

CITY AUDITOR'S OFFICE BUSINESS PLAN



2010-2014



EXECUTIVE SUMMARY

The City Auditor's Office provides the Olathe City Council with an independent and objective assessment of all municipal operations and financial processes in accordance with applicable auditing standards. Unlike other City programs, the Office does not provide direct services to the City's internal or external customers. Rather, its primary objective is to support the City Council in its governance and oversight role of the organization.

The ambiguity of this objective tends to make it more difficult to gage the performance of the internal audit function as compared to other City functions. However, the Office has developed several indicators of the impact it has to the organization. For example, the full value of an audit report is realized when management adopts its recommendations to mitigate identified risks. Therefore, the Office has begun to track how often management agrees with an audit report's recommendations and the degree to which management has implemented those recommendations within a two-year timeframe. And while internal audit functions are not necessarily expected to show a quantifiable return on investment, the Office does track the amount of cost saving or revenue enhancing opportunities it identifies for the City.

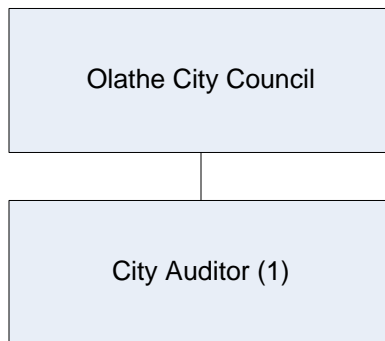
The Office also conducted an environmental scan to determine opportunities and challenges to its operations. As would be expected, the current economic downturn has resulted in dramatic changes in risks facing organizations generally. Other internal audit organizations are focusing on fraud risks that often arise in this type of economic environment. Budget cuts can also lead to damage in an organization's control environment. The City of Olathe is no different from other organizations in this regard. Service reductions, change or loss of key personnel and positions, and outsourcing initiatives all will likely increase the organization's risk of control failure. Auditing to these risks will require awareness of organizational changes and a focus on creative ways to find efficiencies while maintaining a proper control environment. It also re-enforces the need to revisit the biennial audit plan regularly to ensure the Office is targeting risks most pertinent to the City.

Internally, the Office realizes that an opportunity exists to better communicate the criticality of audit findings to the City Council and management. To address this, the Office plans to develop a rating methodology for audit findings and present it to management for their feedback and buy-in. Once that is complete, the Office will introduce the ratings in an upcoming audit report issued in 2009.

DEPARTMENT MISSION STATEMENT

To provide the Olathe City Council with an independent and objective assessment of all municipal operations and financial processes in accordance with applicable auditing standards.

DEPARTMENT ORGANIZATIONAL CHART



DEPARTMENT PROGRAMS AND CITY COUNCIL PRIORITY

The City Auditor's Office is a single unit. The City Council did not rank the Office in its program priority exercise.

KEY RESULT AREAS SUPPORTED

The City Auditor's Office primary function is to support the City Council's governance and oversight role, in part, by measuring departments' progress in achieving their organizational objectives. As such, the Office does not fall into a single Key Result Area.

DEPARTMENT STRATEGIC ALIGNMENT

PERSPECTIVE	ORGANIZATIONAL OBJECTIVES	DEPARTMENT OBJECTIVES	KEY RESULT INDICATORS	ACTUAL 2008	PROJECTED 2009	TARGET 2010	3-5 YEAR GOAL
Customer	Promote community health, safety, and welfare	Audit areas of high risk for the City	Number of audit products issued per year	3	4	5	5
Financial	Deliver high quality, efficient, and affordable services	Ensure the protection of the City's assets	Amount of identified opportunities for the City to avoid certain costs or to increase revenue	\$30,000	\$100,000	\$120,000	\$120,000 per year
Internal	Maximize the effectiveness of internal business processes	Identify and recommend improvements in the City's financial and operational processes	% of recommendations agreed to by management	100	90	90	90
			% of recommendations implemented over a 2-year period	N/A	90	95	95
Employee	Recruit, develop, and retain productive, quality staff	Maintain qualified and trained staff	Number of professional training hours completed per year	37	43	40	40

CHALLENGES & OPPORTUNITIES

In October 2008, the City Auditor's Office presented its annual report to the City Council, reflecting on past accomplishments and new initiatives going forward. The report included discussion of an improvement opportunity regarding the Office's internal audit procedures. In addition, the Office conducted an external and internal environmental scan to identify other challenges and opportunities to its operations. These opportunities are discussed below.

