



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Administration & Finance
Gwen Chapman, Financial Operations Manager

Date: February 8, 2007

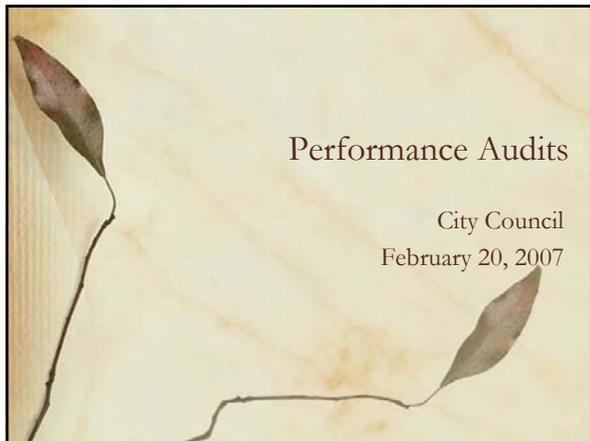
Subject: Performance Audit Overview

RECOMMENDATION:

Council receive an update on the performance audit program.

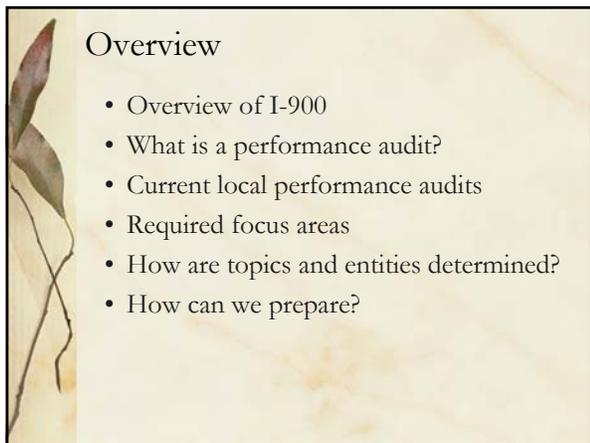
BACKGROUND DISCUSSION:

In 2005, the voters passed Initiative 900 requiring the State Auditor to conduct performance audits of all state and local governments. Gwen Chapman will be in attendance to provide an overview of I-900, the current status of the performance audit program and how it may impact Kirkland.



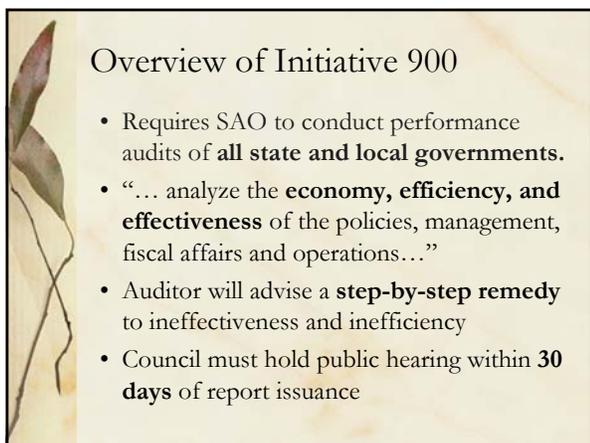
Performance Audits

City Council
February 20, 2007



Overview

- Overview of I-900
- What is a performance audit?
- Current local performance audits
- Required focus areas
- How are topics and entities determined?
- How can we prepare?



Overview of Initiative 900

- Requires SAO to conduct performance audits of **all state and local governments**.
- "... analyze the **economy, efficiency, and effectiveness** of the policies, management, fiscal affairs and operations..."
- Auditor will advise a **step-by-step remedy** to ineffectiveness and inefficiency
- Council must hold public hearing within **30 days** of report issuance



Current local government audits

Audits we are involved in:

- Impact fees
- Overtime practices

On-going, but not involving Kirkland:

- Take-home vehicle practices
- Open public records



What is a performance audit?

Attempts to answer questions such as:

- Do programs and services achieve results?
- Is money spent for the right things?
- Can the same or better results be achieved in a more economical way?
- Is there duplication that can be eliminated?
- Are there inefficient processes that can be improved?
- Has someone else found a better way?



Required focus areas

The scope of each performance audit shall not be limited and shall:

Identify:

- Best practices
- Cost savings
- Services that can be reduced or eliminated
- Programs or services that can be transferred to private sector
- Recommendations for regulatory changes necessary to allow entity to properly carry out its functions

Analyze:

- Roles, functions and recommend changes, eliminations
- Gaps, overlaps in programs or services and make recommendations to correct
- Feasibility of pooling information technology systems
- Departmental performance data, performance measures and self-assessment systems



How are topics selected?

Six performance audit themes:

- Public interest
- How dollars flow between state and local governments
- Inherent, recurring challenges
- Matters that affect all agencies, such as pensions
- Capital projects
- Administrative costs



How are entities selected?

