



**CITY AUDITOR
2008 AUDIT PLAN
AND
STRATEGIES**

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EXECUTIVE SUMMARY

The role of the City Auditor for the City of Spokane is to contribute to the agency by providing the Council and Administration with independent and objective assessment of the agency's activities.

An Independent Audit Function enhances accountability and helps build credibility with citizens. The City Auditor is familiar with internal operations, can respond to requests quickly, is available to follow up on recommendations and is committed to long-term improvement within the organization. The 2008 Audit Plan's intent is to provide audit and consulting services with the goal of every area being reviewed to function more efficiently and effectively as a result. The following areas have been selected for review:

- Worker's Compensation Self-Insurance
- Payroll Audit
- Take Home Vehicles
- Budget Process
- Prior Audit Work (follow up and new issues)
- Initiative 900 – Performance Audits
- Long-Term Audit Plan

Worker's Compensation Self-Insurance

The City is a Self-Insured employer for its staff, with a 2008 budget of approximately \$6.5 million. The audit encompasses all aspects on the compensation system and will take into consideration performance work in this area already performed by other government audit agencies in Washington. This project began in 2007 and continues into 2008 due to the timing and availability of documents, and also since time was shifted to work on other projects with more critical completion dates. This information can be leveraged to demonstrate that resources are being allocated appropriately and there is a process for on going evaluation, tracking, monitoring and reporting of resource utilization.

Payroll Audit

A compliance and internal control audit will be performed on the centralized payroll function. The focus will be on process level controls and it will examine how financial transaction data is bridged from one system to the next within the context of a complete business process, ultimately rolling up into the financial reporting information.



Take Home Vehicles

The State Auditor's Office evaluated four cost elements in 2007, for vehicles designated as City –owned, and issued a Topical Guide based on that work. This Topical Guide will be used to evaluate take home vehicle practices currently in place and to determine if these practices can be improved for economy and cost savings.

Budget Process

This process is frequently sighted as an efficiency issue from several different perspectives; it requires a relatively quick turn around of analysis of information. Assistance could be helpful for research and analysis to provide enhanced information to assist the elected officials with policy decisions.

Prior Audit Work Follow Up:

The areas where audit services have been provided in prior years may be areas for continued work. Recommendation implementation or coordination in new areas may arise. These areas could include:

Management Information Services: This work was completed in February of 2008. Some follow-up assistance may be requested as the administration evaluates and determines the implementation and the timing of an organizational restructure and new methodology for cost allocation to departments.

Building Services User Fee Study: This work has two components: a user fee study and some process-reengineering work performed by a sub contractor. Project monitoring could continue knowledge and insights gained would be valuable for work which is part of the long-term plan.

Initiative 900 Performance Audits:

Because of the passage of Initiative 900, the landscape in Washington for Performance Audits of State and Local governments changed. For FY 2008 the 2007 Open Public Documents Audit will require audit coordination, audit response, a public hearing and recommendation implementation and follow-up reporting.

LONG-TERM AUDIT PLAN

A five-year audit plan was developed while planning for the 2008 audit. The long-term plan's areas of interest include: self-insurance healthcare eligibility and costs; centralized contract monitoring and compliance; property leases and rentals; review of comparable debt load and bond covenants; code enforcement, economic development funding review and analysis of the elements of fund structure and areas of possible overlap.



OVERVIEW

The City Auditor's role is to contribute to the City of Spokane by providing the Council and Administration with independent and objective assessments of City activities. This role is fulfilled by delivering a broad range of professional audit and consulting services with a focus on collaboration, adding value and protecting the City's resources.

Providing outstanding services to the citizenry in a cost effective manner is central to an effective government. The cornerstone of City Auditor services will be conducting audits which identify opportunities to enhance the efficiency and the effectiveness of City services while minimizing costs.

City Auditor activities will be performed in accordance with the established government audit standards and the Code of Ethics for Certified Public Accountants. If necessary, third party expertise will be acquired to review areas of specialized knowledge.

