



# City of Seattle

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## Office of City Auditor

April 1, 2013

The Honorable Mike McGinn  
Seattle City Councilmembers  
City of Seattle  
Seattle, Washington 98104

Dear Mayor McGinn and City Councilmembers:

As required by Article XXII Section 12 of the Seattle City Charter, the Office of City Auditor has prepared its 2012 annual report. The report contains a description of the Office's 2012 activities and provides information on some of our plans for 2013.

If you have any questions or concerns about the report's contents, please contact me at (206) 233-1095.

Sincerely,

David G. Jones  
City Auditor

## Office of City Auditor 2012 Annual Report

### Introduction

As required by City Charter Article XXII Section 12, this is the Office of City Auditor's annual report about its 2012 activities. It also provides information about our ongoing projects and plans for 2013.

In 2012, we completed a total of 10 reports, consisting of 4 audits performed in accordance with the Government Auditing Standards and 6 non-audit projects. Of these 10 reports, 9 were requested by the City Council and one was initiated by our office. Details on each of these reports can be found below in the section "Reports Completed in 2012."

### 2012 Highlights

**Fraud Audit:** Our office devoted a significant amount of staff time in 2012 to completing a forensic audit of the financial controls over Seattle Public Utilities' (SPU) water main extension program. This audit resulted from allegations of an over \$1 million fraud committed by a former SPU employee. It differed from our typical audits in that we reviewed the vast majority of the program's project files rather than relying on a sample of files. This meant that we had to devote a greater number of staff hours to this audit than would be required for a typical audit. Furthermore, at our request, SPU loaned us two of their accounting staff to assist us with our work. We believed that this level of effort was warranted by the alleged fraudulent activities. We issued the report in September 2012.

**Hiring a Utility Auditor:** In 2012, after receiving authorization from the City Council, we hired an experienced utility auditor, Marc Stepper. His work will be restricted to audits of the City's two utilities, SPU and Seattle City Light.

**Managing Consultant Program Evaluations:** Another notable development in 2012 was the City Council's requests for our office to manage several consultant evaluations of City programs. During the fall 2012 budget process, the City Council provided increased funding to our office for program evaluations by consultants. Consultants can provide valuable expertise that City staff either may not have or may not be able to provide to a particular evaluation due to their workload on other projects. Additionally, the independence of our office and our staff's project management skills allow us to undertake this line of work. In 2012, Office of City Auditor staff conducted the following management and oversight work for consultant projects:

- We managed the selection and work of consultants from the University of Washington on an evaluation of the City's recently enacted Sick and Safe Leave regulations;

- We assumed project manager duties for a consultant review of the Seattle Department of Transportation (SDOT);
- We are managing a consultant evaluation of the City's Career Bridge job preparation program; and
- We developed plans for consultant evaluations of various aspects of the Seattle Youth Violence Prevention Initiative.

In most cases, we found that managing consultant contracts requires a significant amount of work, including creating Requests for Proposals (RFPs), developing the contract scope of work and required deliverables, and reviewing the consultants' draft products to ensure they are of sufficient quality and meet the project's objectives.

**Evidence-Based Research:** Our office, prompted by the City Council's interest in evidence-based programs and decisions, organized a December 2012 forum in which University of Washington professors presented research on topics relevant to City officials. The forum consisted of presentations on:

- Evaluation of Seattle's Paid Sick and Safe Leave Ordinance
- Public Use Bicycle-Share Program
- Housing First Approach for Homeless Individuals
- Effects of Social Capital and Collective Efficacy on Community Crime Control

**Improving Analytical Capabilities:** We continued to improve our office's capabilities in data mining and statistical analysis. Megumi Sumitani and Cindy Drake of our office led these efforts. Megumi took training to learn how to use ACL data mining software, which she has applied to several of our ongoing projects. Cindy has taken training in statistical methods and has provided useful advice to our auditors on their audit's sampling methodology.

**Information Security Risk Assessments:** In 2012, we worked with a consultant to complete an analysis of the information security risks faced by the City's Traffic Management Center and are in the process of completing a similar review of another City system. These risk assessments, which were initiated by our office, provide valuable information to City information technology officials that allows them to strengthen controls over sensitive City systems and information.

**Audit Committee:** The City Council passed an ordinance (Seattle Municipal Code 3.40.100) that created an audit committee that provides advice to our office. Representatives from our office made presentations to the Committee during its two 2012 meetings - the initial meeting in May 2012 and a second one in September 2012.

## **Reports Completed in 2012**

The following provides descriptions of the focus and results of our 2012 audit and non-audit reports.

### **2012 Audit Reports**

#### **1. How Can Seattle Crime Analysis Rise to the Next Level?**

**January 10, 2012**

**Focus:** At the request of City Council's Public Safety Committee, we evaluated the Seattle Police Department's crime analysis function.