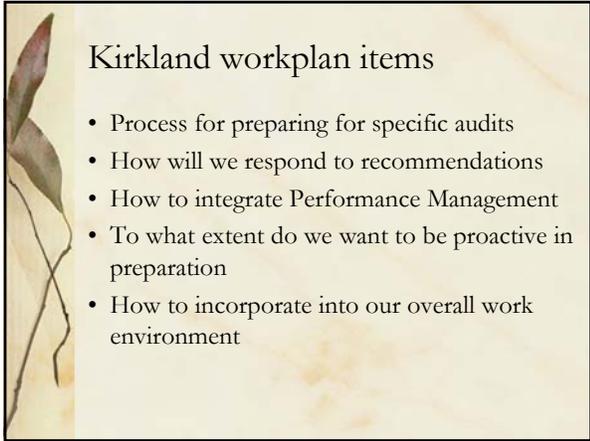
Selection is taking place in different ways:

- By type and size of entity
 - E.g. 10 largest cities, counties and state agencies (30 total)
- By questionnaire
 - Provides data to assess “opportunity”
- As part of annual audit
 - On-site auditors gather data



Performance audit readiness

- Internal assessments and strategic plans
- Performance management or quality management initiatives
- Awards received for innovation, quality improvement, etc.
- Survey results (citizen, customer, employee)
- Suggestions of areas to focus



Kirkland workplan items

- Process for preparing for specific audits
- How will we respond to recommendations
- How to integrate Performance Management
- To what extent do we want to be proactive in preparation
- How to incorporate into our overall work environment

The Seattle Times

seattletimes.com

Saturday, January 13, 2007 - 12:00 AM

Permission to reprint or copy this article or photo, other than personal use, must be obtained from The Seattle Times. Call 206-464-3113 or e-mail resale@seattletimes.com with your request.

Teams working on state, local performance audits

By **DAVID AMMONS**

The Associated Press

OLYMPIA — Washington's audit teams are working on the first wave of 30 performance audits, with targets ranging from big-ticket agencies like education and transportation to more hidden facets of state and local government, such as use of car pools and first-class air travel.

This broad style of auditing, created by citizen initiative in late 2005, offers the country's most independent and extensive system of probing how public dollars are being spent, state Auditor Brian Sonntag said Friday.

Initiative 900 includes its own financing, a sliver of the state sales tax that generates about \$10 million a year for the audits. That means the auditor doesn't have to ask the Legislature or governor for the money.

The state auditor has always done financial audits, to make sure dollars are spent legally and properly handled. The performance audits also look at what the taxpayer gets for the money. Under I-900, the auditor looks for effectiveness, cost savings and whether services can be reduced, eliminated, combined or transferred to the private sector. The auditor also suggests "best practices," improvements and possible changes in legislation or regulations.

The initiative also requires the targeted agency to conduct a public hearing after the report is released. Sonntag also did extensive public-opinion research last year to help him decide which programs to probe. The "civic engagement" feature can help reconnect citizens with their government and their feedback can greatly improve services, he said in an interview.

In a new report this week, Sonntag said the state's pioneering effort is a model for the nation and has been written up in *Governing* magazine and praised by the Association of Government Accountants.

Sonntag, a Democratic elected official now serving his 11th year, said his agency will do the first 30 audits this year, completing 19 by the end of June.

Two are nearly complete now, dealing with debt collection and the state government motor pool.

The agency is doing four performance audits on aspects of the state Department of Transportation. Topics include the agency's organization and overhead, including possible efficiencies; management of road and bridge construction projects, including management of inventory like hot asphalt; the state ferry system's \$300 million operation; and planning and staging of road projects in heavily traveled

Puget Sound country.

At the request of Gov. Christine Gregoire, auditors are also looking at the state Department of Health's licensing of health professionals.

Another audit will look at purchasing practices of all state agencies, including whether employees are buying pricey meals and first-class air tickets on their business trips.

The main education audit is looking at the nine education service districts that serve the state's 296 local school districts.

The auditor is looking at debt collection at six agencies that account for two-thirds of the \$5 billion that is owed the state.

Real-estate leases, drug purchases, higher education and printing are other state-level programs being studied.

Local government also is included in the new performance audit law. Some of this year's targets are Sound Transit's light-rail program, the Port of Seattle's third runway project at Seattle-Tacoma International Airport, the use of impact fees, public development authorities, employee overtime and take-home vehicle practices.

Sonntag said a staff "brainstorming" session Friday was one of many self-evaluations for the new system. The intent is to be nimble enough to revise the goals and methods as studies are under way and to add projects.

The agency has augmented its audit staff by 29, and much of the work is being done by contracts with private firms, Sonntag said.

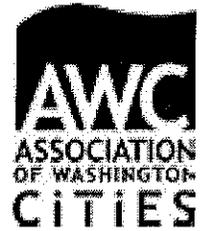
He said there has been some political pressure regarding the transportation audits, but that the system is essentially immune from suggestions that auditors pull their punches.

