

# Local Government Auditing Quarterly



The Journal of Local Government Auditing • Summer 2014

## Auditing Fiscal Sustainability



# ALGA

The Local Government Auditing Quarterly (LGAQ) is published four times per year – in September, December, March, and June – by the Association of Local Government Auditors (ALGA). Membership information appears on the inside back cover.

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## From the Editor



**AMANDA LAMB**  
Editor  
Performance Auditor,  
Division of Audits (OR)

**M**y first assignment as an auditor was to work on Multnomah County's Financial Condition report. Sure, it gave me great exposure to the inner-workings of the county and Yellow Book requirements. But beyond that, it was the perfect project to show me the kind of value auditors can have just by looking at the same information in a different way.

Auditors are certainly not the only individuals who can offer financial expertise. Our jurisdictions have finance managers, budget officers, grant administrators, external auditors, and other professionals whose role it is to monitor and report on finances. But as auditors it is our duty to look beyond compliance and question whether or not our jurisdiction is set up for financial success now and into the future.

This Summer 2014 issue of the Quarterly explores the various ways in which auditors have assessed and reported on the financial and economic condition of their jurisdictions. We hope you enjoy it!

### Looking Forward to Fall 2014

For the next issue we will take a break from audit-area specific topics and revisit some auditing bread and butter. Our Fall 2014 issue will focus on Identifying Fraud. Please consider contributing to this issue of the Quarterly to share your experiences and methodologies with fellow auditors.

Articles are due on August 15. Please submit your articles using the form available on the ALGA website or submit to [LGAQEditor@gmail.com](mailto:LGAQEditor@gmail.com).

Future themes include:

- Winter 2014 (due November 15): Auditing Human Resources
- Spring 2015 (due February 15): Auditing Transportation
- Summer 2015 (due May 15): Purchasing

### Let's Connect!

ALGA is dedicated to providing multiple avenues for auditors to connect with one another. Many of us may still be lamenting the loss of the ALGA listserv, but there are other ways to connect with your colleagues! I suggest you check out the ALGA Forum, our LinkedIn group, and the [@ALGA\\_Gov](#) Twitter account for the most current information. These are not just tools for ALGA to get the word out, but also for you to ask questions or respond to colleagues' inquiries. Please feel free to pose the same kind of questions or requests for information through any of these venues.

Cheers,

A handwritten signature in cursive script that reads "Amanda Lamb".



**BILL GREENE**  
President, 2013-14  
City Auditor,  
City of Phoenix (AZ)

### Greetings ALGA Friends!

**W**ow! What a great conference we had in Tampa, Florida. Attendees had a great opportunity to hear from seasoned leaders and auditors on a variety of timely topics such as organizational risks, on-boarding new auditors, auditing in a political environment, conducting fraud investigations, new audit industry guidance, and many sessions highlighting how to conduct high-impact audits.

On behalf of the ALGA Board and conference attendees, I'd like to thank our incoming President Corrie Stokes, the conference committee, and everyone who participated, including speakers, moderators, sponsors, and member services, for a great conference. As evidenced by our record breaking attendance and strong preliminary reviews, attendees were very pleased with the educational sessions, facility, networking opportunities... and the pirate jokes? We'll have to wait and see about those ratings.

ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics. Articles and audits contained in this Quarterly are aligned with the theme of Auditing Fiscal Sustainability. As many

jurisdictions are still grappling with the new fiscal realities since the economic recession, I know that you will find the content interesting, relevant, thought provoking and in concert with ALGA's mission.

Thank you again for the opportunity to serve this year as ALGA's President. It was truly a once-in-a-lifetime chance to contribute to an organization that means so much to me. What amazes me most about ALGA are the selfless efforts of so many people. With that in mind, I'm going to take advantage of my last opportunity to formally recognize the hardest working volunteers of any professional organization and the active participation of our members, who represent more than 300 local government audit offices across North America and the globe. ALGA's all-volunteer Board of Directors, members of 12 volunteer committees, and countless colleagues volunteer their time for peer reviews, web site improvements, conference sessions, webinars, articles for the Local Government Auditing Quarterly, advocacy efforts, conference logistics, membership outreach and surveys, and so many other activities. Thanks for everything you do. You are truly the heart and soul of ALGA.

A handwritten signature in dark ink that reads "Bill Greene". The signature is written in a cursive, slightly slanted style.



**GARY BLACKMER**  
Director,  
State Division of Audits  
(OR)

## Fiscal Unsustainability

Governments need to adjust, mitigate, and ultimately adapt to changing financial circumstances. Financial sustainability should not just be judged within a static environment. To survive, and thrive, a government should align with the available resources, operate efficiently and effectively, and build capacity in itself and the community to withstand the unpredictable but likely challenges.

I wrote about financial condition reporting in the Spring 2009 Quarterly. These thoughts are based upon what I've learned preparing reports for a city, a county, and more recent reviews of the state and multiple counties. We also analyzed other states' laws and activities related to local government financial condition.

Here is the most important and disappointing lesson: there is no specific test for sustainability. There is also no clear line for judging financial distress. Distress has only one clear and unambiguous indicator: a government unable to make its payroll. Unfortunately, that is generally too late for preventive actions or easy remedies.

There are a dozen or so ways that a government can go wrong. Expenses can grow faster than revenues; fixed costs, such as debt, can eat too deeply into declining revenues; liabilities, such as pension costs, can grow faster than revenues; neglected assets and infrastructure can break down; poor accounting can muddle decision-making; or desperate investments can make matters worse.

There are also many ways a government can strengthen its financial condition: building reserves, keeping debt and liabilities low, containing costs, committing to asset maintenance, close monitoring of

financial activities, and building a strong workforce for economic growth, to name some of them.

Most problems are incremental—they creep up in small amounts—and only reveal themselves when they have already produced serious consequences. Once identified, it can be daunting to make the tough decisions and commit the ongoing attention to address the problem. To be realistic, if it took 12 years to dig the hole, it will also take about 12 years to fill it up.

By way of contrast, governments are never prepared enough for natural disasters, which are rare, quick, and equally devastating. Yet, financial recovery from floods, tornadoes, or earthquakes can also take many years. The deeper damage is done to the community—the loss of businesses and population along with their services and taxes—and it can take years for them to return.

There is some circularity to fiscal sustainability: A sound financial condition is a means of serving the public, which produces a thriving community that attracts growth, contributing to a stronger financial condition.

Much can be learned about financial condition when we study struggling governments. In the field of medicine, pathology is the study of disease, and watching the circumstances and decisions of communities like Detroit provide clues about the symptoms and interactions of "fiscal disease."

I do not pretend to know all the aspects of the problems in Detroit, but the national and local news often report its major challenges, policy conflicts, and difficult decisions. Debt and liabilities seemed to be the final undoing of this city.

Yet the trigger of its failure was the abandonment of the city by most of its residents, with the population declining from 1.8 million in 1950 to about 700,000 now. Businesses fled along with residents, weakening the Detroit economy.

Service levels probably were not cut as quickly as the population, and even if they were, debt and liabilities could not be cut back so easily. Spending in excess of revenues is a compelling option for public officials. We see stories about the near-abandoned Detroit neighborhoods but do not think about the few scattered residents who still need all their city services.

Maintaining long stretches of utilities with only a few paying customers is difficult, and financing major capital replacements is near impossible. Similarly, police and fire services decline as populations thin and less funding is available. Increasing tax rates on the fewer residents to cover the losses only drives more from the city.

When these cycles occur—weakened financial condition, reduced services, dwindling economy, and declining population—it is very difficult to escape. This

is the downside of the circle, and it occurs more frequently than we acknowledge. Out west we call them ghost towns.

Some states have applied their past experiences and developed laws and monitoring methods to detect, prevent, or intervene when financial problems arise. We gathered many of them as part of a report on the financial condition of Oregon's counties. Early efforts pay off, especially when the cycle has not started, and the community has merely made a few bad financial decisions.

Auditors are in a good position to monitor financial condition and provide the early warnings to help their governments avert serious problems. There are many examples that can help you develop the indicators for your jurisdiction. It is a thought-provoking exercise and provides a great means of educating public officials about their government's financial issues. ■



**AMANDA NOBLE**  
Deputy City Auditor,  
City of Atlanta (GA)

The Governmental Accounting Standards Board (GASB) released Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in November 2013 to eliminate a potential source of understatement of expense and restated beginning net position in a government's first year of implementing GASB Statement No. 68. It also released the *Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions* in January 2014, and an online toolkit to accompany the guide that includes informational videos and fact sheets to assist local governments in implementing the standard.

GASB also released exposure drafts for *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and an accompanying proposed implementation guide. The proposed statement would reduce the generally accepted accounting principles (GAAP) hierarchy from four categories to two categories of authoritative generally accepted accounting principles. The first category of authoritative GAAP would consist of GASB Statements of Governmental Accounting Standards. The second category would consist of GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of CPAs that is specifically cleared by the GASB. The GAAP hierarchy comprises the types of guidance that state and local governments follow when preparing financial statements and lists the order of priority. Because the draft proposes including the implementation guide as authoritative guidance, it is

undergoing due process. Both the exposure draft and the proposed implementation guide are available free on the GASB website. Stakeholders are encouraged to review the proposals and provide comments by December 31, 2014.

GASB is currently reviewing ballot drafts and plans to issue exposure drafts on employer and plan other post-employment benefits (OPEB) accounting and financial reporting issues soon, with a public comment period in June and July. The proposed changes in OPEB accounting and financial reporting are consistent with the changes in pension accounting and reporting.

GASB has added a project on Tax Abatement Disclosures to its current technical agenda in December 2013. The primary objective of the project is to determine what disclosure guidance for governments that have granted tax abatements, if any, is essential to financial statement users. The project defines tax abatements as a reduction of or exemption from taxes, offered by a government to a specific taxpayer, typically for the purpose of spurring economic development. The project will not consider guidance for programs that reduce tax liabilities of broad classes of taxpayers, such as senior citizens. An exposure draft is scheduled to be released in the fourth quarter of 2014.

At the March meeting of the Governmental Accounting Standards Advisory Council (GASAC), members also provided feedback to GASB on the following projects under deliberation:

- **Leases**—re-examining issues associated with lease accounting in the government

environment and considering improvements to the existing guidance. GASB is scheduled to issue an exposure draft in the final quarter of 2014. Recent deliberations dealt with the methods a government lessee would use to measure the liability and asset associated with a lease, both initially and in subsequent years.

- **Fiduciary Responsibilities**—assessing whether additional guidance should be developed regarding the reporting of a government’s activities as a trustee or agent. GASB is scheduled to issue an exposure draft in the third quarter of 2014. Recent deliberations dealt with whether different types of funds met the proposed definition of fiduciary and whether fiduciary fund assets should be recognized with a corresponding restriction of net position or a liability.
- **Fair Value Measurement and Application**—examining how governments determine fair value and what financial statement items (such as investments) should be reported at their fair value. GASB is expected to issue an exposure draft in the second quarter of 2014. Recent deliberations dealt with the application of fair value to investments.
- **Financial Reporting Model reexamination pre-agenda research activities**—staff is conducting research to help GASB assess whether the blueprint for the annual financial statements, notes, and supporting information continues to be appropriate for state and local governments and is providing financial

statement users with the information they need to make decisions and assess government accountability. GASAC members described what they perceive as the positive and negative aspects of key features of the financial reporting model, including: disaggregating financial information by funds, presenting governmental fund financial statements using the current financial resources focus and modified accrual basis of accounting, and the government-wide financial statements.

GASAC members also provided input to GASB regarding the relative priorities of pre-agenda research activities and potential standards-setting topics included in GASB’s technical plan. This annual prioritization discussion is an important part of GASB’s agenda-setting process. The GASAC members’ prioritization discussion takes place shortly before GASB’s first consideration of the technical plan each year. GASAC members identified the following issues as the highest priorities: Reexamination of the financial reporting model, electronic financial reporting, popular reporting, reexamination of note disclosures required by Statement 38, interim financial reporting, and reexamination of the standards for debt refundings.

More detailed information about all of these projects is available at <http://www.gasb.org>.

As always, I welcome your thoughts on any of the topics. Feel free to send me an email: [anoble@atlantaga.gov](mailto:anoble@atlantaga.gov). ■

# Committee Report: Survey



## **NIKI RAGGI**

Assistant City Auditor,  
City of Austin (TX) and  
Chair, Survey Committee

### **Mission of Committee**

The ALGA Survey Committee prepares and distributes membership surveys on matters of interest to the Association's members, committees, and Board in order to further the understanding of survey topics, make recommendations to the Board, and follow up on action taken on recommendations.

### **Current Update**

The committee has been active in four areas:

1. Continuing biennial surveys
2. Establishing new surveys for committees
3. Supporting development of Quarterly articles
4. Adding content to the ALGA website

The past year we continued refining surveys to obtain information needed by the Board for decision-making. Also, we continued to develop new surveys to gain feedback for committees; for example, most recently, we worked with the Online Resources Committee in collecting specific information that will be used by the committee in designing new initiatives.

Also, we just completed our analysis of the results of the Biennial Membership Survey that was administered in February 2014, and we are working on developing the next Benchmarking and Best Practices Survey to be issued later in the year. Both surveys are used by the Board, with the Benchmarking survey being of greater use to audit organizations.

We will continue to work with committees to rollout timely and relevant surveys that will be used by committees and Board members.

### **Next Steps**

ALGA appreciates your feedback. Please look for our surveys and respond within the provided deadlines.

Going forward, we will be working to identify new surveys and improve the ones we have. If you have suggestions for the surveys we have distributed, ideas for new surveys, or would like to contribute in some way to our efforts, please do not hesitate to contact me (Niki.Raggi@austintexas.gov).

### **Committee Recognition**

The Survey Committee works hard to provide these surveys to the membership and includes: David Givans (liaison to the Board), Bob MacKay, Eileen Marzak, Neha Sharma, and Vivien Zhi. ■

# Committee Report: Publications



**JUSTIN ANDERSON**  
Senior Management  
Auditor, King County  
Auditor's Office (WA),  
and Chair, Publications  
Committee

## Mission of Committee

The Publications Committee has accomplished a tremendous amount of work in the last year. Our mission is to boldly go where no one has gone before... in keeping local government auditors up-to-date on current events and emerging issues in the audit community.

Over the last year, Publications successfully transitioned the *Local Government Auditing Quarterly* (LGAQ) from a printed to digital publication, added new committee members, created new internal tools for delivery of the LGAQ, and developed a "vision" for leveraging and improving our digital presence into the future. The Committee is constantly working to expand the breadth, depth, and volume of the articles and columns you read in the *Quarterly* each season.

## Transition to Digital Publication

At the May 2013 Board meeting, Publications was challenged to move from printed publication of the LGAQ to a digital delivery model. In the summer 2013 issue, we "warned" ALGA members of the pending transition, and in the fall issue, we distributed the LGAQ by email with an attached .pdf file. As of winter 2013 issue, we now send an email consisting entirely of links to LGAQ content, with a downloadable .pdf file on the main LGAQ page at the ALGA website.

The behind-the-scenes of this transition was not easy. We had to develop a more detailed process timeline to ensure that the web versions of our articles and columns would be available contemporaneously with the .pdf version of the LGAQ. We

worked out a new schedule to accommodate this work. We also had to realign the procedure used for posting the LGAQ to the ALGA website. Each article and column, as well as the LGAQ homepage for each issue, now has its own web address. This allows authors to link back to previously published work, and allows ALGA to designate access permissions for individual articles. Through this work, Publications built the framework that will allow future improvements to the LGAQ's online presence in the months and years ahead.

## Committee Membership and Internal Tools

In addition to our digital transition, Publications improved its resources for our primary work: identifying, assembling, editing, and publishing each LGAQ. We refined our tracking spreadsheet for the articles and columns that go into each Quarterly, as well as process guidance and checklist documents so the Quarterly editorial staff and committee members can check on the status of each issue and know next steps. We also developed a plan focusing efforts over the next couple years in improving the Quarterly as a web-based publication. These tools help streamline and standardize the committee's work and will support future transitions among committee members, editors, and the chair.

Key to our future efforts, we've also added three outstanding new members:

- Ruth Riddle, Port of Seattle
- Lisa Callas, City of Edmonton
- A.D. Hogan, Chicago OIG

## Highlights

Along with all this work, the committee also completed four outstanding Quarterly issues that combined excellent content with new tools such as links to example files and partnerships with other associations. The Spring issue leveraged outreach efforts with the International Law Enforcement Auditors Association, resulting in contributions to two articles on the “auditing public safety” theme. We also completed the 2013-2014 Annual Report and the article review and selection process for the “Outstanding Contribution to the ALGA Quarterly” award.

Publications accomplishes all this work due to its fantastic members: Kristine Adams-Wannberg, Lisa Callas, Angela Darragh, A.D. Hogan, Mary Hull

Caballero, Ruth Riddle, and Paula Ward; and the phenomenal *Quarterly* editorial staff: Amanda Lamb, Emily Jacobson, and Slemo Warigon. I feel very privileged to be part of a volunteer committee that works so hard for ALGA members to bring you high-quality and relevant content. They put in tremendous time, effort, and energy because of their interest in continuing to maintain and grow the *Quarterly* as an essential resource for local government auditing.

I’d also like to thank Craig Kinton and Alexandra Fercak for their help in coordinating our work, and especially Glenda Johnson and Kathleen Young at ALGA Member Services for their help in assembling each *Quarterly* issue and the audit abstracts on the ALGA website. Their help is absolutely invaluable to the committee! ■



**NANCY HOWE**

Lead Auditor, City and County of Denver (CO) and Outgoing Chair, Awards Committee

## Current Update

The Awards Program Committee has completed a busy year! The committee's primary responsibility is administering the Knighton and Lifetime Achievement Awards. The awards process concludes each year with the presentation of the awards at ALGA's annual conference in May.