The Economy (External)

The continued economic downturn has resulted in dramatic changes in risks facing organizations. A recent survey by the Institute of Internal Auditors (IIA) showed that a third of the organizations surveyed say the downturn is affecting the focus of their work, with the risk of fraud representing the main area receiving extra attention. Half of the respondents feel that the budget cuts across their organization would damage its control environment and ability to achieve business outcomes this year. The City of Olathe is no different from other organizations in this regard. Service reductions, change or loss of key personnel and positions, and outsourcing initiatives all will likely increase the organization's risk of control failure. Auditing to these risks will require awareness of organizational changes and a focus on creative ways to find efficiencies while maintaining a proper control environment. It also re-enforces the need to revisit the biennial audit plan regularly to ensure the Office is targeting risks most pertinent to the City.

The economy has affected the local auditing community as well. While local training opportunities still exist, many larger audit shops are turning to internal resources to meet their training needs. For example, Sprint Nextel once had the largest presence at Kansas City's monthly IIA training meetings; however, recent budget cuts at the company included elimination of their internal auditors' attendance. Similarly, the Kansas Legislative Division of Post Audit has frozen their training and travel budget—reducing their presence at the Mid-America Intergovernmental Audit Forum in Kansas City. The absence of larger audit organizations at these trainings hinders the growth of the local internal audit profession and reduces networking and knowledge exchange opportunities for those auditors that do attend.

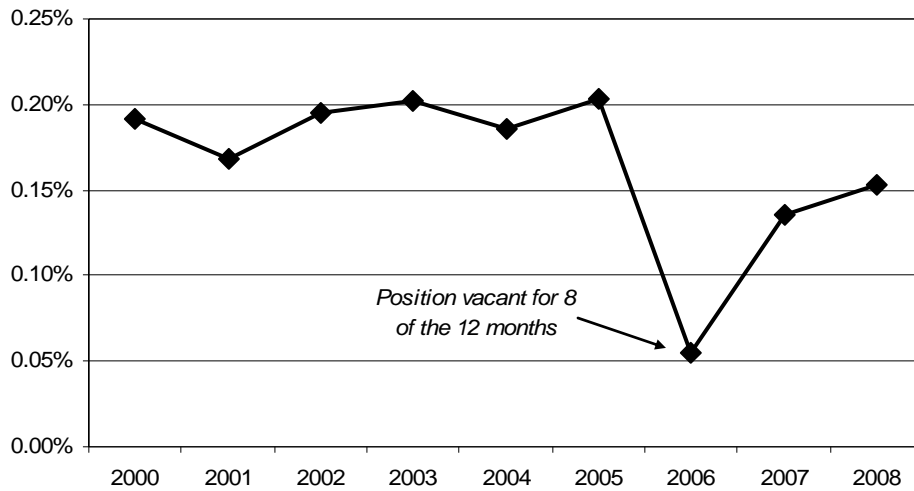
Stimulus Funds and New Federal Regulation (External)

Acceptance of funds under the American Recovery and Reinvestment Act subjects the City to the Act's compliance requirements. Most notably, the Mayor must certify that all funded infrastructure projects received full review and are an appropriate use of tax dollars. Failure to meet this and other federal requirements could mean significant financial penalties and detrimental public relations for the City. And the inflow of federal funds, as seen with post-Hurricane Katrina relief, provides construction contractors greater incentive to commit fraud or abuse. This necessitates a greater emphasis on contractor oversight—an area the internal auditor function can provide assurance on.

Budget Efficiency (Internal)

Between 2000 and 2005, the City Auditor’s Office average annual cost represented .2% of the City’s General Fund expenditures. Since 2007, that percentage has decreased by 25% to .14%. While the change represents a lower percentage of the City’s resources going to the internal audit function, the Office must remain mindful to demonstrate its value to the rest of the organization—to identify financial and operational risks hindering the organization from achieving its objectives. In some instances, it may cost the City to mitigate these risks but more often than not, risk mitigation can result in cost savings or increases in revenue. Quantifying and tracking these cost saving and revenue enhancement opportunities are a good way to communicate the Office’s value to the rest of the organization albeit with the understanding that they shouldn’t be the targeted outcome of the audit work product.