Tim Eyman, the sponsor of the performance audit initiative, said Friday he "couldn't be more pleased with the progress so far. I love the fact that they're ahead of schedule. They're being very aggressive. He's hitting the hot spots they need to be looking at.

"It's a national model. To me, the potential is just unlimited."

The agency will post the reports on the auditor's Web site. Citizens can sign up to receive the audits electronically.

Copyright © 2006 The Seattle Times Company



Performance Audits of Local Government— Implementation of Initiative 900 *An Update*

Background

At the November 2005 election, Washington's voters approved Initiative 900, (Chapter 1, Laws of 2006, Regular Session). This legislation mandated that "the state auditor shall conduct independent, comprehensive performance audits of state government and each of its agencies, accounts, and programs; local governments and each of its agencies, accounts, and programs; ..." This mandate was accompanied in the initiative by a redirection of a small portion of the state sales tax to defray the added costs of state and local performance audits.

AWC was very concerned about the breadth of this initiative and was one of the lone voices, although unsuccessfully, in opposition to the measure. Our concerns were primarily that while individually tailored performance measures, adopted by individual jurisdictions, might be advantageous, a "one size fits all" approach could result in significant misrepresentations regarding local government operations.

Now, one year after passage of the initiative, the State Auditor has indicated that the next round of local government financial audits will include performance audit elements.

What Will Be Audited?

As part of the State Auditor's Office (SAO) implementation of Initiative 900, the State Auditor will conduct performance audits on the following:

- **Take-Home Vehicle Practices** (completed by 6/30/07)
- **Overtime Practices** (completed by 6/30/07)

- **Open Public Records** (completed by 6/30/07)
This audit will focus heavily on those laws discussed in Chapters 8 and 9 of the July 2006 MRSC Publication, "Public Records Act for Washington Cities and Counties" (www.mrsc.org/Publications/pr06.pdf).

- **Use of Impact Fees** (completed by 12/31/07)

A complete timeline of all audits can be found on the SAO website at www.sao.wa.gov/PerformanceAudit/PDFDocuments/PA_Work_Plan_11-14-06.pdf.

Who Will Be Audited?

- **Take-Home Vehicle and Overtime Practices:**
In November, the SAO sent questionnaires to numerous cities and counties regarding take-home vehicles and overtime practices. The SAO collected the information in order to select those cities and counties that show the most opportunity for a performance audit. The information gathering does not necessarily mean that you will have a performance audit in these areas. According to the SAO, Cities and Counties will be notified the week of December 18 whether they will be subject to a performance audit in one of these areas.
- **Public Records:** Initially, the 10 largest cities*, 10 largest counties and 10 largest state agencies (30 entities in all). This could be expanded to Ports, PUDs and Hospital Districts in the future, but "unlikely" that it will include smaller cities, counties and state agencies or other local governments.

continued



- **Impact Fees:** All cities with populations exceeding 40,000 along with King, Pierce and Clark counties.

**The 10 largest cities are Seattle, Spokane, Tacoma, Vancouver, Bellevue, Everett, Federal Way, Spokane Valley, Kent and Yakima.*

Costs for Audits

We have been assured from the SAO that cities will not have to pay for these performance audits. However, no funding will be available to local governments to compensate for staff time spent on the audits.

Audit Process

The audit process will be similar to each agency's annual financial and compliance audit. The SAO will schedule an entrance conference at which time they will review the objectives of the audit and assistance required from the city. Audit findings, if any, will be based upon the Government Audit Standards "Yellow Book" applications. The City will have an opportunity to respond (30 days) and likewise will have to hold a public hearing within 30 days, as outlined in I-900, to consider the findings if any are identified.

What Is Next?

AWC will meet with the Auditor after the first of the year to discuss the audits currently in process as well as future audits. With respect to the audits which have already been identified, use of impact fees is of particular concern.

The SAO workplan states, "Evaluate whether cities and counties effectively use impact fees to pay for public facilities that are in demand as a result of new development and **directly benefit** new development." However, pursuant to RCW 82.02.050, impact fees shall be used for system improvements that will **reasonably benefit** the new development. Impact fees may only be collected and spent on public facilities identified in a capital facilities plan that place additional demands on existing public facilities by new development; and additional public facility improvements required to serve new development. AWC will address this issue in our next meeting with the Auditor.

AWC will continue to have on-going discussions with the Auditor and his staff regarding the implementation of I-900. As part of our efforts to keep our members informed, please look for regular updates in our **Legislative Bulletin**. In addition, AWC will hold a workshop on performance audits at our annual conference in June.

AWC Contacts

- Victoria Lincoln at victorial@awcnet.org
- Sheri Sawyer at sheris@awcnet.org
- Phone: 360-753-4137, 1-800-562-8981