In addition to administering the Knighton and Lifetime Achievement Awards programs, the committee completed the following in 2013:

- Fully utilizing the new ALGA website for both the Knighton and Lifetime Achievement awards processes. All information and submission forms were available on the website, and submissions were uploaded directly to the website for the Knighton judging panels to access.
- Participating in the November 2013 webinar on the Knighton Gold Award winners, hosted by ALGA's Education Committee.
- Writing an article for the Fall 2013 Local Government Auditing Quarterly in which we talked with the audit shop that won the 2012 Gold Knighton Award in the medium shop category.
- Long-time ALGA member Jeff Griffiths was nominated for the 2014 Lifetime Achievement Award. Jeff was recognized for his contributions to ALGA and the local government auditing profession at the Annual Conference in Tampa, FL.
- For the 2013 award year, 41 audit shops submitted reports for Knighton consideration. The Knighton judges recognized 9

audit shops' outstanding reports, as summarized below. All the audit organizations were present in Tampa to be recognized.

- All of the participating audit organizations were willing to share their audit reports with ALGA members. Links to the award winning reports, and to all reports submitted for an award, can be found on the Knighton Award page on ALGA's website.

A full list of the award winners follows.

## 2014 Lifetime Achievement Award

Jeff Griffiths will retire from the City of Toronto's Office of the Auditor General in 2014. Jeff has maintained an active membership in ALGA since 1997. He served in numerous capacities at ALGA, including President, member of the Board of Directors, and on five committees, two as Chair. He also participated in a number of peer reviews. He was the first Canadian to attend an ALGA conference, has presented at ALGA's conferences, and was the Conference Chair in 2003 when Toronto became the first and only city outside the U.S. to host the annual conference. Congratulations Jeff!

## 2013 Knighton Award Winners

### Small Shops

- **Gold:** City of Sacramento, CA - Audit of City Employee Supplemental Pay
- **Silver:** City of Palo Alto, CA - Inventory Management Audit
- **Bronze:** Metro Office of the Auditor, OR - Tracking Transportation Project Outcomes: Light rail case studies suggest path to improved planning

## Medium Shops

- **Gold:** City of Oakland, CA - Non-Interference in Administrative Affairs Performance Audit FY 2009-10 - FY 2011-12
- **Silver:** City of Portland, OR - Portland's Fiscal Sustainability and Financial Condition: Long-term financial position needs attention
- **Bronze:** City and County of Honolulu, HI - Audit of the Real Property Assessment Division

## Large Shops

- **Gold:** City of Philadelphia, PA - City Commissioners Office - Review of Provisional Ballots Cast in the 2012 Presidential Election
- **Silver:** City and County of Denver, CO - Medical Marijuana Licensing Performance Audit
- **Bronze:** City of San Diego, CA - Performance Audit of the Streets Division's Pothole Repair Operations

## Next Steps

Going forward, the committee will: (1) continue to work on ways to enhance ALGA's awards programs; (2) maintain the Awards page on the ALGA website; (3) explore an additional awards program to recognize the outstanding audit work and reports that do not qualify for a Knighton Award.

## Committee Recognition

I would like to recognize the Awards Program Committee members, all of whom are dedicated to making ALGA's awards programs as meaningful to the membership as possible: Paul Duggan, Ken Gavette, Cheryl Johannes, Ben Thompson, Terra Van Andel, and our board liaison - Pam Weipert. Also, Ken Gavette, Pam Weipert, and Cheryl Johannes served as judge liaisons for the small, medium, and large shop judging panels, respectively.

The committee would like to thank the 2013 Award judges and their audit organizations for their time and effort in making the awards program a success. Of the

17 judges, twelve were new and five were returning judges. Although there were numerous new judges, most had well over five years of auditing experience. Several serve as the Chief Audit Executive in their shop. Thank you for volunteering!

- Henriette Brown, Contra Costa County, CA
- Vickie Classen, City of Colorado Springs, CO
- Sean DeBlieck, Snohomish County, WA
- Eileen Donahue, City of Glendale, CA
- Kyle Elser, City of San Diego, CA
- Brian Evans, Metro (Portland), OR
- Wendy Gamble, LA Police Department, Los Angeles, CA
- Chris Horton, City and County of Denver, CO
- Darwyn Jones, Office of the Inspector General, City of Chicago, IL
- Linda Lindsey, Orange County Public Schools, Orlando, FL
- Lisa Monteiro, City of Anaheim, CA
- Hanna Morgan, City of Long Beach, CA
- Harriet Richardson, City of Berkeley, CA
- David Schroeder, City of Houston, TX
- Joshua Stearns, Office of the DC Auditor, Washington, DC
- Slemo Warigon, Office of the Inspector General, Washington, DC
- Edwin Young, City and County of Honolulu, HI

## Other Information

It's not too early to start thinking about the Knighton Awards and the Lifetime Achievement Award! The formal awards program announcement will be made in early December 2014. Award submissions and nominations will be open through mid-January 2015. We encourage your participation!

If you are interested in participating in the Awards Program Committee, serving as an awards judge, or just have a great idea, please feel free to contact a member of the committee or the incoming committee Chair, Ben Thompson, at 206-477-1035 or Ben.Thompson@kingcounty.gov. We welcome your ideas and input! ■

**Mary Hull Caballero** was elected in May as the City Auditor of Portland, Oregon. She will take office in January 2015, replacing LaVonne Griffin-Valade, who did not seek re-election. Mary currently is a principal management auditor at Metro Regional Government in Portland.

**Brian Evans** was elected as the Metro Auditor on May 20, 2014. Metro is the regional government for the Portland, Oregon, metropolitan area. Brian is a Certified Internal Auditor and Certified Government Auditing Professional. He will begin serving as the elected auditor in January 2015.

**Joanne Whitmore**, CPA/CFF, CIA, CRMA, CFE, Director of Internal Audit for Mecklenburg County in Charlotte, NC was elected to the IIA Charlotte Chapter Board for a one -year term. She will also serve on the IIA's International Conference Committee for a three-year term beginning July 1, 2014.

**Cynthia Birney** in the Clark County Auditor Department was promoted to Principal Auditor.

## Outstanding Contribution to the Quarterly Award



### Rebecca Takahashi wins 2013 award

Rebecca Takahashi at the City of Austin Auditor's Office won the 2013 award for Outstanding Contribution to the *Local Government Auditing Quarterly* for her article "From Zero to 90: Auditing the City of Austin's Efforts to Measure and Achieve Zero Waste." Judges also awarded an honorable mention to Kristine Adams-Wannberg at the City of Portland Auditor's Office for "Writing for Decision-Makers: A Perspective on Report Writing from an Audit Committee Member."

Judges evaluated articles against four criteria to arrive at their decisions:

1. Content—Significance of the article's contribution to the auditing field
2. Effectiveness—Substantive importance and methodological rigor; elegance and thoroughness of the methods presented
3. Innovation—The degree to which the article breaks new ground
4. Organization and Prose—Style of communication and clarity of conveying information

Takahashi's article (Winter 2013) stood out to judges as the winner for its innovative content—an evaluation of whether the City of Austin's zero waste goals are achievable by 2040. The article highlighted a novel methodology, particularly benchmarking data collected from other jurisdictions, and its figures effectively visualized how data completeness problems can impact performance reporting. Takahashi clearly summarized a past audit report and shared challenges that would be relevant to other shops interested in a similar engagement. Judges found the article to be a solid contribution to the developing audit literature on environmental sustainability.

Adams-Wannberg's article (Summer 2013) garnered an honorable mention for its organization and prose. While

Adams-Wannberg emphasized best practices from existing audit literature on effective communication, she did so from the unique perspective of an Audit Committee member. The article was a good reminder that audit reports must be written so they will be read and used. Most significantly to the judges, the author effectively demonstrated the point of the article by writing for busy readers: the article used meaningful headlines and language that was clear, simple and succinct.

At the May 2014 conference, ALGA recognized Takahashi and Adams-Wannberg for their contributions to the *Quarterly*. This was the second time ALGA conferred the Outstanding Contribution Award.

In 2012, the ALGA Board, through the Publications Committee, created the award to recognize exceptional *Quarterly* articles published in the previous year. For the 2013 awards, the *Quarterly* editorial team selected nine articles as finalists and provided them to the judges after redacting all individual and audit shop names. Judges were authorized to select one Outstanding Contribution winner and make honorable mentions at their discretion.

The judges for the 2013 award were:

- Tenzin Choephel, City of Portland Auditor's Office
- Jennifer McGuirk, Multnomah County Auditor's Office
- Sharron Walker, City of Scottsdale Auditor's Office

Mary Hull Caballero, Metro Office of the Auditor (Oregon), coordinated the judging process on behalf of the Publications Committee. Committee members thank the judges for their service. We appreciate all the contributions we receive for the *Quarterly*, as well as the opportunity to highlight particularly outstanding ones through this award process. We encourage all ALGA members to take another look at the winning articles for some great tips and insight. ■

# Audit Shop Profile: City of Chesapeake

## City of Chesapeake (VA) Audit Services

<http://www.cityofchesapeake.net/Government/City-Departments/Departments/Audit-Services-Department.htm>

Standing from left: Adriane Fisher,  
Jay Poole, Keith Jeter

Sitting from left: Mark Crist, Darren  
Padilla, Tony Markun



<b>City Auditor</b>	Jay Poole
<b>Reporting Structure</b>	City Council
<b>Office Mission</b>	Audit Services provides comprehensive audit coverage, maintains compliance with applicable auditing standards, and identifies areas where performance can be improved financially or operationally.
<b>Office Budget</b>	Audit Services (FY 2014) - \$529,362 External Audit Contract - \$182,400
<b>Organization Operating Budget</b>	City of Chesapeake (FY 2014) - \$966,406,887 General Fund Budget - \$506,228,643
<b>Office Size</b>	6 FTE (1 City Auditor, 4 Performance Auditors, 1 Audit Technician)
<b>Staff Backgrounds</b>	In addition to auditing federal programs, state agencies, local governments, and nonprofits, our staff members have backgrounds in banking, real estate, insurance, accounting, human resources, animal rescue, the U.S. Navy, and one is a former pageant winner and restaurateur.
<b>Staff Certifications</b>	CPA, CIA, CFE, CICA, CRMA, CFSA, CBA, CGMA
<b>Standards Followed</b>	Government Auditing Standards (Yellow Book)
<b>Types of Projects</b>	We conduct performance, financial (although it has been quite a while since we've had to do one ourselves), and special audits of City departments and functions; provide technical assistance (in the form of control advice) to other departments; respond to inquiries on the City's fraud, waste, and abuse hotline; and manage the City's external financial audit contract.
<b>Projects Per Year</b>	One to five performance audits (they're generally large in scope); 10 to 15 fraud investigations; and 10 to 15 technical assistance projects
<b>Years as an ALGA Member</b>	22+
<b>Awards Received</b>	One lonely "Honorable Mention" Knighton Award from 2008. We're proud of it though, because it was the first one ever received by a Virginia local government audit shop.
<b>Favorite Audit to Date</b>	In 2012, we identified issues with contracts totaling \$7.2 million for the development of a temporary jail facility. The contracts had been issued as emergencies and had incurred sizable overruns. More importantly, the facility had never received formal state approval, so it couldn't house inmates. The City had given up on it. However, after our audit (and some national media coverage) the City decided to try one more time. It got a waiver approved by the Virginia General Assembly, and now all three of the facility units are in use.
<b>Other Items of Interest</b>	Not everyone has heard of Chesapeake, but our area is one of the oldest continually inhabited areas in the country. It was designated as a county by the King of England in 1636, became a city in 1963, and is now one of the 100 largest U.S. cities in both area and population. The City has a mix of urban, suburban, and rural areas as well as a portion of the Great Dismal Swamp National Wildlife Refuge and the adjacent Dismal Swamp Canal Trail. The canal and trail are a great place to boat, bike, or birdwatch, as long as you don't mind sharing with a few local bears.

## Eastern Region Members:

### Host the 2017 Annual ALGA Conference!

Are you a member of the Eastern Region? Would you be interested or know someone in the Eastern Region that would be interested in hosting the 2017 ALGA conference? If you answered "YES" to either question then the ALGA Long-Term Conference Planning Committee invites you to review our website and submit your online bid to host the 2017 conference.

Bid submissions can be submitted online between Monday, June 16, 2014 to Friday, August 1, 2014. No submissions will be accepted after August 1, 2014. Committee members will evaluate all submissions received during the bidding period and provide their recommendation to the Board in August 2014. The 2017 conference site winner will be announced at the Fall meeting in September 2014.

## Call for Presentations!

With the Tampa conference still fresh, it is time to take a moment to consider ALGA 2015 in San Diego, May 3-6, 2015. We want you to suggest a topic or propose to present. Some themes that interest members include:

- analytical tools,
- fraud,
- effectively working with stakeholders,
- audit workforce issues,
- IT, and
- increasing the impact of our work.

Your suggestions DO NOT have to fit within these areas. Unique and creative ideas are welcomed. Deadline for suggestions is July 21, 2014.

### How do I share my ideas?

Check out our web page for more information about types of sessions, principles used to review the proposed presentations, and the elements of information needed to submit a presentation.

If you are the type to rush right in, submit your presentation proposal or suggest a presentation by others.

### What's new?

This year we'll be adding a new format for two of our sessions called FAST (For Auditors Short on Time). These will be a series of short, high-impact presentations on the themes of Communicating Audit Results and Efficient Audit Practices. This approach has been utilized effectively at other conferences so we wanted to try it out. Five speakers, five minutes each. We will give presenters lots of support to make those five minutes count.

We would love to have your participation in 2015!

The Conference Committee

## Why Use an Alternative Audit Report Format?



**JUDITH DEVILLIERS**  
Principal Management  
Auditor (retired),  
Multnomah County (OR)

In my extensive audit career I found it more difficult every year to read audit reports even though I am passionate about auditing. They are generally too long and often read like a mystery novel; the reader has to wade through pages of evidence to find out “who did it” and “what they did.” Today is my last day of gainful employment. I have been a performance auditor with the Multnomah County Auditor’s Office for nearly 25 years. My last audit report was short and sweet. Well, short at least.

Jennifer McGuirk and I completed an audit of Fuel Management, which was issued on March 13, 2014. Instead of a traditional written audit report, we used a PowerPoint slide show. The entire report body, in addition to title slides and management response, had fewer than 2,400 words. This was less than our abstract for the ALGA website.

The audit objectives were narrow and recommendations straightforward. One objective was to look for signs of fraud or abuse. Before the end of fieldwork we realized we could not find signs of potential fraud because the data needed for such an analysis was not being systematically maintained. Our audit recommendation was clear: gather and analyze fuel usage data. We also looked at fuel contracts and found Fleet was not monitoring these. We decided a brief report would be appropriate since we believed our recommendations would be easy to understand.

Jennifer and I went to our boss, elected County Auditor Steve March, and asked if we could use an alternative report format. He agreed. A PowerPoint presentation meets our reporting requirements under County Code and Government Auditing Standards for reporting results of performance audits.

Other than our desire to have a brief report we thought would be more useful to management was the idea that the report writing process would be much faster than our traditional report writing exercises. We were wrong.

I am an aspiring novelist, along with 20 percent of the population. At one time I decided writing a short story would be easier and faster than a novel. I was wrong. Writing concisely and precisely takes time and effort. Each word must be weighed carefully and used with an exactness not needed when there are options to clarify with more words. Jennifer and I focused on the audit objectives and organized our findings into sections that included a brief description of best practices, what the County did, what we found, and what we recommend.

Not only must the writing be more precise, but so must be the thinking process. We had more evidence and other areas we could have reported on; however we decided if management followed our recommendations these other issues would be resolved. Auditors spend weeks or more often months, gathering evidence as they compare best practices to what the audit organization is doing. And of course we want to tell it all, to show forth the great body of our work. Letting go of things was almost more challenging than that of precise and concise writing.

In one of my favorite movies, *Galaxy Quest*, the antagonist says, “Tell it to him as to a little child.” I’m not sure how far we would need to take the concept. However, I highly recommend auditors consider using a PowerPoint slideshow as their audit report because it will require precise thinking and communication skills. Many audits will be too complex for this reporting method. However, by using this method as a starting place,

the writing of a traditional audit report should be easy, as the main points would have been explored and communication concepts clarified in the process. Progress is inevitable and the audit community needs

to use the best communication tools available. My parting words after nearly 25 years as a performance auditor (from another favorite movie); “So long, and thanks for all the fish.” ■



**JENNIFER McGUIRK**  
Performance Auditor,  
Multnomah County (OR)

**CRAIG HUNT**  
Principal Performance  
Auditor, Multnomah County  
(OR)

**NICOLE DEWEES**  
Senior Performance Auditor,  
Multnomah County (OR)

## Why Do a Follow-Up?

Tracking the status of recommendations is important. Even though managers are relieved to see us walking away from that last audit meeting, our annual follow-up process is a gentle reminder that we are still watching and monitoring their progress. The follow-up process also tracks and reports the effectiveness of our overall auditing efforts.

## How Does Multnomah County do a Follow-up?

The follow-up process at the Multnomah County Auditor's Office has generally remained the same for the last 20 years. We maintain a database of audits detailing whether recommendations are implemented, in process, or not implemented. We annually update the database entering all of our audits' recommendations for the last year and the results of any on-site follow-ups. We then send out a survey for all recommendations that are in process, understanding that some recommendations will take longer to implement than others because of their scope or complexity.

Managers report back to us on the status of implementation, writing a brief update for each recommendation in process. Unless we know differently, we accept the department's answers. When skeptical of progress, we request documentation. Actual verification will be done on-site down the road. We use our recommendation database to gauge whether an on-site follow up is needed.