**Results:** We found that the Seattle Police Department (SPD) is in a good position to take its crime analysis function "to the next level" – i.e., to improve the sophistication and maximize the benefits of its crime analysis. We offered four recommendations to this end:

1. Make more sophisticated use of data;
2. Prioritize the continuity and skill level of crime analysis staff and leadership;
3. Optimize the use of software tools; and
4. Automate routine reports.

In order to implement the report's recommendations, SPD requested and received funding for a crime analyst and an information technology data specialist.

#### **2. Seattle Police Department In-Car Video Program**

**June 20, 2012**

**Focus:** At the request of City Councilmember Nick Licata, we provided information on SPD's in-car video program, including the number of requests for videos, the percentage of public requests SPD is able to fulfill, the number of recordings regularly made, and opportunities to improve the program's operations.

**Results:** We analyzed requests for in-car video recordings submitted in April, May, and June of 2011 and found the following:

- During the period of review, the SPD Video Unit received 815 requests for a total of 3,500 video clips. SPD Detectives submitted 41% of the requests, and members of the public and media submitted 22% of the requests. Other requesters of videos included SPD's Office of Professional Accountability, SPD command staff and officers, and other legal and law enforcement entities.
- Of requests from members of the public, SPD provided copies of videos in response to 40% of requests. For the remaining 60%, SPD did not provide a video either because there was no video that matched the request (25%), videos that matched the requests were exempt from disclosure under state law (32%), or the requests were duplicates or canceled (3%).

Additionally, the audit provided information about the growth of SPD's in-car video program and the technological and process challenges that affect the creation, transfer, storage, and production of in-car video recordings upon request. The audit identified six recommendations that would improve officers' ability to create and retain in-car video recordings and enhance SPD's management of video records, including its ability to locate them upon request.

### **3. Seattle Public Utilities Water Main Extensions: Internal Controls Review and Fraud Risk Audit**

**September 7, 2012**

**Focus:** Seattle City Councilmember Jean Godden requested this audit because of an alleged theft of over \$1 million of water main extension funds by a former Seattle Public Utilities (SPU) employee. Water main extension projects occur when developers must install a water main to serve new construction or for a site improvement project. SPU oversees water main projects and charges a fee for its services. Our office evaluated internal controls over SPU's developer-installed water main extension projects, focusing on financial controls. We also reviewed information about financial transactions found in water main extension project files to identify any lost revenues in addition to those already identified by the City.

**Results:** We concluded that two primary internal control weaknesses allowed the alleged theft to occur: 1) lack of proper segregation of duties, and 2) lack of adequate management oversight of financial transactions. Recently, SPU has strengthened its policies and procedures and improved the internal controls over water main extension financial transactions. These changes should significantly reduce the risk of a similar loss of funds occurring again. However, we concluded that several control improvements are still needed. From our file

review, we did not find evidence that additional funds were stolen, beyond those already identified by the City.

SPU management has committed to taking corrective action on the findings in our audit report, and we will follow up regularly on SPU's progress with implementing these improvements.

#### **4. City of Seattle Multifamily Tax Exemption Program**

**September 19, 2012**

**Focus:** At City Councilmember Nick Licata's request, the Office of City Auditor conducted a performance audit of the rental portion of the Multifamily Tax Exemption (MFTE) Program, which is managed by the City of Seattle's Office of Housing.

**Results:** We found that the City of Seattle could improve its efforts to meet the goals stated in the MFTE ordinances that established and reauthorized the program. In addition, we offered 19 recommendations for improving program compliance, administration, and oversight.

### **2012 Non-Audit Reports**

#### **1. Seattle Public Utilities Secondary Revenues Audit Plan**

**March 27, 2012**

**Focus:** At the request of City Councilmember Jean Godden, we prepared a work plan to improve Seattle Public Utilities' (SPU) financial controls over its secondary revenue streams (i.e., those not found in a typical SPU customer's bill for water, sewer, and garbage services), and we presented the work plan to the City Council's Libraries, Utilities and Center Committee on April 3, 2012.

**Results:** The plan led to our completion of an audit of SPU's water main extension program payments, the hiring of an auditor to focus on utility audits, and the undertaking of our current audit of SPU's new taps payments.

#### **2. Seattle City Light Secondary Revenues Audit Plan**

**April 6, 2012**

**Focus:** At the request of the members of the City Council's Energy and Environment Committee, we developed a work plan for the review of Seattle City

Light's secondary revenue streams and we presented the work plan to the City Council's Energy and Environment Committee on April 10, 2012.

**Results:** The plan led to our office contracting with a consultant to review City Light's surplus sales.

### **3. Citizen Water Bill Complaint**

**April 11, 2012**

**Focus:** In response to a letter received from a citizen who alleged that SPU might be adjusting customer water bills to cover for losses resulting from embezzlement by former SPU employees. City Councilmember Jean Godden requested that we review the individual's SPU account for unusual adjustments.

