle City Light's (SCL) J. D. Ross Library

January 31, 2005

Focus: Compare the costs of the J. D. Ross (JDR) Library to other small libraries.

Results: SCL's Generation Branch spent more than \$1,800 per family in 2003 to operate the JDR Library for 35 SCL families living in the Skagit Valley. The cost of operating the JDR Library was approximately three times higher on a cost-per-circulated item basis and more than ten times higher on a cost-per-registered borrower basis compared to other small libraries in Washington. After our study was issued, SCL decided to decrease the staff time allocated to the library and is considering options for future cost-effective changes.

Span of Control in City Increases Overall

September 16, 2005

Focus: The ratio of staff to managers.

Results: The City of Seattle's current ratio of staff to managers is 6.8. This is a higher ratio than was reported in our 1996 and 1997 span of control reports. The City would have to pay more than \$15 million in salary to an additional 250 supervisors and managers in 2005 if it wanted to re-establish the ratio of managers to staff it had in 1995.

Review of Seattle Channel Practices

February 4, 2005

Focus: Seattle Channel's programming policies and practices.

Results: Seattle Channel has established programming policies to ensure that its broadcast programs are fair and objective. Programming during prime viewing hours emphasized culture and history programs in 2003, and general-interest programs in 2004. In both 2003 and 2004 the largest percentages of total airtime in our sample were allocated to live and taped broadcasts of City Council meetings. The meetings were broadcast live, and were generally replayed within 24 to 48 hours at varying times to provide convenient access for viewers.

Follow-Up: Seattle City Employees' Retirement System

October 8, 2005

Focus: Seattle City Employees' Retirement System's (SCERS) efforts to implement recommendations made in two earlier reports.

Results: To address past concerns, SCERS:

- Assigned one of its accountants to reconcile SCERS records with the information contained in the investment statements it receives from its investment firms;

- Formalized its internal control system over investments and obtained brokerage commission rebates through a competitive process;
- Required its investment consultant to give up its role in the directed brokerage commission rebate process; and
- Established a charter for its investment advisory committee and committed more resources to compliance and financial audits as well as undergoing an actuarial audit.

The only pending resolution of our audit recommendation involves developing written procedures.

Low-Income Rate Assistance Programs Follow-Up

January 14, 2005

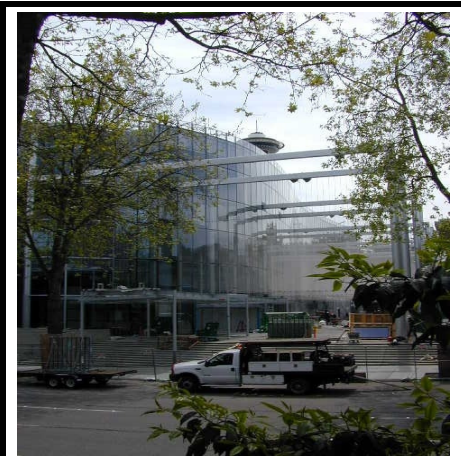
Focus: Implementation of previous audit recommendations.

Results: The Low-Income Rate Assistance Programs improved their outreach activities and developed written procedures and new guidelines. They also obtained new computers and a new database. The Utility Assistance Program sampled some applicants to ensure eligibility.

CONSTRUCTION AUDITS

Securing Capital Funding

June 10, 2005



Marion O. McCaw Hall under construction at the Seattle Center.

Photo Source: Seattle Office of City Auditor

Focus: Best practices regarding reliance on external funding sources for capital projects.

Results: Prudent jurisdictions do not proceed with capital projects without, at a minimum, some form of written agreement from expected external funding sources, or a plan to cut costs if revenues do not meet predictions.

Improving the City's Construction Project Closeout Process

January 19, 2005

Focus: City departments' implementation of project closeout procedures.

Results: While some departments have established and adhered to effective construction project closeout procedures, some have not. Those departments and divisions without formal policies and procedures should develop them. The procedures in place

could be improved by: 1) training project clients in using new or unfamiliar technology; 2) inspecting new infrastructure before construction warranties expire; and 3) completing post-project evaluations, including sharing lessons learned.

Construction Contract Review

June 15, 2005

Focus: Construction contract management practices.