Except for the annual reminder at the program and department levels, our follow-up process has mostly been internally focused. We did not make an effort to inform the public and commissioners about the status of recommendations. Although we produced occasional written status reports, they would only show the

percent of the recommendations that were implemented or in process, without providing the status of individual recommendations. Before this year, the most recent report that showed the detail of recommendation implementation was issued in 2000.

## Why Dashboards?

In February, we launched a set of interactive dashboards that we hope are raising the visibility of our audit work—and increasing management's accountability for implementing recommendations.

The dashboards came about in response to the County Auditor's request for a report on the status of audit recommendations that would achieve the following goals:

1. Make use of the data the office gathered with each annual survey
2. Draw attention to departments' recommendations to encourage implementation
3. Share improvements the County is making because recommendations have been implemented

In addition to the status of recommendations, we implemented a new survey to ascertain departmental perceptions of each audit's impacts, going back to FY 2009. (Going forward, we anticipate conducting this survey annually for the previous year's audits only.) We developed survey questions based on our office's most recent internal risk assessment methodology, questions in the Government Accountability Office's (GAO) 2013 Organizational Performance Survey (esp. Q 23), and our office's mission.

Prior to preparing our report, we assessed whether our existing data could meet these goals and reflect compliance with best practices for follow-up programs as presented in the GAO's [How to Get Action on Audit Recommendations](#). We also evaluated

other jurisdictions' status reports for commonly reported statistics.

We initially planned to publish a traditional paper report. But, because the information we wanted to communicate was highly visual, an interactive visualization made the most sense. This meant one thing to us: dashboard. Fortunately there is a great dashboarding resource in the auditing community. The City of Atlanta Auditor's Office had created a recommendations dashboard—the first of its kind, to our knowledge—and presented on it at the 2013 ALGA Conference. We were grateful to speak with one of the project's auditors to learn from their experience as we attempted to follow their example.

### What Are Some Dashboard Best Practices?

Research into dashboard best practices was also helpful. When done well, dashboards make monitoring easier; they enable viewers to determine status and compare values quickly. Information visualization guru Stephen Few posits that effective dashboards and other visualizations:

- Follow design principles rooted in how we visually perceive information
- Clearly indicate how values relate to one another
- Represent quantities accurately
- Make it easy to compare quantities
- Make it easy to see the ranked order of values
- Make it obvious how people should use the information

### Why Tableau?

We asked our intern to research software that would allow us to display dashboards on our website. We wanted something that would allow us to share data with others, be easy for the public to interact with, and be relatively simple to learn to use. Our intern's research led us to Tableau, which had all of the features for which we were looking. As luck would have it, another department at Multnomah County had already paid for one more Tableau license than it needed, and we were able to transfer that license to our office. We have to pay an annual fee for continued use, but we were able to avoid the initial licensing fee.

There are three tiers of Tableau software, and we have the middle-tier. This tier is less expensive than the premium version, but it does have some drawbacks. First of all, we cannot embed Google Analytics into this version. This means that we can track the number of people who visit our Tableau projects, but we cannot collect more detailed information about how people find us or if they are new or repeat visitors. Additionally, our version of Tableau cannot directly connect to the County's enterprise system, SAP. For our purposes, however, we only need to import information from Excel and Access, and Tableau imports this information very easily.

### What Are Some Features of Your Dashboard?

We have included a screenshot of our recommendations dashboard and have highlighted some of the features on the following page.

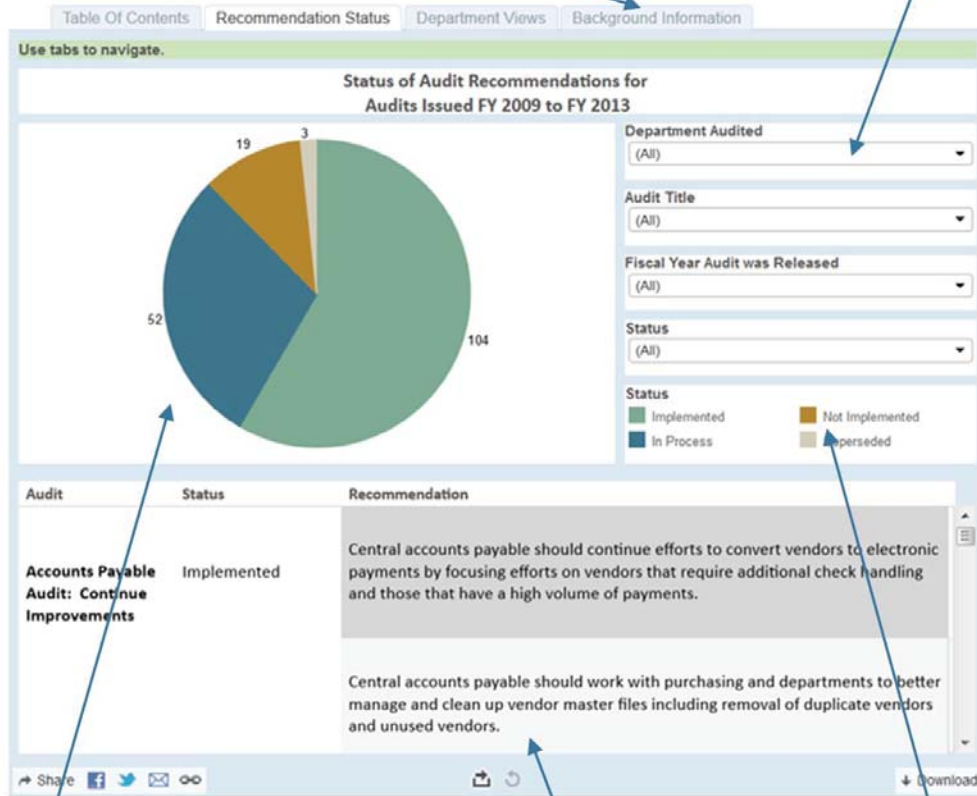
To interact with the dashboards, please visit <http://web.multco.us/auditor/audit-survey-results>.

### Results

By putting our follow-up information into an interactive format, we received much more attention than usual. In the first two months, the dashboard has been visited over 400 times. If you attended the second general session at the recent ALGA Conference in Tampa, you heard Katherine Barrett and Richard Greene of Governing Magazine and the B&G Report mention our dashboards as an example of how audit shops could publicly track the status of audit recommendations. We really appreciated this mention in front of our peers, as well as their coverage of our dashboards in the April 3 edition of their B&G Report. In addition, the local paper, The Oregonian, wrote an article; one of the County commissioners sent us an enthusiastic email; and many other people have contacted us with positive comments and questions. Most importantly, the interactive tool has put gentle pressure on departments to follow through on recommendations. Based on the feedback we received, we hope to use Tableau for future reports. ■

Additional information is available in the background tab, but otherwise the dashboard is free of overwhelming details.

Drop-down menus allow the user to select the department, audit, fiscal year, and recommendations status.



We're aware of the anti-pie chart crusade out there. Read <http://speakingppt.com/2013/03/18/why-tufte-is-flat-out-wrong-about-pie-charts/> to see why we selected a pie chart for this particular dashboard.

When users select different options, the list of recommendations automatically updates. Users can scroll through to read about the specific recommendations.

Red is a logical choice for "Not implemented," but we wanted to make this colorblind friendly.



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**MONIQUE TAYLOR**  
CFE, CICA, CPM, CRMA, Director of Internal Audit, University of North Carolina - Asheville

## Using Audit Processes to Assess and Improve the Long-Term Fiscal Sustainability of Governments

### Introduction

Citizens demand transparency and accountability from their representatives when responding to fiscal debacles underscored by fraud, waste, and abuse in government. Correspondingly, when the ability of the government to meet existing spending commitments with existing resources for current and future periods becomes an issue, fiscal sustainability becomes questionable. The audit function is, therefore, an essential resource that assists governments in accomplishing and maintaining fiscal sustainability by evaluating the effectiveness of their financial management processes. Fiscal sustainability is generally considered an area for systemic and ongoing audits by government auditors because citizens demand heightened transparency and accountability in managing public finances. This article discusses the value of using audit processes to assess and improve the long-term fiscal sustainability of government.

### Dimensions of Fiscal Sustainability

Fiscal sustainability is the ability of a government to meet its public service delivery and financial commitments both now and in the future without imposing an unfair burden on future generations. The Federal Reserve System describes fiscal sustainability as a situation in which the ratio of federal debt to national income is stable or moving down over the longer term. Fiscal sustainability takes into account the current policy outlook to determine whether a government is headed toward excessive debt, and

take proactive actions to turn the tide.

In this context, *fiscal* refers to government spending and investing activities, including how these are financed through taxes, debt, and other liabilities. *Sustainability* refers to the ability to maintain government activities in the future. Thus, fiscal sustainability enables governments to sustain their current spending, tax, and other fiscal policies in the long run without threatening their solvency or defaulting on some of their financial obligations. Fiscal sustainability in government is synonymous with *public finance sustainability*. Sustainable public finances are required to achieve high and stable economic growth, and to ensure that spending and taxation are distributed fairly across generations.

Fiscal sustainability commonly has four dimensions, namely:

1. **Solvency** – the ability to finance existing and probable future liabilities
2. **Growth** – the ability to sustain economic growth over an extended period
3. **Stable taxes** – the ability to finance future obligations without increasing the tax burden
4. **Fairness** – the ability to provide to future generations benefits that are not less than benefits provided to current generations.

### The Importance of Fiscal Sustainability

Governments face many complex and ongoing challenges that could impact their long-term fiscal sustainability, such as an aging population, fast-rising health-care costs, climate change, and aging infrastructure. There is a growing consensus that if public debts were to grow faster than the economy for a long period, these challenges could make public finances unsustainable, thereby reducing the living standard of future generations.

Thus, a primary long-term budget policy goal of any government must be achieving fiscal sustainability.

Budgets and economic forecasts that commonly include long-term fiscal projections not only help governments understand and protect the sustainability of public finances, but also help them to respond more effectively to financial pressures in the future. The long-term fiscal sustainability projections support the achievement of sustainable public finances and inform fiscal policy decisions. Understanding and considering the possible future consequences of fiscal decisions support sound economic development and the efficient use of available public resources for the good of current and future generations.

Determining the credibility, reliability, and validity of fiscal sustainability projections or goals typically involves an objective review of baseline projections, fiscal gap analyses, and intergenerational accounting. This can be accomplished through a performance audit as an independent, objective, and systematic assessment of how well the government is managing its activities, responsibilities, and resources.

### **The Value of the Audit Function**

Audit processes add to the fiscal sustainability landscape when strategies are employed to examine and provide governments with recommendations that support the achievement of long-term goals. Financial statement reviews are a common method employed by auditors when assessing past and present fiscal condition of governments. In December 2013, Colorado auditors issued an audit report outlining the fiscal stability of the City of Denver. This report underscores a common practice for governments, which is to use financial reports as a basis for measuring their performance or fiscal health.

Audited financial reports provide users with information needed to assess a governmental entity's current and future fiscal sustainability. Also, government auditors routinely conduct performance audits that align with the financial statement audit process. Financial and performance audits help governments achieve fiscal sustainability-centered objectives by evaluating related processes and providing recommendations for improvement.

In recent years many states have faced revenue crises. As a result, public sector leadership is challenged to create fiscal sustainability at the local, state, and federal levels of government. For instance, local governments in California experienced cost-reduction measures affecting city services, publicly-funded centers, and other activities supported by municipalities. Financial and performance audits of key areas, such as Medicaid, education, and other various

social services provide fiscal sustainability assessments needed to support fiscal policy changes within government operations.

Auditors in North Carolina (NC) have recently conducted numerous performance and financial statement audits that provided legislators with valuable information to make reasonable and sound fiscal decisions. The findings and recommendations from the published NC Medicaid program audit report resulted in significant changes to the administration of the program. A similar performance audit of the NC food stamp program also provided the foundation for changes to the administration of the government-sponsored program. Clearly, the evaluative process of government auditing provides critical information for legislative decisions in state and local governments. According to Okubo (2011), state and local governments facing increased costs for social services and related programs typically rely on audit reports to support their strategic fiscal decisions, particularly when there is an increased public scrutiny of their operations.

### **Evaluating the Fiscal Health of Governments**

The Governmental Accounting Standards Board (GASB) considers fiscal sustainability as a method for determining whether governmental entities are moving in a direction that can be maintained for future periods. Further, fiscal efficiency and responsibility are enhanced when state and local governments can sustain a solid fiscal and financial platform. However, states and localities struggle to maintain fiscal sustainability in areas with the highest expenditures, such as education, social services, transportation, and administration.

Due to the growth in education, transportation, social service, and administrative expenditures for states and localities, the need for continuous audit processes becomes important. Given that GASB and citizens are increasingly focusing attention on fiscal sustainability, the audit function is a critical resource that assists governments in creating and maintaining sustainable public finances through systemic and ongoing evaluations of the effectiveness of their financial management processes.

### **How to Conduct Effective Fiscal Sustainability Audits**

Fiscal sustainability audits provide assurance to taxpayers and public sector leaders that government activities can continue long-term without threats to solvency, growth, and stability. For instance, the Auditor General of Canada conducted a detailed performance audit in 2012 that examined whether the Department of Finance Canada (DFC) takes into account the impact of spending and tax measures on

long-term fiscal sustainability before recommending new policies, and how analyses of long-term fiscal sustainability are prepared and reported. The overarching objective of this audit was to determine whether DFC (1) considered the long-term fiscal impact when analyzing and recommending spending and tax measures, and (2) publicly reported information related to Canada's long-term fiscal sustainability. This audit examined:

- The processes and tools used by DFC to prepare the fiscal impact of spending and tax initiatives with long-term budgetary consequences
- Whether DFC had prepared long-term fiscal sustainability analyses and had considered them in formulating recommendations
- The process used by DFC to project and publish sound analyses of overall long-term fiscal sustainability
- How the policy decision framework takes into account long-term fiscal sustainability that could be affected by demographic factors

The audit concluded that:

1. Sound fiscal projections can help minimize the risk that unaffordable fiscal pressures will force future governments to make sudden policy shifts
2. Projections of the fiscal impact of budgets should be prepared before the completion of the budget process to help influence or support budget decisions of the federal, provincial, and territorial governments
3. Publicly available information on long-term fiscal sustainability would help policy makers, legislators, and citizens understand the long-term trajectory of the fiscal position of government
4. Publicly available fiscal sustainability information would help stakeholders determine whether budgets are fiscally prudent, thereby making leaders accountable for the long-term consequences of budget choices.

In addition, the City of Denver performed a fiscal sustainability audit in 2013 that evaluated the fiscal solvency and stability of the City, including a review of thirteen financial condition indicators, such as revenues, liquidity, solvency, capital assets, debt management, expenditures, and post-employment benefits such as pensions. The audit reinforced the citizens' demand for transparency and accountability, and provided users of the City's financial information with a simplistic and user-friendly way to assess financial information.

Conducting effective fiscal sustainability audits can be accomplished when auditors evaluate the effectiveness

and efficiency of the administrative, budgeting, forecasting, planning, and information sharing processes within government. For example, when auditors examined the NC Medicaid program in 2013, the audit objectives included evaluating compliance with state and federal requirements, budgets, program costs, and program expenditures. The auditors: (1) compared the spending for the program to spending in other states with Medicaid programs of comparable size; and, (2) performed program evaluations to determine whether the administrative costs were tied to a comprehensive cost allocation plan.

An examination of the budgeting and forecasting methods employed by the division responsible for administering the NC Medicaid program allowed auditors to determine adherence to state laws that require agency accountability for spending of state-allocated funds. Examining budgeting and forecasting methods also provided auditors with information regarding the current fiscal health of the agency. Assessing the planning process for the program enabled the auditors to draw conclusions about the agency's budget projections and whether adequately developed spending categories were in place to mitigate the risk for budget shortfalls. Inspecting internally-generated reports was one of the evaluative tools that enabled auditors to conclude whether agencies maintained adequate, complete, and timely information useful for making sound decisions that support long-term fiscal sustainability goals.

In summary, these examples illustrate how to conduct effective fiscal sustainability audits using this approach:

- Establish audit objectives and identify relevant criteria for the assessment of fiscal sustainability initiatives, activities, and reporting
- Examine the process used by the responsible agency for estimating long-term fiscal impact when officials consider spending and tax initiatives, and how the policy- and decision-making process takes into account this impact
- Examine the process used by the agency to analyze long-term fiscal sustainability and publish reports
- Examine established practices for reporting information on long-term fiscal sustainability to decision-makers and citizens
- Review various documents, including briefing notes and analyses prepared by the agency, as well as analyses, research papers, and literature related to the issue of fiscal sustainability
- Examine how the fiscal impact of aging population, climate change, or aging infrastructure is taken into account in the decision-making process
- Compare performance to relevant criteria, report

both positive and negative observations, conclude against the established audit objectives, and make recommendations for improvement as appropriate.

Fiscal sustainability audits contribute significantly to a public service that is ethical and effective and government that is accountable to its legislative branch and citizens. Results of such audits encourage the government to routinely publish: (1) a comprehensive fiscal sustainability and intergenerational report aimed at providing a broad analysis of current and future demographic changes and the implication of these changes for the government's long-run economic and fiscal outlook; and (2) the long-term financial projections needed to fully assess the impact of the challenges facing the government and to inform its citizens.

## Conclusion

Developing and implementing sustainable fiscal policies are Herculean tasks that involve many painful decisions and difficult tradeoffs. This article indicates that meeting this challenge in a timely manner is crucial for the long-term fiscal viability of any government. History shows that failure to put our fiscal house in order will erode the vitality of our economy, reduce our standard of living, and increase the risk of economic and financial instability. Government auditors play a critical role in assessing and providing useful information to inform citizens, hold decision-makers accountable for budget choices, and help mitigate the risks that could adversely impact the long-term fiscal sustainability of government. ■

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**LISA CALLAS**  
Audit Coordinator,  
City of Edmonton (AB)

## Internal Audit as an Agent of Change

One of the key tasks of internal audit is to identify opportunities for an organization to be more efficient, more effective, and better manage its risks. However, merely identifying these opportunities doesn't necessarily add value to the organization. Our work in these areas adds value when management is willing to change and adopt our audit recommendations. By taking some time to understand the organization and where there may be barriers to the changes we recommend, we can more effectively serve as agents of organizational change.