The City Auditor’s Office as a Percentage of Total General Fund Expenditures, 2000-2008



Internal Audit Procedures (Internal)

City Council members have raised the question about whether the Office has considered rating its audit findings so that Council has a better understanding of their relative impact and importance. While this is a standard practice in external audits, it’s not as common in internal audits—particularly in the public sector. However, ratings would add value to the audit report by increasing the reader’s understanding of the criticality of audit findings. The Office plans to develop a rating methodology and present it to management for their feedback and buy-in. Once that is complete, the Office will introduce it in an upcoming audit report issued in 2009.

ACCOMPLISHMENTS

As reported to the City Council in the City Auditor's Annual Report for 2008.

Audit-Related Work

- Completed an audit of Municipal Court's cash handling and collection procedures
- Performed additional testing of the Municipal Court's cash bond account at the request of the Municipal Court Judge
- Completed an audit of the City's P-Card program and accounts payable process
- Completed an audit of the City's implementation of its upgraded financial system, EnterpriseOne
- Initiated a review of the Public Works Department's procedures for capitalizing project management expense
- Assisted the City's external auditor in documenting the cash handling procedures of Police, Animal Control, Parks and Recreation, and Neighborhood and Housing Services
- Participated in KBI and FBI audits of the City's compliance with Criminal Justice Information System requirements
- Performed a follow-up risk assessment resulting in changes to the Council-approved, two-year audit plan
- Updated Council on management's adoption of audit recommendations
- Initiated an audit of the Water and Sewer Fund

Informal Audit Work and Management Consulting Services

- Answered various information requests from individual Council members
- Participated in the Municipal Service Department's water and sewer rate study and reviewed the study's results with department managers
- Provided feedback and guidance to the Olathe Chamber of Commerce regarding its budget and financial practices. Participated in a RFP process for the Chamber's banking services.
- Participated in the RFP process for services to collect delinquent Municipal Court fines and fees
- Participated in the RFP process for public defender services
- Participated in a CMO-sponsored quality improvement initiative for employee timekeeping and payroll
- Participated in a CMO-sponsored quality improvement initiative for the City's Vehicle and Equipment Replacement Fund

- Assisted the Police Department in documenting its case clearance process as part of a quality improvement initiative
- Provided feedback and guidance to Municipal Court staff regarding procedures for the Court’s cash bond account
- Worked with HR and Accounting staff on issues of FLSA compliance for employee timekeeping procedures
- Assisted Accounting staff in verifying the correct calculation of employee certification pay
- Provided feedback and guidance to Development Services staff on their check handling procedures
- Worked with Accounting staff to develop a training program for the City’s cash handlers and presented that training as part of Olathe University
- Work (on-going) with the City Attorney and Director of Human Resources to develop a response and reporting process for calls received on the City’s Ethics Hotline

Selected Performance Measures				
Measure		2007	2008 YTD	2008 Goal
<u>Initiated Engagements</u> : Audit and audit-like projects started which may or may not result in a formal audit report		4	5	6
<u>Issued Audit Reports</u> : Completed audit reports presented to Council		2	3	4
Audit Savings	<u>Cost Avoidance Opportunities</u> : Audit findings that identified quantifiable opportunities for the City to avoid certain costs if corrected	\$279,400	\$0	N/A
	<u>Revenue Opportunities</u> : Audit findings that identified quantifiable opportunities for the City to increase revenue if corrected	\$0	\$30,000	N/A

Professional Development

The City Auditor accrued 36 CPE (Continuing Professional Education) hours from October 2007 to October 2008, including 10 hours of governmental auditing training. In addition, he provided the following presentations:

- “Careers in Auditing,” Kansas City Chapter of the Institute of Internal Auditors, February 7, 2008.
- “An Overview of Government Auditing,” Pittsburg State University, February 18, 2008.
- “Challenges for New Local Government Auditors,” Mid-America Intergovernmental Audit Forum, Kansas City, MO, May 1, 2008.