The following long-term business strategies will be pursued in order to optimize the value added by the City Auditor function:

- Develop performance data, measures, and self-assistance systems to align performance auditing with other tools being used to get better results from government thereby maximizing the potential benefit to the City.
- Areas selected to receive performance audits will be coupled with the Priorities of Government approach to budgeting.
- Develop a risk-based audit assessment methodology to identify areas for review.
- Identify internal and external events that effect the achievement of City objectives and analyze risks and assess on an inherent and residual basis.
- Review control activities, policy and procedures to assure they are established and implemented to help ensure risk responses are effectively carried out.
- Maintain the requisite knowledge, skills and expertise necessary to successfully fulfill audit responsibilities in a professional manner.
- Continuously enhance audit efficiency and effectiveness by utilizing recognized audit best practices and monitoring results.
- Leverage the use of technology to identify potential risk areas and develop cost effective solutions.

The goal of every audit is that the area reviewed will function more efficiently and effectively as a result of audit.



**ANNUAL &
LONG-TERM
AUDIT PLANS**

AUDIT PLAN 2008

In accordance with Spokane Municipal Code Section 07.11 the City Auditor is authorized to independently and objectively conduct financial, performance or other audits of all departments, offices, boards, activities and agencies. Selections will be based on size, stakeholder concerns, professional knowledge and opinion that the areas selected for review will yield significant opportunities for cost savings and improved services. In 2008 the City Auditor plans to conduct audits of the areas listed below:

Worker's Compensation Self-Insurance

The City is a Self-Insured and a self administered employer for agency staff, with a 2008 budget of approximately \$6.5 million. The audit encompasses all aspects on the compensation system and will take into consideration performance work in this area previously performed by other government audit agencies in Washington. Similar programs and benchmarks used by the reinsurance industry as best practices will be considered. The hope is to identify effective practices that might be applied to the City's program. This project and review began in 2007, but continues into 2008, due to the timing and availability of documents, and also as time was shifted to work on other projects where the completion times were more critical.

This information can also be leveraged to demonstrate to stakeholders that resources are being allocated appropriately and that there is a process for on going evaluation, tracking, monitoring and reporting of resource utilization is in place.

Payroll Audit

A compliance and internal control audit will be performed on the centralized payroll function. This work will determine if an effective payroll function has been established. The focus will be on process level controls and it will examine how financial transaction data is bridged from one system to the next within the context of a complete business process, ultimately rolling up into the financial reporting information. The ability to ensure that the operational and financial controls are in place and that they are operating effectively lies at the heart of the compliance process.

Additionally, through the provision of a complete audit trail of independent control testing to validate that key controls are in place and working effectively to evaluate if transaction integrity exists across the agency.



Opportunities will be pursued that would provide for increased operational efficiency and effectiveness such as ongoing automated internal control testing that provides cost-effective support for agency wide programs for sustainable compliance.

Take Home Vehicles

The State Auditor's Office evaluated four cost elements for the vehicles designated as City owned and issued a Topical Guide for this work in 2007.

This Topical Guide will be used to evaluate the take-home vehicle practices currently in place and to determine if these practices can be improved for both economy and cost savings for the agency. Specifically, they recommend that agencies identify and evaluate all take-home vehicles that should be eliminated, or removed from take-home use, should be replaced with a more economical vehicle type and/or recovers cost associated with excessive commutes.

Budget Process

The budget process is frequently sighted as an efficiency issue from several different perspectives and requires a relatively quick turn around for Council to review considering the sheer volume of information to be reviewed in addition to the fact that there may be multiple drafts. Assistance if requested may be helpful for research and analysis of both specific items and/or departments and as a whole to provide analysis to assist the elected officials to make policy decisions.

Prior Audit Work Follow Up:

The areas where audit services were provided in prior years may be areas of continued work with Management on implementation of recommendations and coordination with external auditors in addition to any new areas that may arise and require the City Auditor's attention and skill set. These areas could include:

Management Information Services: In 2007 assistance was provided in developing an optimal organizational structure, in addition to a cost allocation tool and new methodology of costs to ensure accurate allocation to the various City departments. This work was completed in February of 2008, and some follow-up assistance may be provided as the administration evaluates and determines both implementation and timing.

Building Services User Fee Study: Participation was requested in the user fee study. This work consists of RFP review and revision suggestion, review of draft reports and participation in project meetings. This work has two components a user fee study, in addition to process reengineering work performed by a sub6



contractor. Project monitoring could continue into the future with the anticipation of an investment of much less time than in the prior year. Knowledge and insights gained should be valuable for audit work which is part of the long-term plan.