In the fall of 2013, I undertook a research project to better understand the role of internal audit in organizational change. What emerged was a complex picture of influence, perspective, and priorities that affected how managers made decisions. When we conduct audits, we can come into conflict with elements of the prevailing organizational culture. This affects how audit recommendations are accepted, implemented, and sustained in the organization.

### The Audit/Organization Conflict

Municipal audit reports are usually public. They are often presented to an Audit Committee, available online, and accessible to the media. After an audit, considerable attention may be focused on the business units and managers. In an organizational culture where public attention is often seen as a negative, this creates a situation where managers quickly adopt and implement recommendations. They wish to remove that spotlight. However, once the public attention has disappeared, the change may not be sustained.

Many government auditors are generalists – highly skilled, but not

necessarily specialized in the areas they audit. Managers and employees place a high value on contextual expertise and knowledge. As a result, the auditor may be seen as an intruder who is critiquing the performance of those with more knowledge, skill, and experience. When this occurs, managers may not see any value in implementing the recommendations. This can be exacerbated when middle managers, who are powerful change agents in an organization, were not involved in pre-audit discussions about risk and purpose. When this happens, audits may be perceived as adding no benefit, limiting the incentive to allocate scarce resources to a change.

Most government organizations are traditional hierarchical bureaucracies where those at the top have the most power. Internal audit is often located quite high on this organizational structure. This creates a power imbalance between internal audit and the middle managers. Consequently, managers may accept audit recommendations even though they may see little value or have no intention of implementing them.

Organizations change over time to centralize or decentralize power and authority. During times of power shift, middle managers are expected to manage competing expectations of both internal audit and senior managers. This means that the effort and resources put into implementing audit recommendations may be reduced in order to satisfy competing priorities from multiple stakeholders.

Government institutions are often perceived as slow to change. Organizations are extremely complex and relatively small changes can unintentionally disrupt a system. An audit that recommends a change without the auditor understanding how that change can affect the larger system is destined for failure because the larger system was not adequately

considered. What may seem like a small change meant to address a simple risk may actually create bigger risks down the line. People do not inherently resist change; they adapt and change every day. However, they resist change when they think that something bad will happen or that it won't make a difference. Audit recommendations may be publicly accepted due to the media attention, but if they are seen as useless or harmful by the organization, they will not be implemented.

All organizations and business units have an internal process for managing effective change. Feedback and opportunities for change are evaluated by a business unit through their own cultural lens. Audit bypasses this process and uses power and public visibility to bring opportunities and deficiencies to public attention. The result is that change is imposed on the operation. They no longer have the autonomy to work through the change following their customs and culture. As such, there is limited incentive to make the changes work and the quality of the change will be lower.

The public release of audit findings can create a crisis for the organization. This may be real or it may be perceived due to media attention or the attention of powerful officials. When a crisis happens, changes may be implemented very quickly. Immediate, short-term crisis management activities are valued and perceived as important. Managers are often rewarded for implementing change quickly and 'resolving' the crisis. However, such changes may not be sustainable. They may be quick and visible, but not effective.

### **A Change of Perspective**

What is striking about all of these barriers is that this study was conducted in an organization where internal audit has a positive relationship with management. The middle managers who were interviewed recognized the value of audit and respected the individuals working in the audit office. The issues we encountered were

systemic. They emerged when managers had to make decisions about prioritizing their work and allocating their scarce resources. The decision to implement audit recommendations is influenced by the organization's culture, norms, and practices. Audit is only one of many influences on this decision-making process.

From the auditor's perspective, the audit process was designed to be as collaborative as possible while still maintaining objectivity and independence. From the perspective of the auditee, the audit itself is a risk that needs to be managed. Audit doesn't happen in a vacuum where the manager can focus on implementing recommendations without considering what is happening in the business around her. As auditors, we will never be able to remove all of the conflicts between our work and the organization's operations. If we did, we would compromise the independence, objectivity, and transparency that are hallmarks of our discipline. What we can do is understand the influence that our work has on the organization's operations. We can adapt our practices to better fit the culture when doing so will not compromise our practice. When we cannot compromise, we can respect the position of managers who are facing complex challenges and balancing competing priorities every day. Every organization is unique. To be effective at influencing change within that organization, audit must adapt and understand how change works in that environment. Otherwise, we become an unintended draw on the scarce resources we intended to save. ■



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## The Whats, Whys, and Hows of Producing an Economic Condition Report

Popular financial reports produced by audit organizations are becoming more common. While useful information is already presented in various government documents, such as Comprehensive Annual Financial Reports (CAFRs) and budget documents, these reports are typically not designed for a wide audience and are difficult to understand. Audit shops are filling the need for more accessible information through economic condition reports. These better inform decision-makers, the media, and the public about the government’s overall financial health, trends, and problems that need to be addressed.

### What Is Economic Condition Reporting?

There is no universally accepted agreement of what “economic condition” is. Often, it is associated with a broader concept of reporting on a government’s financial wellness and intergenerational equity—the degree to which future taxpayers must pay for current policy decisions. Economic condition includes such facets as financial trends (trends over time), financial condition (financial health as of a point in time), and fiscal sustainability (financial health projected into the future).

The Governmental Accounting Standards Board (GASB) provides a tentative definition. Economic condition is the combination of a government’s financial ability and willingness to meet its financial obligations and service commitments on an ongoing basis. It includes the following:

- Financial Position – The status of the government’s assets, deferred outflows and inflows, liabilities, and

net position as displayed in the financial statements.

- Fiscal Capacity – The government’s ability and willingness to meet its financial obligations as they come due on an ongoing basis.
- Service Capacity – The government’s ability and willingness to meet its commitments to provide services on an ongoing basis.

While the first aspect is already in the financial information a jurisdiction probably provides, the last two—particularly when considering “ability and willingness”—are more subjective. It is like doing an assessment of whether the government is paying for new objects, like streetcars, or doing maintenance on the streets.

### Why the CAFR and Budget Documents Are Not Enough

Economic condition reporting is a hot topic because of what auditors are seeing in the field. Headlines related to municipal bankruptcies and unfunded government pensions are becoming commonplace, and they can undermine public confidence. Government decision-makers may focus on the projects that benefit their constituents today, without necessarily understanding the implications for future generations. Economic condition reporting provides an opportunity to present the long view, putting today’s decisions into a broader context.

You may wonder why an audit shop would spend time producing an economic condition report if the bulk of the information is already in a Comprehensive Annual Financial Report (CAFR) or described in annual budget documents. It is a fair question. I would say that finance shops are not producing this type of material in a popular format. In addition, “those

charged with governance” are probably not reading the CAFR. If they are, they may not understand it well. In my experience in both state and local government, while many decision-makers came into their positions to make a difference by serving the public and improving their communities, they may not have brought a finance background. It is also probably unlikely that many residents are picking up a 300-page CAFR and walking away with a clear picture of their jurisdiction’s finances.

The budget can be another useful document—one that decision-makers are probably more familiar with using. Budget documents provide a good record of spending and policy decisions, but the time frames presented are more limited. They often do not present the jurisdiction’s financial state for the long term or changes in the government’s net position. For example, capital plans detail projects to be funded, but they do not look at a government’s rate of investments versus depreciation. Similarly, a budget details employee costs, but may not take into account post-employment liabilities past the bills that need to be paid on a short-term basis.

When decision-makers are not considering the long-term financial implications of the whole of their policy and funding decisions, they may jeopardize their ability to provide important services in the future. Decision-makers need a report where they can easily understand financial issues, without having to get into the details of technical fund accounting. Since management is not providing this information, auditors have started to fill the gap by producing various types of financial reports, separate from the CAFR, that are designed as popular reports.

### Sign Me Up! How Would I Develop My Own Report?

The City of Portland has issued popular financial reports for over two decades. We typically produce one every other year as a performance audit. The scope is similar from project to project, but it gets refined each time we do a report, based on interest in particular metrics, GASB changes, and the availability of information. For example, we did a significant overhaul of our report scope a couple of years ago, based on verbal concerns expressed by our external financial auditor about our jurisdiction’s constantly declining net position. In developing our project, here are some of the key things we considered and ones that would be useful in developing any type of economic condition report:

### Who Is the Audience and What Is the Goal?

Know who you are writing for and what your goal is for the report. For the City of Portland’s project, we wanted to provide information on the city’s finances to the City Council, the media, and the public in a popular format. Our goal was for Council to consider their financial and policy decisions in terms of the government’s overall financial health and to have them make better long-term financial decisions.

### What Measures Best Convey Economic Condition in Your Jurisdiction?

You need to consider what you will include in your report. It is important to decide what measures to use, based on what you feel is important to present. For example, showing the change in a government’s pension liabilities (as shown in the graphic) or net position over time may be more compelling than only showing a jurisdiction’s expenses and revenues per capita.

**PERS liability** (millions, unadjusted)



Source: Portland CAFRs and Mercer Inc.

The International City/County Management Association publishes *Evaluation Financial Condition: A Handbook for Local Government*, which is a great resource for preparing an economic condition report. It provides a range of measures to consider, as well as various calculation resources.

### What is the universe?

Once you have decided on the measures to use, it is also critical to consider which parts of your jurisdiction’s finances will be displayed. Presenting information about the primary government is easier, but it does not provide a complete picture. For example, the early years of Portland’s economic condition reporting did not include the “business type” activities of the water and sewer utilities. These are arguably some of the most visible services to city residents. Presenting the city’s condition without the assets, debts, revenues, or expenditures of the city utilities was an incomplete picture. A holistic picture better reflects how residents view their government—as one unit. In the event of a crisis, most governments will sacrifice the General Fund to keep critical services

such as water and sewer running, so the accounting distinctions between activities may feel misleading to the general public, even if they are technically accurate.

Providing the primary government and all its component units is comprehensive, but may be more complicated. In Portland's case, we presented the City as one entity, rather than the sum of its parts. This made the project more complicated in putting the data together, but it ultimately provided a more complete picture that was more accessible to city residents. At this high level, we do not focus on merits of a particular spending decision. Instead, we capture the long-term impacts of decisions taken as a whole.

### Which Resources Are Best To Use?

I advocate using resources that are easily available to the public, decision makers, and to other finance staff in your jurisdiction. This would include CAFRs, budget documents, or other already published reports. The CAFR is a great resource, because the data has already been audited, and those documents are easy to access on jurisdiction websites. This is useful, particularly if you want to obtain information on comparison jurisdictions. The government-wide financial statements are useful in presenting the activities of the jurisdiction as a whole. Be careful, however, to know the basis of accounting being used. Using full-accrual numbers will include issues such as depreciation, and those figures will not be prepared in the same way as financial reports prepared under the cash basis. If you have questions, make sure you have a technical expert you can contact!

It is helpful to clearly list the information sources used for the indicators presented in the report. If there are questions about the information you are using, you can call out the sources used in the report, which will help readers find the underlying data.

### How Do You Make a Report on Financial Condition Readable?

Early reports from Portland were a short series of graphs, with explanatory bullet points. Over time, we increased the amount of text and level of detail and tried to keep interesting graphics to tell the story for those readers (like many of us!) who will flip from picture to picture. We've found that using less common graphics, such as the dollar bill below, seems to resonate with both residents and the press.

2003 City property tax dollar (\$338 million, adjusted)



2012 City property tax dollar (\$429 million, adjusted)



Source: Portland CAFRs

### Reactions To Expect

Like any audit, management may not be thrilled with what the report presents and what it recommends. Some may question the need for another financial report separate from the audited financial statements and annual budget document. Others may question your conclusions, identifying that the information is not provided in enough detail or basing their own assessments on the jurisdiction's latest bond ratings. It is worthwhile to take their views into account in order to improve the utility of the report. Your

philosophy and approach as an auditor, however, may be different than those of management.

Over the years, the City of Portland has made great improvements to its economic condition report, and it has become a good monitoring tool on the results of the city's funding and policy decisions. It has generated good discussion from city leaders and managers, the media, and the public about how city resources are being used. This discussion benefits everyone and can lead to better decisions, which is what an economic condition report—and any audit—is all about. ■

*The Audit Services Division in the City of Portland Auditor's Office won the 2013 Silver Award in the Medium Audit Shop Category for its audit, "Portland's Fiscal Sustainability and Financial Condition: Long-term financial position needs attention."*



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## Internal Controls: Should Auditors Provide Training to Auditees?

We have all heard about the importance of internal controls and seen the results of those not designed or operating well. When internal controls are poor, an organization may not meet its legal obligations, have reliable financial information, or achieve its operational and performance objectives. It negatively impacts the overall health of the entire organization.

When we, as auditors, determine that an auditee's internal controls are lacking, it is important to communicate that to management. We should also develop recommended corrective actions to address the cause of our findings. Indeed, many of us have issued recommendations for management to identify objectives, update their policies and procedures, or develop new controls. Frequently it seems, though, that the root cause is really management's lack of knowledge about internal control systems. This is something auditors might be able to address better outside of an audit report.

### The Mile-Thin Line of Responsibilities

Management is ultimately responsible for internal controls. This includes the design and implementation of the system, as well as day-to-day operation and ongoing monitoring. Auditors are responsible for reviewing and providing assurance about the internal control system. We stay separated from management functions to preserve our independence and to allow management to do their work.

Still, the auditing industry spends a lot of time discussing the other activities in which auditors might engage and their relationship to management. The

*Generally Accepted Government Auditing Standards (GAGAS)* and the *Standards from the International Professional Practices Framework (IPPF)* both have areas dedicated to this. The *Internal Control - Integrated Framework* from COSO and guidance from the Institute of Internal Auditors (IIA) also put forward the "Three Lines of Defense" model. This model echoes the division of responsibilities between management and the audit function. However, it also requires these groups to share information and coordinate activities to improve overall risk management. Ultimately, this increases the likelihood that an organization will achieve its objectives.

Certainly our audits are major elements of coordinating this relationship. This is especially clear in reports which pinpoint whether the problem is one of system design, implementation, or operation, or perhaps has multiple causes, and identifies the impact. This information, combined with targeted recommendations, helps management focus their resources to correct deficiencies. Recurring audits over time can also provide management a long-term view of the system.

### Why We Should, at Times, Provide Assistance

While management is responsible for the internal control system, sometimes they need more support than just audit recommendations. When auditors critique an organization's internal controls, we need to determine whether the managers have a good understanding of these internal controls and of the standards against which their organizations and programs are judged.

Lower level managers and supervisors may be aware of common internal control tools, such as policy and procedure manuals, annual

performance reviews, and supervisor sign-offs. They may be less knowledgeable, however, about how those pieces interconnect to support an internal control system, what is necessary for an effective system, and the documentation requirements. Middle and upper management may have more knowledge about internal control systems, however, sometimes even higher level managers find it challenging to connect the different tools and efforts together.

Where the root cause of the control deficiency is a lack of knowledge or training, we should consider how best to help. There are resources auditors can provide to organizations while still preserving the independence of the audit function. This assistance is an important part of supporting the organization, its services, and fulfilling our role as the third (and last) line of defense. In addition, providing such assistance generates goodwill. It shows that, as auditors, we really do care about the organization and are trying to help.

### What Kind of Help Can Auditors Provide?

There is a range of technical assistance that auditors can provide to auditees. The level and type of service should be judged against an audit shop's resource availability and its overall philosophy. At a basic level, an audit shop could identify resources for an auditee to use. Internal control standards are a good example of an area where auditors probably have additional information they could share with management. In 2013, COSO released an update to their *Internal Controls - Integrated Framework*. The Government Accountability Office's updated *Standards for Internal Control in the Federal Government (Green Book)* is expected to be released this summer. While management in the U.S. federal government must follow the Green Book, state and local governments may adopt one or both of these to varying degrees. It is important that managers are aware of these updated standards and how governments are implementing them since these will become part of the criteria we will use to evaluate their internal control systems.

Another type of assistance could be to provide training to auditees on internal controls. This could be included as a piece of an overall management training provided by a jurisdiction's human resources unit, or as more focused sessions for management, sponsored by the audit shop.

The City of Portland Auditor's Office takes a cautious approach on providing assistance to auditees. The office provides technical assistance when requested, but it is the policy to provide audits and not non-audit services. A few years ago, for example, the Portland Police Bureau asked the Auditor's Office to look over the Bureau's revised policies for keeping drug dog

training aids (small samples of cocaine, heroin, etc. the dogs use for training exercises) accounted for and secure. Rather than doing an informal review, the office did an audit.

The audit team found the Bureau's proposed policy for controlling drug training aids was strong, and it compared favorably with other practices in other local police departments. The physical security of the drugs appeared adequate. The team also found, however, that better practices were needed to match the strength of the new procedures. Some documentation requirements used to track the inventory of drugs were not complied with in the past, though recent efforts to keep better track of the training aids were encouraging.



*Even drug dogs need good internal controls.*

Auditors across the Columbia River in Clark County, Washington, take a different approach. Auditors are required by county ordinance to provide assistance to management. Training is one activity the Clark County Auditors Office (CCAO) has found meets that requirement while not impairing their independence. One training format the office has found to be particularly effective is hosting a half-day seminar each year. All senior management and leadership in the county are invited, and the event is usually well attended. The topics of fraud, ethics, and internal controls are addressed by guest speakers as well as the auditors.