Results: Overall, the City's construction contract management rated satisfactory for effectiveness, and rated below satisfactory for efficiency, accountability, and equity. In addition to a number of department-specific recommendations, the report offers three Citywide recommendations regarding consolidating services into Seattle Public Utilities, ensuring a consistent document management system for use by all departments, and improving equity by discontinuing the practice of adding work at additional sites after a contract is issued.

FINANCIAL, COMPLIANCE, AND INTERNAL CONTROL AUDITS

Department of Parks and Recreation Credit Card Information Security

October 24, 2005

Focus: New Visa/MasterCard payment card/credit card security industry requirements.

Results: At the request of the City's Chief Information Security Officer, our office provided an independent review of the credit card information security practices.

Business Taxes and Licensing Review

May 18, 2005

Focus: City's business taxes and licensing functions and policies.

Results: The City is not maximizing recoveries of tax and licensing revenues through its tax audit and enforcement efforts, due to an insufficient level of resources in these areas. The City is doing a good job in directing its tax audit and enforcement resources to its most value-added activities. As a result of this audit, two tax auditor positions and one inspector position were added, and this will result in additional annual net revenues for the City of more than \$1 million.

Parking Fine Collection

September 22, 2005

Focus: City's parking citation collection processes.

Results: Although the City's parking citation collection processes are adequate overall, the City needs improvements in

the areas of information security, payment processing efficiency and parking citation accounting practices.

Project Share Internal Controls

January 14, 2005

Focus: Internal controls.

Results: Internal controls regarding Project Share are adequate overall, except in the area of program efficiency and financial management. We provided guidance on improving controls in the areas of protection of assets, compliance with policies and procedures, and integrity of information.

Seattle City Light's Employee Store

January 13, 2005

Focus: Seattle City Light's (SCL) Employee Store operations.

Results: The SCL Employee Store was not an effective or efficient benefit for SCL employees and functioned with many internal control weaknesses. As a result of this audit, SCL ceased operations of its Employee Store in 2005.

SPECIAL PROJECTS

Homeland Security Funding and Liabilities

February 4, 2005

Focus: Cost and funding source of City's homeland security efforts.

Results: Approximately 47 percent of the \$85.5 million spent on homeland security activities (such as achieving compliance with post September 11, 2001 federal guidelines or implementing physical security enhancements) came from grant sources. City taxpayers and ratepayers have funded \$45.5 million, or 53 percent of the total homeland security costs. Sustaining this level of effort will create funding challenges for the City.

Review of Election Charges

February 24, 2005

Focus: Financial effect of King County's election cost apportionment method.

Results: We provided information to the Mayor's Office regarding King County's cost apportionment method and examined alternative cost apportioning methods.

Seattle School District

June 1, 2005

Focus: At the direction of City Ordinance 121767, we loaned staff to the Seattle School District.

Results: We assisted the Seattle School District's Chief Financial Officer in responding to specific questions about school district operations, including the feasibility of selling the Stanford Center, possible efficiencies in the food services and security services units, funding for bilingual education, alternatively using Licensed Practical Nurses instead of Registered Nurses as school nurses, and comparing state funding with Seattle School District expenditures to identify funding shortfalls. Our staff also worked with District staff to itemize the potential costs and savings of closing the school buildings identified for closure in the Superintendent's original closure proposal.

OUR ONGOING PROJECTS AND 2006 WORK PROGRAM

Current projects underway include:

- ProParks Levy Oversight
- Risk/Vulnerability Assessment at Seattle Department of Transportation
- Construction Scheduling Processes
- Contracts for Use and Public Access to Arts and Cultural Facilities
- Public Defense Services
- Parks Accounts Payable
- External Funding of Capital Projects
- Seattle Public Utilities' Billing and Accounts Receivable
- Seattle Municipal Court's Revenue Recovery and Accounts Receivable
- Seattle Design Review Program

Our overall goal in developing the work program is to choose projects that will help departments improve services, inspire innovation, and increase revenues and/or reduce costs. While developing the 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.

As you consider making suggestions for our work program, please think about projects that emphasize improved delivery of services, citizen satisfaction, and cost reduction. During the year, staff are assigned to projects using criteria such as risk, potential benefits, urgency of need, and expertise of audit staff. Audit staff are also available to help departments on projects not selected by the City Auditor on a cost-reimbursement basis.

**"Both King County and Seattle have tenacious,
independent auditors."**

--The Stranger, October 20, 2005