Initiative 900 – Performance Audits

The State Auditor's Office Performance Audit Work Plan for 2007 identified three areas in which the City of Spokane will participate in the statewide review of local governments. The areas included were: open public records, overtime practices, and take-home vehicle practices. The planning surveys were completed by January 2007 and submitted. Each area work originally scheduled to be completed by June 30, 2007. Rather than audit reports "Topical Guides" were issued for both the Overtime and the Take-Home Vehicles. Summary data for the City of Spokane was obtained for the Take-Home Vehicles practices work that was performed and discussed with the State Auditor's performance audit staff for possible follow-up work in the future.

Open Public Records audit work is still in progress. The draft report was received March 19, 2008. Official responses are due to the State Auditor's Office on April 17, 2008. After the final report is received the City will have 30 days to conduct a public hearing to disclose the report's finding and provide the opportunity for citizen comment.

The State Auditor's Office has indicated that the 2008 work plan will contain some local government projects. However, at this time the City of Spokane has not been included as a participant in the projects selected for the current work plan.

As yet the level of required support for the implementation of Initiative 900 and the coordination of our respective roles, efforts, reporting requirements, and public hearing of any potential recommendations will become more discernable as their work progresses. However, the level of required support could vary from year to year based on the topics selected for review and the complexity of those topics.

To the extent possible the City Auditor will continue to build bridges with the State Auditors Office Performance Audit Team and to develop opportunities where the State Auditor's expertise and resources may be utilized for the benefit of the City of Spokane.



Today's environment is fluid, as such, this audit plan should be fluid as well: a plan allowing for the flexibility to adjust with the evolving needs of the City. The 2008 Audit Plan may be modified as dictated by events and audit priorities. Although the audit plan includes a limited amount of unscheduled time, audits may be dropped, added or replaced based on the needs of the City. All adjustments to the audit plan will be evaluated and concurred by the Audit Committee.

BUDGETED EXPENSES

The approved 2008 budget for the Office of the City Auditor is \$156,493. This budget is an increase of approximately \$3,700 from the 2007 budget of \$152,723. This budget provides for salary and benefits, contract services, travel, training, professional memberships and miscellaneous expenses.

LONG-TERM AUDIT PLAN

In the fall of 2007 a five-year audit plan was developed in conjunction with the planning for the 2008 audit. Long-term planning interest areas include: self-insurance healthcare eligibility and benefit costs; comparable debt load and bond covenants review; centralized contract monitoring and compliance, property leases and rentals, code enforcement, economic development funding review; fund structure element analysis and possible overlap areas; and controls over fixed assets.

Self-Insurance, Healthcare Eligibility Audit, The City of Spokane is a self-insured employer for medical and dental benefits. Claims and administrative expenses are received from departments and are used for payment as part of the agency's internal service funds. The ever-increasing, medical benefits cost is a concern to both public and private employers. This audit could be narrow in scope to focus on: benefit eligibility; plan administration fees; the payment process; and stop-loss insurance premiums.

Review of Comparable Debt Load Per Capita, A review of how the City of Spokane manages its financial affairs, as compared to other US cities due to its financial reserves and related debt leverage. A financial and demographic evaluation will identify both favorable and unfavorable trends, impacting the City's overall financial condition and provide both officials and citizens with information in the context of the current economic environment.



Citywide Contract Review Process, Currently, there is discussion regarding centralizing the agency's contract function in either the City Attorney's Office or in the Finance Department. A contract review audit would take into account two kinds of monitoring: fiscal and programmatic. Fiscal monitoring is an examination of financial statements, records, and procedures. Programmatic monitoring compares actual service delivery to the description of performance objectives and measures identified in the contract. The objective of the project could be to determine if service delivery, process efficiencies and the use of resources could be or has been improved through better oversight and less process segmentation between departments.

Real Property Lease Agreements, The City rents and leases property and facilities for its own use and also for generating income. This plan proposes an audit evaluating controls related to rentals and leases to ensure that the City's interests are protected, income maximized and costs minimized. Administration had substantially completed an action plan based on the recommendations for Property Leases and Rentals. The Action Plan was still a draft document approved by the Chief Financial Officer on February 1, 2007. Implementation of this plan should be tested and verified to determine its effectiveness and implementation. A sample of agreements and related charges should also be reviewed in this or a separate audit conducted to verify compliance with contract terms.