CCAO also provides more targeted training on a consultative basis. For example, an external audit found concerns with the segregation of duties in the receipting process of a department in the county. Management in the department wanted to resolve the

external auditor's concerns and requested the internal auditor's assistance to help them understand the problem. The first meeting focused on the basic concepts of objectives, risk, and internal control systems. The auditors also discussed the four responsibilities generally considered incompatible in a receipting process (i.e., custody of cash and assets, record keeping / accounting, authorization, and reconciliation). Lastly, management was provided with references to internal control standards and the Washington State Accounting Manual.

The department's management had made significant progress by the next meeting. They had written down the name of everyone involved in the receipting process and listed the tasks each person performed. Each task was then identified as to which of the four incompatible duties it belonged. This evaluation made it very clear to them that their accountant and office manager were responsible for several incompatible duties. Ultimately, the department changed the responsibilities of these two individuals as well as their director. Most importantly, their conversations changed from resolving the external auditor's concerns to building a strong system of internal controls.

## Conclusion

Internal controls strengthen organizations. Identifying resources to organizations in pursuit of better controls or more actively assisting them through auditor feedback on proposed strategies helps everyone. These systems better protect assets and improve operations, reporting, and compliance. If providing technical assistance or some reasonable level of training ultimately improves management's use and understanding of internal controls, it would be a productive use of audit time. As auditors, we may not always have a direct impact on public services (like providing emergency response services or providing clean water), but by improving internal controls, we can help make those services more efficient, effective, transparent, and accountable to the public. ■



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## Pension Sustainability: Lessons from One City

Over the last decade, General Fund shortfalls resulted in deep cuts to services and staffing in the City of San Jose. Overall staffing levels decreased by 23 percent, from 7,200 to 5,500 full-time equivalent positions. The City now employs about 5.6 people per 1,000 residents – fewer than any other large California city and fewer than San Jose’s 26-year average of 7.2. Police response times have suffered, community centers have been closed or outsourced to other organizations, branch libraries are only open four days per week, and pavement condition is deteriorating because of a lack of funds.

Although revenues are recovering, expenses still outpace revenue growth. For San Jose, like many other jurisdictions, pension and retiree healthcare costs are a major factor. The City will pay \$276 million this year in pension and retiree healthcare costs, up sharply from ten years ago when that figure was just \$73 million.

Furthermore, although San Jose has historically paid 100 percent of its annual required contribution for pensions (and is phasing in full contributions for retiree healthcare), the city faces a \$3.4 billion shortfall in its retirement funds. That’s about \$300,000 per member of the pension plan (more than half of whom are already retired) or \$3,400 per San Jose resident. This shortfall will mean that high pension and healthcare costs will continue to be a major factor for the City’s budget in the coming years.

### Auditing Pension Systems

Because of the growing impact of pension costs on the city’s budget, in 2009 the San Jose City Auditor’s Office began a series of audits of the City’s pension system. The first was an audit of pensionable earnings. We

found errors in pension calculations, unclear payroll codes, and pensions based on base earnings rather than actual earnings. However, San Jose’s problem was not that employees were spiking their pensions, a concern documented in other jurisdictions.

When we looked deeper into the issue in our 2010 Audit of Pension Sustainability, we found a number of factors that contributed to the rise in costs. Those factors included a rich benefits package, retroactive benefit enhancements, market losses, actuarial assumptions that did not hold true (e.g., retirees living longer than expected and investment earnings not meeting expectations), and a declining active-to-retiree member ratio. We looked at the major drivers of pension costs, and what could make a difference in controlling those costs.

We should be clear: while significantly underfunded, San Jose’s pension system was not broke—it had cash. Retirees were getting their checks, retirement medical benefits were being paid, and the City and its employees were making contributions into the pension plan. But was it “sustainable”?

### What is Fiscal Sustainability?

In its deliberation on the concept of fiscal sustainability, the Governmental Accounting Standards Board has written:

At a very high level, long-term fiscal sustainability reporting involves an assessment of the extent to which service delivery can be maintained at existing levels, and the extent to which governmental obligations to citizens, under existing legal frameworks, can be met from predicted inflows over a predetermined future period.

We concluded that fiscal sustainability was the key concept the city should consider as it determined whether it

had overcommitted on pension promises. We asked two specific questions:

1. Can the city maintain existing service levels without compromising service levels for future generations?
2. Can the city meet its future obligations?

Over the two worst years of the city's budget shortfalls, half of the projected General Fund deficit was due to increased retirement costs. Pension and retiree healthcare costs now consume roughly 20 percent of all General Fund expenditures. By comparison, they consumed just 6 percent in fiscal year 2000-2001. The city's contribution rates for these benefits as a percent of payroll are nearly 70 percent for non-sworn employees and 94 percent for sworn public safety employees (that is, for every dollar of wages, an additional 70 and 94 cents go toward pension and retiree health benefits).

We concluded that rising pension costs threatened the city's ability to maintain service levels. Our report included six recommendations to address those costs. We recommended the City Council explore prohibiting pension benefit enhancements without voter approval, prohibiting retroactive pension benefit enhancements that create unfunded liabilities, and consider at least one or a combination of pension cost-containment strategies including: additional cost sharing between the City and employees, eliminating retiree bonus checks, negotiating for changes to plan benefits for existing employees, and establishing a second tier pension benefit for new employees.

The City Council accepted our report and later, after deliberation and negotiations with its bargaining units, put a pension reform measure on the ballot. In June 2012, 70 percent of San Jose voters approved reforms that established parameters for a "Tier 2" pension benefit for new employees, established higher employee contributions for current employees who chose to stay in the existing "Tier 1" plan, and provided current employees the choice to opt in to a lower cost retirement plan with a reduced benefit structure. To date, the city has seen about \$20 million per year in savings from eliminating pension bonus checks and a redesign of the retiree healthcare benefit. The estimated savings from Tier 2 pension benefits total another \$8 million. However, the ballot measure was taken to court almost immediately after passage, and significant portions of the ballot measure are still the subject of legal challenges.

In our 2010 report on pension sustainability, we concluded that the city would likely continue to face considerable financial risks from rising pension costs

for years to come. Though the cost curve is not as steep as it once was, costs have continued to increase even though we have fewer employees; and, because pension fund actuaries smooth and amortize expected costs, we can reasonably expect that contribution rates will stay high for the next decade or two.

### **Service Levels (Not Just Dollars) are a Focus of Fiscal Sustainability**

What about the impact on our residents? In light of significant budget deficits, San Jose's city leaders have had to make difficult decisions about how to allocate scarce General Fund dollars. It has also led to a rethinking of what a city's "core services" really are and adjusting expectations for service levels.

The purpose of a city is, after all, to provide services to its residents and other stakeholders. The other day, we met three high school freshmen. Their neighborhood library was closed the whole time they were in middle school. They asked to volunteer at another library and were told there was not sufficient staff to oversee their efforts.

San Jose is struggling to provide a level of services it once considered basic. Because our office issues an annual Service Efforts and Accomplishment Report, we are well aware of the ten-year trends in service delivery. The number of pothole repairs has skyrocketed from 1,000 ten years ago, to 20,000 last year because of deteriorating street condition. Only 29 percent of residents rated street repair good or excellent last year (in addition to its pension deficits, the city faces an infrastructure backlog that has been estimated at \$900 million). Is that sustainable? Only 40 percent of San Jose residents report they feel safe from violent crime—much below comparison cities. Is that sustainable?

On the other hand, 78 percent of residents would recommend living in San Jose to someone who asks, and 80 percent plan to remain in San Jose for the next five years. They expect their future to be in San Jose.

### **The Role of the Auditor**

The concept of maintaining service levels is a key to fiscal sustainability. Sustainability, at its core, is about the future—the city's future and our residents' future. Can the city meet its future obligations? Can the city provide services today without compromising service levels for future generations?

When resources dedicated to services are reduced, auditors can play a vital role in helping our cities maintain service levels by finding efficiencies and economies in delivery models. Although generally defined by policy makers, auditors can also help clarify expectations for service levels based on our review

and understanding of industry standards and other jurisdictions' experiences.

In the preface to the 2011 Edition of the Yellow Book, United States Comptroller General Gene Dodaro writes:

Given the current challenges facing governments and their programs, the oversight provided through auditing is more critical than ever. Government auditing provides objective analysis and information needed to make the decisions necessary to help create a better future.

This forward-focused statement tells us that government auditors should be aware of the risks to service levels and fiscal sustainability in their jurisdictions and report on them as necessary. Our role includes addressing some big, uncomfortable questions: Is our pension system sustainable? Does it (or other fiscal obligations) pose a risk to future service levels? These questions have no easy answers; but we are obliged to audit in the public interest, and our accountability to the public obliges us to at least ask the tough questions. ■



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## GASB's Project on Economic Condition Reporting

The Governmental Accounting Standards Board (GASB) project on Economic Condition Reporting is currently on hold, with no further deliberation planned. The objective of the project was to consider whether guidance should be provided for including additional information as part of general purpose external financial reporting to enhance a user's ability to assess a government's economic condition, including risks associated with intergovernmental dependencies.

### A Short History

The project was the third phase of research that started with a sponsored research project in 1988. The first phase reviewed literature on how analysts and decision-makers define and assess governments' financial health. The second phase surveyed preparers and users of the Comprehensive Annual Financial Report (CAFR) statistical section and interviewed a panel of government finance experts. This research led to the May 2004 issuance of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. The statement was intended to improve and update information already being reported in the CAFR about economic condition.

GASB added the project, *Economic Condition Reporting: Fiscal Sustainability*, to its current agenda in December 2009. The current agenda reflects projects that the Board expects to deliberate during the coming year. The project was moved forward because the economic downturn had created growing concern with fiscal sustainability at all levels of government. Also, staff research and findings of other standards setters indicated that users of state and local

government financial reports considered it important to understand a government's past and current economic condition in order to assess its future financial viability.

GASB subsequently renamed the project and issued its preliminary views on *Economic Condition Reporting: Financial Projections* in November 2011. GASB issues a preliminary views document as part of its due process when it anticipates that respondents are likely to be divided on the issues or when the Board itself is divided on the issues. In this case, the Board was divided and the preliminary views document contained alternative views preferred by two of GASB's seven members. The Board also expected the issue to generate controversy, which it did. Several organizations opposed the project before the Board released its preliminary views and questioned whether the topic itself was within GASB's scope. In response to the preliminary views document, GASB received 173 letters and held two public hearings. Public comment ranged from full support to scathing disagreement.

Most of the controversy surrounded the uncertainty of financial projections and whether they belong in the financial statements. While the Board was divided over the nature of the information that governments should be required to present in their comprehensive financial reports, all Board members agreed that developing guidance or standards on forward-looking financial information is within GASB's scope.

### Summary of Preliminary Views

In its preliminary views, the majority of the Board concluded that financial statement users need information with which to assess a government's economic condition, which encompasses a government's financial

position, fiscal capacity, and service capacity, and should be forward looking. Financial position is the status of a government's assets, liabilities, and net assets, as displayed in the basic financial statements. Fiscal capacity is the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis. Service capacity is the government's ability and willingness to meet its commitments to provide services on an ongoing basis.

The preliminary views identified five components of information necessary to assess fiscal sustainability:

1. Projections of cash inflows
2. Projections of cash outflows
3. Projections of financial obligations
4. Projections of annual debt service payments (principal and interest)
5. Narrative discussion of major intergovernmental service interdependencies

The majority of the Board preliminarily concluded that all five components were essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context. The components therefore met the criteria to be communicated as required supplementary information, which has audit implications because required supplementary information, unlike supplementary information, is subject to audit procedures. All government entities would be required to report the components of fiscal sustainability information.

Annual financial projections would be made for a minimum of five individual years beyond the reporting period, with projections based on current policy (including changes that had been formally adopted by the end of the reporting period and were effective in future periods), informed by historical information, adjusted for known events and conditions that affect projection periods, and assumptions disclosed. Inflows and outflows would be projected on a cash basis and financial obligations would be projected on an accrual basis of accounting. A cautionary notice would precede the displayed projections and related narrative to advise readers that actual results may vary from the reported projections.

### Summary of Alternative Views

The alternative view preliminarily concluded that financial projections are useful, rather than essential, for placing the basic financial statements and notes to the basic financial statements in an appropriate operational or economic context, and therefore failed to meet the criteria to be included as required supplementary information. The alternative view questioned the cost-benefit for some governmental entities to report financial projections and related

narrative, and expressed concern that such a requirement could adversely affect timeliness of audits or the willingness of some governments to report financial statements in conformity with GAAP. The alternative view proposed reporting of historical trend data, currently reported in the statistical section of a CAFR, in the required supplementary information section of all annual financial reports.

### What's Next?

So, what's next for the Economic Condition Reporting project? I really don't know. GASB's web site lists the project as on hold. While opponents of the economic condition reporting project objected to its inclusion as beyond the scope of financial accounting, most of the concepts referred to in the preliminary views—economic condition, financial position, service capacity, and fiscal capacity—are already well established in GAAP. Fiscal sustainability is only referred to once, in relation to going concern considerations. The going concern assumption is a fundamental principle in the preparation of financial statements. Arguably, by the time auditors raise a going concern issue in government, the entity is already in crisis. In Stockton, California, for example, auditors first reported a going concern issue in the CAFR for the fiscal year ending June 30, 2011. The report was issued November 17, 2012, over four months after the city filed for bankruptcy on June 28, 2012.

Further, other standard-setting bodies have addressed economic condition reporting that include projections. In 2009, the Federal Accounting Standards Advisory Board (FASAB) issued Statement 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, which requires the federal government and its agencies to report fiscal sustainability information to enable readers to determine whether future budgetary resources will sufficiently sustain public services and meet obligations as they come due. The International Public Sector Accounting Standards Board (IPSASB) has issued Recommended Practice Guideline (RPG) 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* to provide guidance for reporting on the long-term sustainability of a public sector entity's finances over a specified time given stated assumptions on policy and demographic and economic variables. According to the press release, RPGs are a new type of publication intended to provide guidance on the broader aspects of financial reporting that are outside the financial statements.

I see value in providing forward-looking information in comprehensive financial reports. Providing the information can help bridge the timeliness gap and better communicate financial condition to decision makers and users of government financial reports. ■



**MIKE BAILEY**

Finance Director,  
City of Redmond (WA)

## Some Thoughts on Fiscal Sustainability in Local Government

You may have seen some of the headlines recently. “Boeing: Record 777X order placed in Dubai”; “Many small business owners are saying they’re ready to hire”; “S&P 500 trades above all-time high”; “Construction spending up 45% over last year”; “Retail sales grow again.” But if you’ve looked at your long-range budget forecasts, they don’t seem to reflect this same economy.

What gives? Why is my budget so hard to balance—even in the good times?

I believe there are a few reasons for this and we will take a quick look at those reasons in this article. Secondly, we will take a look at what local governments should be doing about it.

The **first reason** why your financial plans are so difficult to balance, even in a good economy, is that the systems are becoming designed to make it that way. Taxpayer initiatives got their start over three decades ago in California. Since then, Measure 50 in Oregon, TABOR in Colorado, and Initiative 747 here in Washington State have become the norm for many of us. Even when the limits aren’t imposed by taxpayer initiatives, more conservative politics have had the same effect. Here in Washington State, Initiative 747 gets the credit for the 1% limitation on property tax growth. That limit is now found in state law after the Washington Legislature adopted it, most assuredly under pressure from the populace, who had just passed initiative 747, which was later found unconstitutional by the Washington Supreme Court.

In looking at data from numerous budgets across the country, I see that *in average city budgets, property taxes are at least one-quarter of total revenues* (40% of total county revenues, and over 90% of many fire district revenues!). That means that one of the largest revenue sources to most local government budgets is limited to a growth rate well below the growing costs of doing business. Compensation costs (and especially health care costs for our employees) make up the majority of our budgets (often over 70%) and are certainly growing faster than 1% annually. In addition, state laws further limit most other revenue sources available to cities and counties for their general government budgets.

So, why would the legislatures intentionally make our budget balancing impossible? The answer comes in two parts (in my opinion). The logic used in support of lowering the limit on property taxes is that this would periodically force a community-wide conversation about adjusting that limit through a vote of the people and resuming the agreed upon level of service. This isn’t convenient, but many communities have done just that (see more about this later when we discuss solutions). The second part to this answer (which I find myself often repeating in my own city hall) is that “it is supposed to be hard.” This is “other people’s money” and the power to extract that money and use it for the benefit of the community is a privilege that we should take very seriously. It *should* be an organizational struggle to make certain that we use those scarce resources as effectively as we can.

**Secondly**, growth does not (ever) really pay for growth. In fact, growth often camouflages the effect it is having on your revenues and costs. The new revenue from growth related activities (such as property tax on new

construction, sales taxes on construction or sales of related items, and fees related to development and permitting) are often much appreciated in an era of growth. They are what make a thriving economy feel like we are finally able to manage our budgets and pay for the little extra burden those new roads, pipe systems, and parks resulting from the growth impose. However, the only on-going new revenue is the property tax related to the additions to the tax base. Once that property tax gets added to the tax rolls, it gets limited to growing annually, as described in the first reason budgets don't balance. The result of growth related revenues is the addition of new obligations to meet in our budgeting process and very short-term revenues to deal with these new costs. In fact, the only way out of this dilemma is for more growth to occur, bringing in more short-term revenue, to pay for the shortcomings from the last growth—and on it goes. That is until the growth stops and we have to adjust to the *real* revenue growth rates that have occurred—often resulting in also adjusting our services to match.