**Results:** We reviewed the individual's water account and did not detect any unusual adjustment activity.

### **4. Traffic Management Center Information Technology Security**

**July 5, 2012**

**Focus:** We worked with the Department of Information Technology (DOIT), the U.S. Department of Homeland Security (DHS), and a private information technology (IT) security firm to analyze the information technology risks faced by the City's Traffic Management Center.

**Results:** SDOT, DOIT, and the City's traffic management system vendor have taken steps to correct the most critical vulnerabilities identified during the review. In addition, the Traffic Management Center will now follow the U.S. DHS framework to strengthen its IT security procedures and processes.

### **5. Evidence-Based Assessment of the City of Seattle's Crime Prevention Programs**

**September 5, 2012**

**Focus:** This non-audit project, which was requested by the City Council's Public Safety Committee, was a follow-up to a May 2011 inventory of crime prevention programs performed by the City Budget Office. The project consisted of 1) a review of research literature related to crime prevention programs conducted by George Mason University's Center for Evidence-Based Crime Policy (CEBCP), and 2) our office's summary of the CEBCP review.

**Results:** The CEBCP report matches City of Seattle crime prevention programs with specific types of research. We hope that it will be a useful resource in a

conversation about how the City might better integrate its crime prevention work with the research evidence about what is known to be effective.

## **6. Poverty Measures**

**November 1, 2012**

**Focus:** At the request of City Councilmember Sally Clark, we reviewed multiple measures of poverty used for different purposes by the City and other jurisdictions. We also created an index of poverty and income measures used to establish eligibility for benefits distributed by the City, and we provided information to help determine if Seattle should change the measure(s) it is using.

**Results:** We found that there are two commonly accepted ways to measure poverty or low income: the federal poverty level and median income. We also found that New York City uses a customized measure for strategic planning purposes but cannot use it for program eligibility or funding. Finally, we found that the City of Seattle uses both federal poverty and median income levels to establish eligibility for City programs, but these measures are modified in different ways for each program, and the method of poverty measurement is often specified by the agency or agencies funding a program.

### **Other 2012 Activities**

**Hosted Humphrey Fellows:** In 2012 we hosted a Humphrey Fellow, Ashhad Jawwad from Pakistan, from the University of Washington's Evans School of Public Affairs for a six week internship, and we provided him with training in performance auditing and internal controls. In 2013, we are hosting Humphrey Fellows from audit offices in Cameroon, Tunisia, and Pakistan. The Hubert H. Humphrey Fellowship Program, sponsored by the U.S. Department of State, provides a year of professional enrichment in the United States for experienced professionals from designated countries around the world.

**Race and Social Justice Initiative:** We submitted our office's 2012 Race and Social Justice Initiative (RSJI) Work Plan to the Seattle Office of Civil Rights, and we served as a financial sponsor of a 2012 RSJI Summit.

### **Plans for 2013**

In 2013, we plan to do the following:

- Complete ongoing reviews that include the Seattle Office of Civil Rights' enforcement practices, SPU's controls over payments for new taps, the Seattle Youth Violence Prevention Initiative logic model, and Seattle City Employee



Retirement payments. As we have done since 2009, we also plan on preparing a report that summarizes the implementation status of recommendations made in our office's reports through late 2013.

- Oversee the completion of consultant reports on SDOT operations, City Light's surplus sales, the implementation of the City's Safe and Sick Leave regulations, and an evaluation of the Career Bridge program.
- Hire a half-time office manager to provide our office with administrative support. We are grateful that the City Council provided us with the budget for this position, which is greatly needed given our increasing workload. Previously, we had divvied up many administrative tasks among our office's audit staff. However, we found that an increasing amount of our auditors' time was required to handle these tasks.
- If time and resources permit, our office would like to perform work on the City's healthcare programs, which involve large, increasing sums of money.

### **Office of City Auditor Staff**

During 2012, the Office of City Auditor was budgeted for nine full-time equivalent employees. As noted above, in 2013, we are authorized to hire a half-time administrative staffer. The following is a current list of our employees:

- David Jones, City Auditor
- Mary Denzel, Deputy City Auditor
- Jane Dunkel, Assistant City Auditor
- Cindy Drake, Assistant City Auditor, Quantitative Methods Specialist
- Virginia Garcia, Assistant City Auditor
- Claudia Gross Shader, Assistant City Auditor
- Robin Howe, Assistant City Auditor, Internal Controls Manager
- Marc Stepper, Assistant City Auditor, Utility Specialist
- Megumi Sumitani, Assistant City Auditor

### **Ideas for Audits Welcomed**

We always welcome suggestions for future work our office could perform that will help the City of Seattle. Please contact our office if you have any questions or suggestions. We can be reached by telephone at (206) 233-3801, or via email at [davidg.jones@seattle.gov](mailto:davidg.jones@seattle.gov). Our mailing address is PO Box 94729, Seattle, WA 98124-4729.