Code Enforcement Audit, Code enforcement is intended to support economic development while balancing individual property rights. Codes are developed and enforced for many reasons such as public health and safety, environmental protection, maintaining property values and economic vitality. The five code enforcement specialists currently operate effectively with a voluntary compliance emphasis. The objective of this project would be to identify practices that could improve efficiency, effectiveness and economy. Based on preliminary information, it appears that new complaints have remained consistent over the past four years. One measure of efficiency is the cost per case while comparing the department expenditures and revenues and the number of complaints investigated in a given year. As new and infill development continues and the population density increases there may be a need for code enforcement to be able to handle greater capacity with current resources and/or enforcement philosophy may need to be adjusted to meet changing needs and provide information to officials for policy decisions.



Economic Development Funding Review, In 2007 a user fee study was procured for development services. The study found that City-wide development and permitting fees recovered almost 75% of permitting costs in 2006. The need to align permitting costs and revenues across funds to avoid unintended subsidies in some funds at the expense of other funds is to be addressed in policy decisions in the coming year. The funding of programs should be reviewed to determine if cost recovery objectives are being met and if there are process or fee enhancements that could be recommended for greater efficiency and/or to generate greater revenue.

Fixed Assets, The City has over a half billion dollars in capital assets. These assets include land, buildings, machinery, equipment and infrastructure used for the benefit of the citizenry. This audit will evaluate controls over fixed assets to ensure that the City's assets are adequately safeguarded against loss. Fixed asset work previously performed was considered by management as a draft. Follow-up work in this area should be part of a citywide process review as City administration addresses staffing constraints and vacancies which impact the control over these assets.

STRATEGIC OBJECTIVES

The Office of City Auditor works independently with City personnel in a respectful, honest and motivating approach which supports the City's continuous pursuit of positive organizational change: efficient, effective, economical and equitable government.

This will be accomplished by objectively evaluating the efficiency and effectiveness of City activities and providing value-added recommendations for improvement. In an effort to maximize the effectiveness the City Auditor will work jointly with stakeholders to identify issues of concern and develop viable solutions that contribute to the City's success.

RISK ASSESSMENT METHODOLOGY

The City Auditor provides advisory services to help the City identify and respond to evolving issues that could impact organizational results. Risk assessments evaluate potential risks from diverse perspectives and take into consideration both qualitative and quantitative considerations.

This methodology will take into account the control environment, financial exposures, organizational changes, and the results of other reviews.



Audit risk will be reduced to a level that is sufficiently low to provide reasonable assurance that the evidence is sufficient and appropriate to achieve the audit objectives and support the conclusions reached. This determination is a matter of professional judgment. Factors such as timeframes, complexity, or sensitivity of the work, the program size in terms of dollar amounts and number of customers or citizens served and access to records are considered in this risk determination.

This risk assessment in tandem with leadership's insight will produce an effective prioritization of areas for audit review.

TECHNOLOGY TOOLS

Technology can integrate people, processes, the infrastructure, and bring an organization together through information sharing. Audit Command



Language (ACL) data analysis software was acquired to enhance audit efficiency and effectiveness. ACL will help facilitate the inquiry of the City's various computer systems transforming large amounts of raw data into valuable information that will support and enhance recommendations for improvement.

The department's web page has been updated to communicate the audit role, responsibility and share information with citizens reflecting both the work performed and the Audit Plan's direction for 2008. These investments in technology help promote an efficient and effective audit function and facilitate communication of accountability and audit activities, in addition to providing a means of communicating with and engaging citizen partners in the institution of government.

CONTINUING PROFESSIONAL DEVELOPMENT

Professional certification is the standard of competency and qualification. Budgetary funds have been earmarked to fulfill continuing education requirements and maintain professional audit certifications. Cost effective continuing education is available through an assortment of professional organizations by various means.



The Washington State Local Government Auditor's Association (WSLGAA), the Pacific Northwest Intergovernmental Audit Forum and the National Association of Local Government Auditors (NALGA), all provide collegial relationships for professional development, comparative information and effective applicable audit resources as we each pursue uncompromised stewardship in government.

PERFORMANCE INDICATORS

To ensure the ongoing efficiency and effectiveness of audit processes a balanced group of performance measures will be established. Performance measures will include financial, stakeholder, internal process and staff development perspectives.

“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty” Winston Churchill