**Next** we come to great ideas that didn't turn out so great. These take many forms and almost all of them have a lot of merit and are commendable (I'm not referring to any specifically that aren't commendable—but I'm sure there have been a few). I have a difficult time faulting those who took action to address a local need or spur economic development. Those are the most common types of initiatives that took or pledged community resources, increased risk and eventually resulted in budget stress. Taking action to make things better is good. The problem often is that the estimates weren't sufficiently scrutinized; the risks weren't objectively evaluated or minimal protections weren't put into place to avoid the negative consequences of "bad bets." That is why the Government Finance Officers Association (GFOA) created its Committee on Economic Development and Capital Planning. The GFOA had seen too many examples where its members struggled to find "best practices" for guidance on how to assess these types of initiatives. In the past several years the committee has adopted 28 best practices on topics like analyzing the benefits of economic development projects, balancing costs and benefits of economic development projects, and evaluating data and financial assumptions in development proposals. You can find these at [www.gfoa.org](http://www.gfoa.org) by searching for the economic development committee's best practices.

So, if the problems with balancing our budgets are a result of good intentions going bad, a false sense of hope from a growth related Ponzi scheme and even structural, what should we do to make ends meet?

Along with the Economic Development and Capital Planning committee described above, the GFOA has developed deep resources on long-term financial planning. This emerging topic has risen on the radar screens of many as they seek answers to the challenges described above. The first key to a good long-term financial plan is to know what you are planning for. How do you describe success in your community? Is it the realization of a vision or the status quo? Avoiding layoffs or keeping the tax burden low? Clarity about policy priorities is the first step but is often overlooked. Many times the financial plan starts with a spreadsheet comparing past year's experiences with what we think safe (i.e., conservative) future assumptions would suggest about the future. That's fine for context, but at this point, it isn't a plan. The long-term financial plan should really start with policy. Your land use plans, known as the Comprehensive Plan here in Washington, generally do a pretty good job of framing a good place to start. The policies found in them determine what service levels you are working to achieve and the financial plan can illustrate how you might align resources to support that level of service.

This may sound like an overly simplistic way of thinking about the solution to the budget balancing dilemma, however, I would direct you to the GFOA's many resources on fiscal sustainability and the help available from other associations. Failure results in draconian cuts (such as federal sequestration), government "shut-downs", kicking the can down the road, robbing Peter (or capital budgets) to pay Paul, and other gimmicks that have been all too apparent in governments today.

Budgeting is an example of where the value is in the journey as you work together within your organization to determine how to achieve your policy goals, provide agreed upon levels of service, and finance the whole thing with community resources. The financial leader within the organization often needs to lead difficult conversations about how to plan for today while providing for tomorrow—but budget balancing is a team sport.

No, it isn't easy—it's not supposed to be. ■



**MIKE EGLINSKI**  
City Auditor,  
City of Lawrence (KS)

## Vital Signs

A few years ago I hurt my knee badly enough to wind up in the emergency room. On arriving at the emergency room, one of the first things that happened was a quick check of vital signs – temperature, heart rate, blood pressure, breathing, and pain. At the time it seemed ridiculous. My problem was obvious, my knee was injured and we needed to get to work on that. But in retrospect, I can see that checking vital signs quickly gave the doctors and nurses important information. Those vital signs were a snapshot of my current condition and a set of benchmarks to monitor in case something changed.

Annual reporting on finances can be just like those vital signs. Looking at a group of financial indicators describes a jurisdiction and sets a baseline for future monitoring. If you can compare the levels to known “normal” ranges, you can quickly diagnose some of the most troubling financial problems. If the measures are normal, you can move on to more detailed analysis and diagnoses.

Regularly reviewing a set of financial indicators describes a jurisdiction’s finances and provides a baseline for future monitoring. Just like vital signs, a set of financial indicators help understand the past, monitor current conditions and anticipate problems in the future.

I’ve been doing an annual report of financial indicators for Lawrence, Kansas, since 2008. My recipe is very simple:

- Financial data from comprehensive annual financial reports
- A small set of financial indicators
- Benchmarks for comparison

By using financial data from comprehensive annual financial reports (CAFRs) I’m able to compile information that is generally consistent. Since the data is audited, I can feel comfortable in the quality of the data, not just from Lawrence, but from other cities I look at.

The financial measures I look at are:

- Financial position
- Financial performance
- General support
- Liquidity
- Long term liabilities
- Interest coverage
- Capital assets

These high level measures help me keep an eye on the overall financial condition and think about future financial sustainability. At the same time, they are high level measures and if one or more measures look troublesome, I’ll need more work to diagnose the problem, let alone understand a cure.

Benchmarks help me interpret, understand, and monitor the financial indicators. Benchmarks can help understand if a financial indicator is normal or if it might be abnormally low or high. Benchmarks could be based on the history, medians or judgment. In my work, I’ve generally relied on median measures from a group of communities that are similar to Lawrence.

Like the vital signs a paramedic might monitor while transporting a patient to the hospital, financial indicators can be monitored regularly. When those indicators change, deeper analysis helps understand what is going on.

After preparing a performance audit looking at financial indicators for the last six years, I’ve given some thought to the impact. What has happened as a result of those reports? The obvious answer is that I’ve made a few

recommendations and management has made some progress implementing them. But the report has also had some broader impact.

### Assessing Risk

I have used the analysis of financial indicators to assess organizational risks. Reviewing the financial statements showed a weakening trend in the financial performance of our solid waste collection service. The resulting audit identified ways to improve efficiency which were implemented, resulting in annual savings of about \$1 million a year. Maricopa County recovered \$9 million when their analysis identified an accounting problem.

### Improving Understanding

I have a much stronger understanding of where my jurisdiction stands financially. I'm also able to talk about the city's finances in a structured way. Here's a 30 second summary:

“Lawrence is doing OK. We have a fair amount of financial flexibility and our financial performance has been steady despite the recession. That said, our financial strength took adding resources. We added taxes. We also significantly increased transfers from our water and sewer utility to the general government functions. Lawrence's revenue structure is fundamentally different now than it was ten years ago. We had relatively low debt, but that's changed over the last year as we've added some new large capital projects.”

I could also go on and on about the same measures and give anyone who would like a 90 minute summary! I'll spare you.

### Increasing the Profile of Long-Term Issues

Decision-makers are having more conversations about long-term financial issues. While plenty of long-term issues remain, the conversation has improved. The governing body and management are talking more about issues like pensions, retiree health care, long-term capital planning, and debt levels.

### Making Finance Understandable

Comprehensive Annual Financial Reports are wonderful documents, but they are hard to read. A recent study of those reports found that municipal CAFRs generally ran 110 to 250 pages,<sup>1</sup> and they aren't just long but also hard to understand. CAFRs use technical jargon. They seem to be written for technical users. Here are a couple of article headlines from *Governing*:<sup>2</sup>

- Are Comprehensive Annual Financial Reports Useless?
- This Annual Financial Report Says What?

Both of those articles were getting at the difficulty users have in digesting and understanding the financial information.

Remember that users of CAFRs aren't just rating agencies, finance directors, auditors, and investors, but also citizens, media, interest groups, and elected officials.<sup>3</sup> Reporting on financial indicators helps translate some of that technical information and make it easier for users without finance backgrounds.

A set of financial indicators is easier to understand. Calculating a set of measures, drawing comparisons with benchmarks, and looking at trends puts the finances in context. That context helps management, the governing body, and the public understand information that might be otherwise incomprehensible.

### Raising Questions

Financial indicators raise questions. Sometimes they don't answer them, but just raising the question can lead to better understanding. Raising questions helps decision-makers provide the oversight they should provide. In my work, I graph each indicator over a period of 10 years. I look at the level compared to the benchmark and I look at the trend over time. Questions come up all the time. Why did the trend show a sharp change? Why is the level well above (or below) the benchmark? When you put a graphic in front of someone, questions come up.

### Finishing a Performance Audit Product Quickly

As I've done this work on an annual basis, I've gotten quicker at it. One of the reasons many of us struggle to produce performance audits is that each report is unique. We have standard ways of planning and writing reports, but the differences between reports is so significant that we rarely have a chance to really improve our productivity. With a report you do each year, you can learn lessons in one year that directly improve productivity the next year. A performance audit based on financial indicators can provide a local government audit function with a report that can provide impact and can be done quickly.

### Following Good Models

There are good models for analyzing and reporting on financial indicators. I base my report on a 2002 article from the Association of Government Accountants.<sup>4</sup> Other auditors have used other models. If you're interested in reporting on financial indicators, you'll want to take a look at some of the other models used by other audit shops. I'm hesitant to list particular reports because I know that there are strong reports out there that I'm not aware of. To get started, take a look at the City and County of Denver, CO; Sioux Falls, SD; Portland, OR; and Maricopa County, AZ.

## Checking Vital Signs

I started this article comparing financial indicators with medical vital signs. It might be a stretch, but I think it is a useful way of thinking about this sort of work. Focus on a small number of easily measured financial indicators. Check them regularly. Raise an alarm when something is out of line. ■

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## Notes

<sup>1</sup> Craig Maher and Shannon Solh, "Management's Perceptions of Annual Financial Reporting," International City/County Management Association White Paper, December 2013.

<sup>2</sup> Jonathan Walters, "Are Comprehensive Annual Financial Reports Useless?" *Governing*, September 2012; Justin Marlowe, "This Annual Financial Report Says What?" *Governing*, February 2014.

<sup>3</sup> Association of Government Accountants, Corporate Partner Advisory Group Research Series Report No. 32, July 2012.

<sup>4</sup> Barbara Chaney, Dean Mead and Kenneth Schermann, "The New Governmental Financial Reporting Model: What it Means for Analyzing Government Financial Condition," *Journal of Government Financial Management*, Spring 2002.



**MIKE TAYLOR**

Director of Internal Audit,  
Hanover County (VA)

## A Coast-to-Coast Look at Fiscal Sustainability

Hanover County, Virginia, and Stockton, California, are 2,850 road miles apart. Their physical distance from one another is just the beginning of the difference between the two communities. This article presents a number of other differences between the two localities that contribute to and are reflective of their very different levels of fiscal sustainability. However, the article is not intended to act as a head-to-head comparison of Hanover County and Stockton. Rather, it is to suggest how there can be a broad range in fiscal sustainability among local governments and how fiscal sustainability impacts auditors. There are far too many differences for a head-to-head comparison to be meaningful, including:

- Stockton is a city and Hanover is a county
- Stockton's population is around 300,000 and Hanover's is just over 100,000
- Stockton has term limits for elected officials and Hanover does not
- Stockton's city council cannot raise taxes without voter approval and Hanover's Board of Supervisors can
- Stockton is subject to California's 1978 Proposition 13 and Hanover is not

Hanover County has a long term focus on the fiscal health of the organization. The Finance and Management Services Department serves a key role in the governance structure. Stockton has struggled financially and filed for bankruptcy on June 28, 2012. In the past, City management has not looked to the Administrative Services Department for fiscal leadership.

### Unassigned/Undesignated General Fund Balance

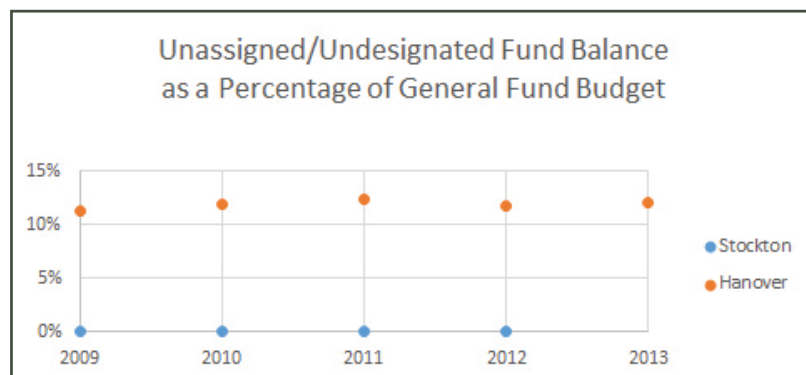
Both Hanover County and Stockton maintained consistent balances of undesignated general fund balance, both in dollar terms and as a percentage of the general fund budget. The difference is that Hanover has about 12% of the budget available, while Stockton has none.

### Bond Ratings

Since May 2010, Hanover County has had AAA ratings from all three rating agencies. As Stockton's financial problems unfolded, its credit ratings dropped. The City defaulted on some of its bond payments. Moody's downgraded Stockton multiple times. It now stands at Caa3.

### Pay and Benefits

Hanover County's employee compensation is in line with local employers, both public and private. Changes in compensation are determined annually, based on available resources. Talent can flow



Sources: Hanover County CAFRs 2009-2013, City of Stockton CAFRs 2009-2012

freely in and out of the organization. New approaches and different viewpoints are frequently introduced to the organization. People stay because they want to, not because of “golden handcuffs.”

Some of Stockton’s labor agreements required compensation studies using Bay Area and southern California localities where the cost of living was much higher. Most employees were covered by long term labor agreements requiring minimum pay raises, regardless of the actual change in cost of living or revenue projections.

Employees may have felt trapped by golden handcuffs. They tended to stay even if unhappy and unproductive. Innovation and improvement was difficult because there were fewer opportunities to introduce new ideas and approaches to the organization.

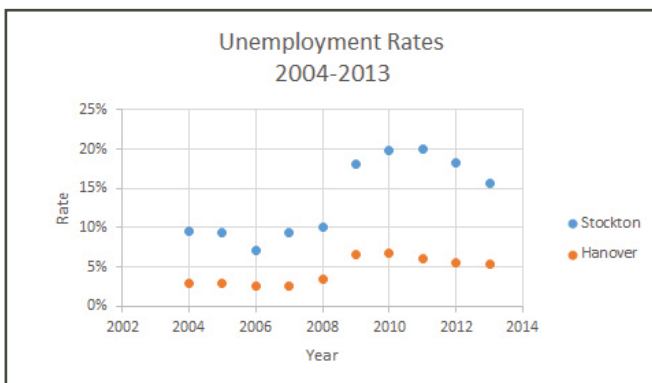
### Budget Planning Horizon

Along with a five-year capital budget, Hanover County prepares and updates a five-year line item operating budget. This helps leaders project financial needs into the future and prepare for those needs.

Stockton, like most other jurisdictions, prepares a one-year operating budget. Accuracy even in one year budgets is often challenging because the city’s budget can be impacted by state budgets, which are frequently late.

### Unemployment

The following graph shows unemployment rates for the past 10 years.

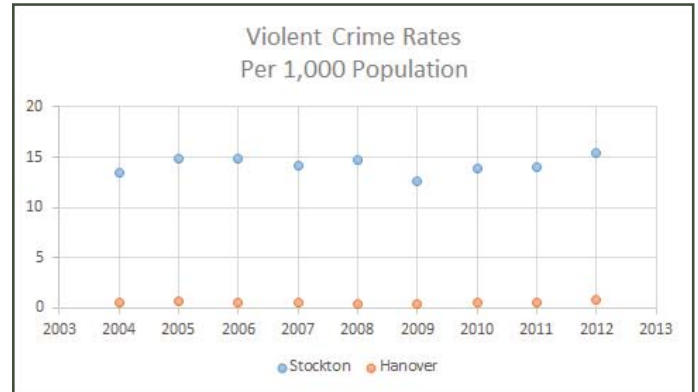


Sources: Hanover County 2013 CAFR, City of Stockton 2012 CAFR, CA Employment Development Department for 2013

Unemployment rates impact both revenues and expenditures. Tax revenues are reduced at the same time the need for government provided services increases. Unemployment in Hanover County is about one-third the rate of Stockton.

### Violent Crime Rates

As with unemployment, crime rates impact revenues and expenditures. Crime makes economic development efforts more difficult. Businesses are less likely to locate in an area of high crime. Costs rise for police staffing, treatment programs and incarceration. The following chart shows the drastic difference in violent crime between Hanover County and Stockton.



Source: fbi.gov

### Ethics

Hanover County places an emphasis on ethics. Human Resources policies include standards of ethical conduct. All employees are required to attend a half-day training on ethics and fraud, taught by Internal Audit and Human Resources. Internal Audit also operates a hotline available to employees and the general public.

Internal Audit and Human Resources receive inquiries from employees facing ethical dilemmas. Often, the two departments work together to provide assistance in dealing with those ethical dilemmas.

Stockton does not have a code of ethics or standards of conduct for city employees. Other than state-required ethics training for elected officials, employees are not required to attend ethics training.

Over the past 20 years, Stockton has had ethical breakdowns, including payroll fraud and abuse. Following these acts, a whistleblower policy and a hotline were implemented, but not an employee code of conduct. Absent a code of conduct, employees may not know what behavior is acceptable.

### Internal Control

Policies in Hanover County require internal controls in all departments. Internal control appears 14 times in the board approved policy document. Section 1-3 Internal Controls states: “All aspects of accounting and financial reporting shall be subject to proper controls with standard controls documented and followed by all departments.”

Hanover County's 's external auditors have not identified or reported material weaknesses or significant deficiencies.

From high level policy to detailed procedures, Stockton lacks a system of internal control. In 2012, a word search in the City Charter, Stockton Municipal Code, City Council policies, and Administrative Directives returned no occurrences of "internal control." Since then, the City Council investment policy has been updated to include reference to internal control.

For fiscal years 2010-2012, Stockton used three different audit firms. Each firm reported material weaknesses and significant deficiencies.

### Financial Policies

Hanover County has a set of financial policies that are reviewed annually with any changes approved by the board of supervisors.

Stockton's City Council has an investment policy and a general fund reserve policy. Other finance, budget, and accounting policies are within City Manager Administrative Directives. A 2002 audit found administrative directives to be out of date and not reviewed periodically. Periodic review had not been implemented by mid-2012.

### Performance Measurement

Hanover County uses monthly dashboards. Administration reviews all department dashboards each month.

Every three years, the county uses the National Research Center to conduct a citizen survey. The county seeks feedback from residents to measure progress and identify areas for improvement. Results have shown that residents rate the county above or significantly above the national average across the board.

Other than those externally imposed measures (e.g. crime statistics), little is measured in Stockton. The City Auditor's Office prepared a Service Efforts and Accomplishments (SEA) report for 2007. Since there had been no previous measurement effort, measures were rudimentary, and there were gaps in available data. The effort was abandoned due to lack of support and the economic downturn.

The SEA report included a citizen survey from the National Research Center. Results were dismal with nearly all ratings below or significantly below the national average. Because the city made no effort to address survey results, there was little interest in continuing to survey citizens.

### Significance to Audit

Whether through a formal or informal process, auditors must be aware of the organization's control environment. The environment should impact the audit plan and the objectives of individual audits. Knowing the environment also helps the auditor determine how and how much of an impact they can have on the organization.

If criteria needed to measure performance is missing or out of date, how can the auditor measure results? Criteria must be established before doing audit work. This can mean delays to each audit or taking time to work with management on establishing criteria overall. The lack of criteria should signal the auditor that risks are higher.

A relationship between an audit organization and an external audit firm can be impacted by the financial status of the organization. If finances are good, audit organizations may be able to rely on external firms for financial audits and focus on compliance, control, and performance audit objectives. However, if the financial condition of the organization is poor, it is reasonable to question whether the external audit firm can or will apply sufficient resources to deal with the situation. External audit independence could also be an issue if the finance department is unable to prepare timely accurate financial statements.

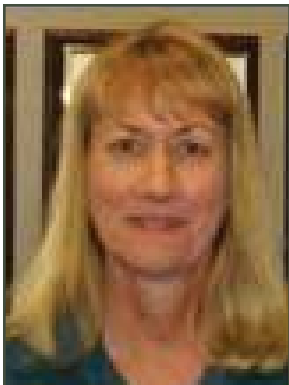
Poor organizational financial condition can also threaten the independence of the audit organization. With fiscal sustainability issues, management may reach out to the audit organization for assistance. In such situations, auditors will need to assess whether it is better to sacrifice independence and their long term ability to be an auditor for the organization or maintain independence while management continues to struggle. This is one career consideration for auditors, but there are others.

Auditors should ask themselves these questions as they consider the fiscal sustainability of their organizations. Will my personality and approach to auditing be effective in the organization? Do I need to be worried about my personal financial future? Given the fiscal sustainability of the organization, can I be objective in my choice of audits and audit objectives? Does the organization give me the right professional challenges? If I decide to move from audit to a different department, is this the organization where I want to make that move? Answers to these questions will help guide auditors to make the right decisions for themselves and their organizations. ■

*Mike Taylor worked for the City of Stockton from March 1994 to September 2012.*



**RICHARD CHARD, CPA**  
Former Deputy  
County Auditor,  
Maricopa County (AZ)



**STELLA FUSARO, CIA**  
Audit Supervisor,  
Maricopa County (AZ)

## Financial Condition Reports: the Good, the Bad, and the Ugly

“They’re cooking the books.” That’s the startling accusation Maricopa County’s newly elected Treasurer reportedly told the Board of Supervisors and the public in 1993. The following year, Maricopa County invited bids for the purchase of \$120 million of tax anticipation notes to raise operating cash. Fitch, the bond rating firm, published a dispiriting analysis of the County’s situation:

“Maricopa County’s financial position has been spiraling downward since fiscal 1990. Its underlying finances have been seriously weakened by, in its own words, conflicting and/or misleading reporting and communication mechanisms, questionable business practices, inappropriate financial and budgetary policies, capped state contribution for mandated services and programs, and depleted reserves, among others.”

When the County’s financial tailspin became known, Maricopa’s credit worthiness was downgraded, lay-offs were imposed, financial and internal audit managers were dismissed, and the County had to borrow cash to meet obligations.

### SEC Investigates

In 1996, the Securities Exchange Commission (SEC) determined that Maricopa County failed to disclose in official statements for two 1993 bond offerings that it was running deficits in its general fund and another fund. The SEC also charged that the County had not disclosed the continued deterioration of its cash flow position, and that bond proceeds were used to finance deficits instead of applying

them to the specific projects described in the bond offerings. The SEC and the County negotiated a settlement that included cease and desist orders for non-disclosure of material financial information in public offerings and civil monetary penalties against its financial advisor.

Essentially, Maricopa County’s early 1990’s experience boiled down to failures in financial governance that were enabled by failures in financial communication. Twenty years later, the lessons learned from that tumultuous period are worth remembering.

### A Cloudy Picture

Current AAA bond ratings now attest to the County’s strong fiscal capacity. Let’s review what happened. Maricopa County’s slide into turmoil started with small cosmetic patches that masked deteriorating liquidity. But within a few years, a small problem grew into a huge problem. In the early 1990s, the County’s hospital and indigent health plans were losing millions of dollars. The health system cash deficits were covered by general and special revenue funds. Fiscal sleights of hands that were intended to buy time until the economy improved became a quiet game of borrowing from Peter to pay Paul. Revenue estimates were inflated and health system cash shortages were masked with “due-to” and “due-from other funds” entries. This was possible because all County funds were deposited into a pooled account with the County Treasurer. Eventually, interest-bearing internal credit lines were formalized and certain special revenue funds advanced cash to other needy funds daily.

Were the books cooked? Technically, financial reports provided sufficient data to reveal the coming crisis, but discourse about finances was opaque and misleading. Shortly after taking office in 1993, the new County Treasurer confronted top financial

managers with the accusation that Maricopa County was headed towards bankruptcy. Officials' responses ranged from denials and professions of innocence to shock and disgust. However, the new Treasurer was independent of appointed County management and had a clear view of actual cash flows and movement of money among funds. He could see where deficit balances in some funds were covered by positive balances in other funds, and where non-county funds were shorted on pooled investment earnings because of County deficits.

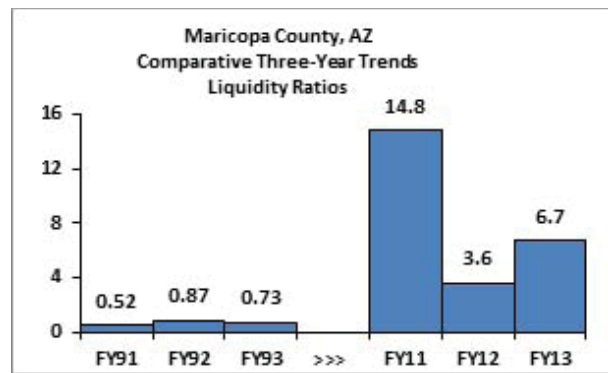
If the books were not cooked, why were so many unaware the County was sliding into trouble? Financial managers may have viewed negative trends as a temporary situation that could be reversed over time without being noticed. Perhaps the bulky and highly-detailed format of the audited annual financial statements, or CAFRs, discouraged County leaders from asking the right questions. Digging through more than 160 pages of information in the FY 1991 CAFR, one could find:

- Unbudgeted general fund “transfers-out” totaling \$75 million were “transferred-in” to health care and other funds
- The budget-to-actual revenues and expenditures statement reported that the general fund had absorbed a net bottom-line unfavorable budget variance of \$57 million
- The combined statement of cash flows for health care enterprise funds reported a \$56 million cash deficit from operations
- The general fund had less than \$1 available for each dollar owed to vendors and employees
- The ratio of general fund revenues to fund balance was critically weak
- Temporary year-end financial statement “due-to” and “due-from” entries (IOU’s) were posted to cover deficit cash balances in health care funds

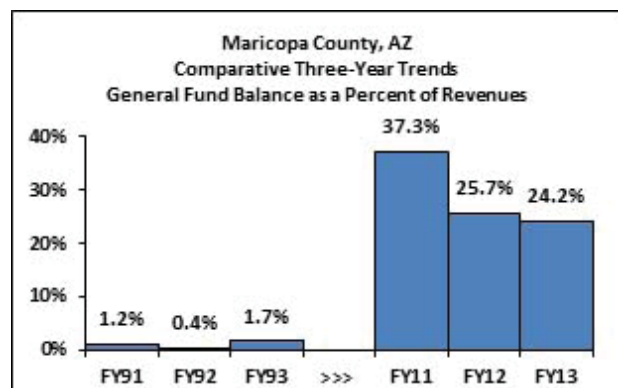
A thoughtful portrayal of certain trends and ratios could have exposed problems much earlier. Here are some interesting examples.

### Liquidity and Fund Balance Ratios

Twenty years ago, Maricopa County frequently did not have enough cash to pay for current obligations in the general and health care funds. Delaying the release of payments, using positive cash in certain funds to cover negative cash in other funds, and issuing formal tax anticipation notes in 1993 were methods the County used to keep its head above water. In striking contrast to today, the following graph shows the County had less than \$1 available in the early 1990s for each dollar of accounts payable and accrued payroll. In FY 2013, there was nearly \$7 available for each dollar due and payable.



The ratio of general fund balance as a percent of revenues provides another stark portrayal of financial vulnerability 20 years ago. At that time, the ratio was less than 2%. In FY 2013 the ratio was 24%.



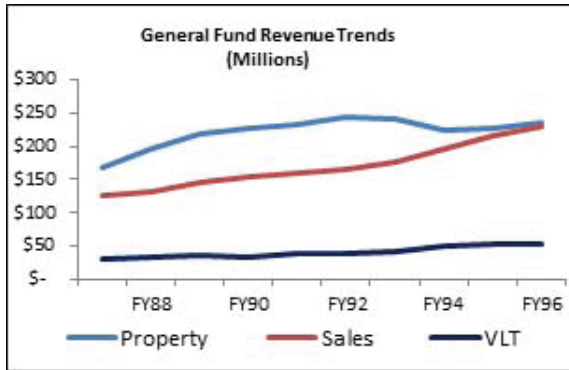
### Internal Audit's New Tool: Financial Trending and Benchmarking

When the Treasurer's warnings were substantiated, the County Auditor was viewed as being asleep at the wheel. Whether that view was fair or not, it became clear that internal auditors were expected to have explicitly alerted County leadership of the growing risks.

After a new County Auditor was appointed, one of the first orders of business was to establish monitoring tools that would provide a clear view of financial trends and conditions. Modeled after a guide published by the Government Finance Officers Association, Maricopa County Internal Audit published its first Financial Condition Report in June 1998 (for FY 1997). This and subsequent reports highlight the most useful information buried in CAFRs by graphically portraying key financial ratios, trends, and benchmark comparisons. Because Maricopa County's Internal Audit Department reports directly to the Board of Supervisors, auditors are able to independently analyze CAFRs and highlight high-risk trends that otherwise may be buried in the details. For internal auditors, trending and benchmarking financial data is an effective and efficient risk assessment tool.

## Valuable Discoveries

In the early stages of publishing our financial condition report, we saw that state-shared sales taxes would soon surpass property taxes as the largest general fund revenue source. The implication for budgeting was important because sales taxes tend to respond more quickly and with greater volatility to economic ups and downs than do property taxes.



Better yet, our trend analysis detected an accounting error that led to a \$9 million recovery. We noted that Vehicle License Tax (VLT) revenues did not increase in the same manner as the state-shared sales tax. The Department of Finance responded that 100% of license tax revenues received from the state had been incorrectly passed through to cities and towns. Fifty percent should have been retained by the county. The county negotiated with the cities to recover the erroneous payments.

## Lessons Learned: Denial, Upheaval and Redemption

Our recently released financial condition report portrays a strikingly more upbeat picture of Maricopa County. Despite housing bubbles, falling real estate values, and declining sales tax revenues, the county came through these serious economic challenges in a position of strength. Key financial indicators are strong and compare favorably with benchmark counties. The county has been able to pay for significant building projects without incurring debt. However, we cautioned that fiscal challenges facing the State of Arizona's public pension plans could affect the county through higher contribution rates and pressure to cover funding deficits.

Immediate measures taken to turn the county's fiscal condition around involved many people, difficult decisions, and widespread organizational pain. Since then, conservative budgeting and debt avoidance have become part of the county's management culture. One of the most difficult, but ultimately successful actions county leaders took was to spin off the county health system into an independent special health care district. Today the Maricopa County Integrated Health System has achieved independence and fiscal viability through a dedicated governing board and public support.

The overall theme of this 20-year retrospective is that internal auditors have a responsibility to alert the governing board, management, and the public of troubling financial trends in clear, transparent, and understandable ways. The county's financial condition report is highly valued by its readers for providing a high-level independent view of the county's fiscal health in a format that is understandable and engaging. Finally, the analysis that underlies the report provides internal auditors with a powerful tool for assessing risk and discovering problems. ■



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## Fiscal Sustainability Data Analysis Diagnostics

A city's fiscal sustainability impacts both current and future citizens. When determining a city's fiscal sustainability, one must first understand what the concept entails. Although there is not a widely accepted standard definition of fiscal sustainability, the notion takes into account how a city's fiscal policy decisions impact current citizens and other stakeholders and whether those policies can be continued into the future. Generally, a city should be able to balance service demands while demonstrating it can withstand economic downturns. Further, today's fiscal decisions should not create a disproportionate impact on tomorrow's taxpayers, but instead be equally borne by both present and subsequent generations—a principle known as *intergenerational equity*. Tools available to assist in determining a city's fiscal sustainability include: conducting a financial condition analysis, reviewing the management of use of Certificates of Participation (COPs) as well as city and special district debt and, and conducting a Geographic Information Systems (GIS) analysis of the relative property tax burden of residential and commercial properties within city boundaries.

### Financial Condition Analysis

A financial condition analysis is an important tool in determining a city's current fiscal health and future sustainability by assessing the outcomes of various financial indicators. Although reviewing the financial condition of a city is a complex exercise and there are a number of financial indicators that could be reviewed, a well-planned financial condition analysis can assist key stakeholders address negative trends as they emerge and help inform

discussions involving financial policy objectives in a timely manner.

There are a number of methodologies available to evaluate municipal financial condition. During the audit of the City and County of Denver's (Denver) *Fiscal Sustainability: Financial Condition and Transparency*, the audit team reviewed several of these methodologies and ultimately decided to use the assessment methodology—the *10-Point Test*—presented in an article entitled “A Manageable System of Economic Condition Analysis for Governments.”<sup>1, 2</sup> This methodology evaluates the outcomes of ten financial indicators encompassing financial position, revenues, debt, and capital assets. The 10-Point Test was particularly attractive because it uses audited Comprehensive Annual Financial Report data, which allowed the audit team to spend less time validating financial data and more time on other elements of fiscal sustainability analysis.

Two important and necessary components to any financial condition assessment include trend analysis and benchmarking. A financial condition analysis is greatly enhanced by monitoring key trends over a designated period of time and benchmarking the findings against cities with similar government structures, funding obligations, and population size, as these entities should face similar policy and financial decisions. The assessment of Denver's financial condition found that while Denver's historic financial condition was less favorable compared to six benchmark cities, the current financial outlook is promising.

### Management of City Debt and Certificates of Participation

In assessing a city's fiscal sustainability, auditors can look at two aspects of the city's financial

management: use of debt management policies and use of COPs. The Government Finance Officers Association (GFOA) recommends that state or local governments should write and adopt comprehensive written debt management policies to reflect laws and regulations. A well-developed debt policy helps improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning.<sup>3</sup> Denver maintains a debt policy, in accordance with GFOA's recommendation, that establishes guidelines and parameters for the issuance and management of debt based on three principles—equity, effectiveness, and efficiency.

While COPs represent a flexible tool for a city to finance capital projects, they are considered lease purchase agreements, not long-term debt, and do not require voter approval. As with all other lease purchase agreements, COPs exist for a one-year, renewable term that does not constitute an obligation of Denver. The required lease payments are subject to annual appropriation and may be obligated from a city's General Fund. COPs are sold to investors with the expectation that the lease will be continued each year through funds appropriated for the annual lease payments. The essentiality of the leased property serving as collateral to secure the financing provides purchasers of COPs increased assurance by reducing the possibility of a city terminating the lease and forfeiting the leased property. Because COPs are lease purchase agreements that do not require voter approval but exhibit the characteristics of long-term debt, monitoring the usage of COPs to finance capital projects is a necessary component of a city's overall debt management. To further structure debt-related activities, Denver has adopted written guidelines for Capital Leases and COPs.

### Management of Special Taxing Districts Debt

Determining a city's ability to track debt issued by special districts within city boundaries also plays an important role in determining a city's fiscal sustainability. Special districts are quasi-municipal corporations and taxing entities, which provide specific public benefit to a defined population within distinct boundaries. Although special district debt is not a direct obligation of a city, in Colorado it requires the vote of affected property owners. Special district debt overlaps with the existing city tax structure, resulting in an increased tax burden on citizens residing in special district boundaries. Therefore, special district debt is an important influence on a city's debt structure, and cities should coordinate closely with special districts to avoid placing too much tax burden on taxpayers residing in special district boundaries. Denver recognizes special districts as an important influence

on its debt structure and has implemented policies and procedures to create and monitor special districts' debt and tax rates.

### GIS Analysis

GIS data identifying a city's special district boundaries can be helpful in determining the relative property tax burden of residential and commercial properties across a city. GIS data can be used to identify the number of and areas of overlapping special taxing districts in the same geographic location; calculate the cumulative mill levies in these overlapping areas; present the status of activity (active and inactive) of special taxing districts; and portray all of the above analyses in a spatial, visual format. During the audit of Denver's *Fiscal Sustainability: Debt Management*, auditors collected Denver's existing GIS repository datasets, called *shapefiles*, maintained by Denver's Technology Services Division.<sup>4</sup> To supplement the GIS datasets, additional information consisting of 2012 mill levies and scales to classify each special district according to level of activity were collected and added to the underlying tables contained within the shapefiles for analysis. Then, the shapefiles were converted from geometrical format (polygon) to matrix format (raster) in order to perform calculations on the tabular data contained within those files. The rasters were subsequently added together, as appropriate, in areas where district boundaries overlapped to determine cumulative mill levies and the number of districts in the overlapping areas. After the calculations were performed, the results were plotted on various maps, using neighborhood boundary and street data obtained from Denver's GIS repository.

The audit's GIS analysis was a purposefully limited objective designed to develop descriptive information about the extent to which special taxing districts may impact Denver citizens and, therefore, potentially impinge on Denver's ability to finance new debt through additional taxes. The audit found that while special taxing districts may create the potential for significantly higher taxes across Denver, the geographic areas within Denver that are impacted by an overlapping tax burden are relatively small. More detailed research could be performed by a city or auditors to help answer more targeted questions about how the citizens in these geographic areas are impacted and city management's administration of debt such as: how many residents live in the boundaries of the special districts; how much the special districts add to the home values in the city, and whether lower-income individuals are disproportionately impacted by these taxes; and the ability of the residents to withstand additional taxes, either from the special districts or the city.

## Conclusion

Although this article focused on three specific tools to help determine a city's fiscal sustainability—conducting a financial condition analysis using the 10-Point Test method, assessing financial management over city and special district debt issuances and the use of COPs, and GIS analysis of relative property tax burdens—auditors should consider the associated risks of

various management policy decisions and usefulness of potential audit analysis to determine the most effective audit methodology. In our case conducting the 10-Point Test provided Denver's financial management team a fresh way of looking at the city's financial condition and also provided insight into unfavorable trends to be closely monitored. ■

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## Notes

<sup>1</sup> See our Fiscal Sustainability: *Financial Condition and Transparency* audit report issued in December 2013, at the Denver Auditor's website.

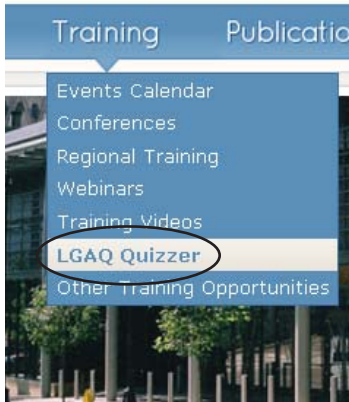
<sup>2</sup> Dean Mead. (2006). "A Manageable System of Economic Condition Analysis for Governments" in Howard Frank, ed., *Public Financial Management*, 383-419, Boca Raton, FL: CRC Press.

<sup>3</sup> GFOA, Best Practice: Debt Management Policy (1995, 2003, and 2012) (DEBT): October 2012, <http://www.gfoa.org>.

<sup>4</sup> See our *Fiscal Sustainability: Debt Management* audit report issued in February 2014, at the Denver Auditor's website.

# Find the Quarterly Quizzer at [algaonline.org](http://algaonline.org)

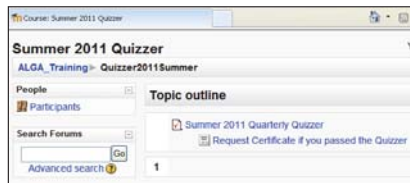
## Government Auditor



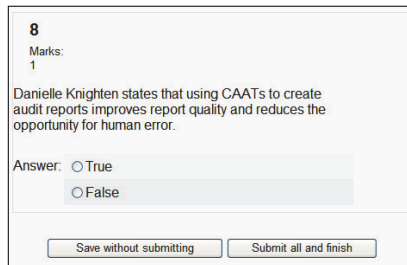
All future Quarterly Quizzers will be posted to the ALGA website using the new Moodle training module. They'll be available under the "Training > Quizzers" menu option. As a result of the move, Quizzer completion and CPE distribution procedures have changed, as briefly described below.

### New Quizzer Process...

1. Log on to the ALGA Website at [algaonline.org](http://algaonline.org).
2. Navigate to the Quarterly Quizzers page.
3. Select the Quarterly Issue for which you'd like to receive CPE (Summer 2011 and thereafter).
4. Select the Quizzer from the available options (as shown to the left). You may have to select the Quizzer in other views as well (e.g., as shown here).



5. Answer each question and click "Submit all and finish" (or "Save without submitting").

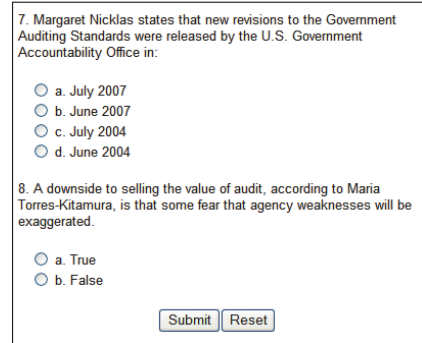


Your Quizzer score will appear (75% or above = 1CPE).

6. Print and retain a copy of your CPE certificate as evidence of your CPE.

### Old Quizzer Process...

1. Log on to the ALGA website.
2. Navigate to the Quarterly Quizzers page.
3. Select the Quarterly Issue for which you'd like to receive CPE (Spring 2011 and earlier).
4. Answer each question and click "Submit".



5. Your electronically graded Quizzer will be e-mailed to you (75% or above = 1 CPE).
6. Print and retain a copy of your graded results as evidence of your CPE.

### Important information:

You are responsible to retain documentation to support your CPE. The Quizzer will qualify for CPE under the Government Audit Standards, but ALGA does not guarantee that the Quizzer will meet individual state CPA license requirements or the requirements of other professional associations. You will need to make that determination for yourself based on the rules of your state board of accountancy.

Please check out the website for more details.

## Recently Completed Audit Abstracts

Full text of the following abstracts can be found online at <http://ky-alga.civicplus.com/index.aspx?nid=125>.

### FINANCE

#### **Jacksonville Transportation Authority Accounts Payable Audit - Report #749**

Release Date: 5/22/14

Audit Shop Name: Council Auditor's Office, City of Jacksonville, FL

#### **Audit of Indirect Cost Allocation**

Release Date: 4/17/14

Audit Shop Name: Council Auditor's Office, City of Jacksonville, FL

#### **\$52,000 Theft: More Can Be Expected without Citywide Changes in Culture and Procedures**

Release Date: 4/1/14

Audit Shop Name: City Auditor's Office, City of Berkeley, CA

#### **Performance Audit of Employee Add-on Pays**

Release Date: 2/27/14

Audit Shop Name: City of San Diego, CA

### HOUSING & SOCIAL SERVICES

#### **Housing Loan Portfolio: Approval and Monitoring Processes should be Improved**

Release Date: 5/14

Audit Shop Name: Office of the City Auditor, City of San Jose, CA

#### **Follow-Up Audit of Affordable Housing: Rental Housing Eligibility Monitoring**

Release Date: 4/23/14

Audit Shop Name: Office of the City Auditor, City of Austin TX

#### **Housing Loan Program: Funding Supports Goals, but Low Repayment May Jeopardize Long-Term Success**

Release Date: 3/24/14

Audit Shop Name: Office of the City Auditor, City of Portland, OR

### INFORMATION TECHNOLOGY

#### **Audit of Software License Compliance**

Release Date: 4/11/14

Audit Shop Name: City Auditor's Office, City of Dallas, TX

#### **Municipal Court Docketing System Security**

Release Date: 2/26/14

Audit Shop Name: City of Kansas City, MO

#### **Follow-Up Audit of Windows Active Directory Security**

Release Date: 2/26/14

Audit Shop Name: Office of the City Auditor, City of Austin, TX

### MISCELLANEOUS

#### **Opt In Program: Clarify Purpose and Weigh Effectiveness**

Release Date: 5/23/14

Audit Shop Name: Office of the Metro Auditor, Portland, OR

#### **Performance Audit of the Green Building Ordinance**

Release Date: 5/13/14

Audit Shop Name: King County Auditor's Office, WA

#### **FY 2013 Audit Follow-Up of Prior Audit Recommendations For FY 2010 to 2012**

Release Date: 5/9/14

Audit Shop Name: City Auditor's Office, City of Dallas, TX

#### **Performance Audit of the Real Estate Assets Department**

Release Date: 5/7/14

Audit Shop Name: City of San Diego, CA

#### **Performance Audit of Part-time Employment in King County**

Release Date: 5/07/14

Audit Shop Name: King County Auditor's Office, WA

#### **Special Audit of the Accounts of Former City Manager, Mary K. Suhm**

Release Date: 5/2/14

Audit Shop Name: City Auditor's Office, City of Dallas, TX

#### **Vacant Positions: Few Positions Vacant Long-Term, but Enhanced Oversight Can Reduce Risk**

Release Date: 5/1/14

Audit Shop Name: City of Portland Auditor's Office, OR

## Recently Completed Audit Abstracts (continued)

### **East Portland: History of City Services Examined**

Release Date: 4/23/14

Audit Shop Name: City of Portland Auditor's Office, OR

### **Review of 2015 Pan American / Parapan American Games' Capital Projects**

Release Date: 4/17/14

Audit Shop Name: Auditor General's Office, City of Toronto, ON

### **Leave Management Audit Follow-up: Progress Made on Recommendations**

Release Date: 4/16/14

Audit Shop Name: Metro Auditor, OR

### **Audit of the Department of Dallas Water Utilities' Wastewater Collection and Treatment Operations – Internal Controls over Chemical Supplies**

Release Date: 4/11/14

Audit Shop Name: City Auditor's Office, City of Dallas, TX

### **Construction Permits – Monitor Performance and Fee Assessments to Ensure Excellent and Equitable Customer Service**

Release Date: 3/25/14

Audit Shop Name: City of Berkeley, CA

### **Library Hours and Staffing: By Improving the Efficiency of Its Staffing Model, the Library can Reduce the Cost of Extending Service Hours**

Release Date: 3/3/14

Audit Shop Name: City Auditor's Office, City of San Jose, CA

### **City of Palo Alto Performance Report (2013)**

Release Date: 3/10/14

Audit Shop Name: City of Palo Alto, CA

### **Homeland Security Grant Funding**

Release Date: 2/26/14

Audit Shop Name: Office of the City Auditor, City of Austin, TX

## **PARKS & RECREATION**

### **Managing Community Center Facility Use: Summer 2013 Adult Hockey Leagues at Line Creek**

Release Date: 4/15/14

Audit Shop Name: City Auditor's Office, Kansas City, MO

### **Parks and Recreation Department (PARD) Patron Safety Audit**

Release Date: 2/5/14

Audit Shop Name: Office of the City Auditor, City of Austin, TX

## **PROCUREMENT & CONTRACT COMPLIANCE**

### **Procurement Card Program**

Release Date: 4/25/14

Audit Shop Name: County of Northampton Controller's Office, PA

### **Advertising Contract**

Release Date: 3/27/14

Audit Shop Name: Maricopa County Internal Audit, AZ

### **MWESB Procurement Program: Clarify Goals, Align Activities and Improve Performance Reporting**

Release Date: 3/26/14

Audit Shop Name: Metro Auditor, OR

### **Contract Development and Approval Audit**

Release Date: 3/14

Audit Shop Name: Office of the City Auditor, City of Austin TX

### **Fuel Management Audit**

Release Date: 3/14

Audit Shop Name: Multnomah County Auditor's Office, OR

## **PUBLIC SAFETY**

### **Austin Fire Department Planning Process Audit**

Release Date: 5/28/14

Audit Shop Name: Office of the City Auditor, City of Austin, TX

### **Austin-Travis County Emergency Medical Services (ATCEMS) Inventory Management Audit**

Release Date: 2/5/14

Audit Shop Name: Office of the City Auditor, City of Austin, TX

### **Sexual Assault Response: Progress Made Toward a Victim-Centered Approach**

Release Date: 2/14

Audit Shop Name: City of Portland Audit Services, OR

## Recently Completed Audit Abstracts (continued)

### PUBLIC WORKS

**Portland Streetcar: City Bears Financial Burden and Operational Risk**

Release Date: 4/17/14

Audit Shop Name: City of Portland - Audit Services Division, Office of the City Auditor, OR

**Building Permits: Extension Practices Inconsistent; Documentation Lacking**

Release Date: 4/03/14

Audit Shop Name: City of Portland Audit Services, OR

**Organic Waste: Residential Collection Increased, but Challenges Remain in the Larger Commercial Sector**

Release Date: 4/14

Audit Shop Name: City of Portland Audit Services, OR

## FOR ABSTRACTS

1. Log on to [algaonline.org](http://algaonline.org). You must log on to view and access the form.
2. Navigate to the online submission form: Resources > Abstracts > Submit an Abstract.
3. Enter (type or copy/paste) and submit your abstract details as prompted in the form.

Abstract Summaries and Descriptions will not be published in the Quarterly, but will be displayed and searchable online. For the Summary, please provide a single paragraph describing what you did and what you found. The description may include scope, background, objectives, significant findings, unique methodologies, recommendations, or other information you wish to share with ALGA members.

Suggested Abstract Categories include the following:

- Finance
- Housing & Social Services
- Information Technology
- Parks & Recreation
- Procurement & Contract Compliance
- Public Safety
- Public Works
- Public Utilities
- Miscellaneous

The screenshot shows the ALGA website interface. The header includes the ALGA logo and navigation links: About, Resources, Training, Publications/Media, and Audit Excellence. A search bar is located in the top right corner. The main content area is titled 'Form Center' and features a search bar for forms, a dropdown menu for 'Select a Category', and a search icon. Below this is the 'Abstract Submittal Form' section, which includes a 'Submit Your Abstract' button and several input fields: 'Audit Name\*', 'Release Date\*' (with a date picker), 'Audit Shop Name\*', 'Audit Category\*' (a dropdown menu), and 'Audit Summary\*'. A sidebar on the left contains a 'Member Tools' menu with options like 'Notify Me', 'Member Directory', 'Abstracts', 'Auditor Forum', 'Register for Training', and 'Quarterly Archives'. There are also buttons for 'Build an Audit Function', 'Support for Members', and 'Join Today!'.

# Submitting Articles and Member News

## FOR ARTICLES AND MEMBER NEWS ITEMS

Articles may be submitted for any topic, but those relating to advertised themes will receive first priority in any given Quarterly. Upcoming themes and submission titles are as follows:

- Fall 2014: Identifying Fraud (due August 15)
- Winter 2014: Auditing Human Resources (due November 15)

### How to Submit:

1. Log on to [algaonline.org](http://algaonline.org).
2. Navigate to the online submission form: Publications/Media > Local Government Auditing Quarterly > About the Quarterly.
3. Click on the "Submit Your Article" link. Fill out the "Submit Your Quarterly Article" form. Attach your article and provide details as prompted in the form.

### Format guidelines:

- One page is roughly equivalent to 450-500 words.
- Target length is a maximum of 1,500 words, which translates roughly to four pages with the inclusion of visual elements such as photos or charts.
- For each article, please include a suggested headline, author's name, title and organization represented.
- Article text should be submitted in an unformatted Word file.
- To maximize the quality of graphics for both print and web presentations, author headshots and other graphics must be submitted separately from the article text in .JPG form.
- Indicate the desired location of any graphics within the article by enclosing the instruction in brackets. For example, [INSERT GRAPH 1 here].
- Please include the proper attribution of any copied elements within your article to their respective sources.
- Remember to thoroughly proofread your article.

*Member News* may be submitted for member promotions, certifications, awards, retirements, or other relevant ALGA member news.

*Questions?* If you have questions or encounter problems submitting an Article, Abstract, or Member News item, please contact the ALGA LGAQ Editor at [amanda.l.lamb@state.or.us](mailto:amanda.l.lamb@state.or.us).



# Association of Local Government Auditors

## Membership Application

Federal Identification Number: 23-2539807

The Association of Local Government Auditors was formed to bring together professional local government auditors, to provide opportunities for the free exchange of information, to offer pertinent education and training, to improve the quality of auditing in local government, to provide a forum for local government auditing issues, and to encourage and uphold the highest quality standards of professional ethics. Federal and state, or other interested parties may join as associate members.

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Website Address \_\_\_\_\_

Key Contact \_\_\_\_\_

Title \_\_\_\_\_

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Please remit the completed membership form with payment (or payment information) to:

ALGA Member Services  
449 Lewis Hargett Circle, Suite 290  
Lexington, KY 40503

Check here to receive a paper copy of the member directory. (You will NOT receive a paper copy unless this box is checked!)

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(Maximum allowed based on info in graph on page 3)

Joining as a referral? Who referred you to ALGA?

### Organizational Membership

(based on the total number of auditors in your local government audit organization)

- 1-2    \$180 US             3-5    \$260 US
- 6-10   \$475 US             11-15   \$675 US
- 16 +    \$910 US

### Individual Membership 1 \$325 US

(any local government employee, other than the head of the audit organization, whose primary function is auditing local government entities)

### Associate Membership 1 \$325 US

(CPA firms, individual CPAs, state or federal auditors and other interested parties)

### Plus New Members joining between April 1 & June 30

(see page 4 of Membership Application)

- 1-10    \$100 US             11+    \$200 US

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### Audit Organization Reports to:

- a. (    ) Elected Auditor/Public
- b. (    ) Council/Board
- c. (    ) Audit Committee
- d. (    ) Executive Officer
- e. (    ) CFO/Finance
- f. (    ) Other
- g. (    ) Not Applicable

### Type of Jurisdiction:

- a. (    ) City
- b. (    ) County
- c. (    ) Schools/Universities
- d. (    ) Transportation Authority
- e. (    ) City and County
- f. (    ) State/Province
- g. (    ) Utility
- h. (    ) Other (describe)

### Annual Jurisdiction Operating Budget:

- a. (    ) up to \$25 million
- b. (    ) \$25 to \$100 million
- c. (    ) \$100 to \$500 million
- d. (    ) \$500 million to \$1 billion
- e. (    ) Over \$1 billion

### Type of Audits Performed:

	<b>% of Total Audits Performed</b>
Financial	_____
Performance	_____
Other	_____

**Total number of auditors on staff** \_\_\_\_\_

**Total audit organization staff** \_\_\_\_\_

### Total Jurisdiction Employees:

- a. (    ) up to 1,000
- b. (    ) 1,000 to 5,000
- c. (    ) 5,000 to 10,000
- d. (    ) 10,000 to 25,000
- e. (    ) over 25,000







**ALGA Member Services**

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