

Report from the 2019 Performance Audit Work Group

Overview of Committee's work

- Council's Organizational Committee created a Performance Audit Work Group at its February 6, 2019 meeting as one of several projects in its 2019 Work Plan. The Performance Audit Work Group was tasked with researching and evaluating the benefit and costs of re-introducing the function of City Council audits of City departments and programs.
- The work group is composed of Councilmembers Rebecca Noecker, Jane Prince and Dai Thao. Also in attendance at the meetings were legislative aides Taina Maki, Stephanie Harr and Mai Chong Xiong and Council Research staff Trudy Moloney, Marcia Moermond and Nhia Vang. The committee met March 18, June 12, July 1, July 15 and August 26.
- The work group considered the following questions in its deliberations:
 - Lessons from the Council's old performance audit program
 - Potential improvements in efficiency and effectiveness of City operations
 - Cooperation with the Administration in establishing a new program
 - Connection of a new program to the Administration's Innovation Team on programs of interest to both the City Council and Administration
 - Cost of a new program
 - Use of consultants or hiring Council Research staff

Potential Costs & Benefits of a Renewed Performance Audit Program

BENEFITS	COSTS
• Enhanced accountability of City operations to conform to performance expectations outlined in adopted codes, policies and budgets. • Opportunity to improve efficiency and effectiveness of City operation if an organizational and process assessment is included. • Assertion of Council authority to require reporting on meeting performance expectations in addition to the budget process. • Demonstrates to the public the Council's commitment to efficiency, especially when it must raise taxes.	• Cost calculations for performance audits are based on the scope of the area under review. Large city operations with many mandates are much more expensive than narrow areas targeting a single question. • Historically the performance audit program used 1.75 fte. • In today's dollars, the Council paid an average of \$170,000 per audit (based on staffing level). • 2 basic approaches for conducting performance audits are to hire internal Council Research staff or to hire outside consultants.

Council Research Performance Audit Program 1996 - 2000

- In 1994 the Council transitioned to part-time and created a centralized research and analysis team of 4 analysts.
- In 1995 the Council established a Performance Audit Program and subsequently established guidelines for its work in a committee comprised of professional staff from Council Research, the Mayor's Office, the City Attorney's Office and Financial Services.¹ The performance audits focused on compliance with

¹ The Performance Audit Program operated under the authority of these City Charter sections:

4.07 Investigations. The Council may make investigations into the affairs of the city and the conduct of any department, office or agency and for this purpose shall have the power to administer oaths and require the presence of witnesses and production of evidence by subpoenas obtained by order from district court on application from the council.

governing codes, policies and budget directives. Performance audits also included an organizational and process quality assessment using Malcolm Baldrige National Quality Award standards.

- During the 5-year life of the program, 7 audits were conducted.
- An estimated 1.75 FTE's in Council Research was dedicated to the Performance Audit Program.
- Performance audits were done with the cooperation of the Administration and resulted in department changes. The Mayor's Chief of Staff, department head and budget analyst for the audit area acted in an advisory capacity to the Council Research Audit Team. Although the Council received follow-up reports, following through on recommendations was largely at the discretion of the Administration.
- Audit teams were made up of 2-4 Council Research staff (each spending 25%-75% of their time on the audit), depending on the scope of the project.
- Performance audits were presented at City Council meetings and they each received media attention. Follow-up reports were provided to Council 6, 12 and 18 months following the report.
- The Performance Audit Program was discontinued for 2 main reasons:
 - Massive LGA cuts and nearly a decade of 0% levy increases constricted the City budget resulting in several key Council Research positions (2 directors, 1 office manager, 2 analysts) remaining vacant for 1-3 years; and
 - Council prioritized other types of work, such as the District Energy, Comcast and Xcel franchise negotiations.

Internal Council Research Staff Versus Consultant Conducting Performance Audits

CRITERIA	CONSULTANT	COUNCIL EMPLOYEE
Cost	~ Flexible	~ Fixed
Ease of Hiring	~ RFP for > \$50K Direct contract < \$50K	~ Appointed position, standard search
Time & Scheduling	~ Project-Dependent	~ Project-Dependent
Credibility / Perception of Objectivity	+ Outsider/Arm's Length	~ / - Known quantity for good or bad
Knowledge / Subject Matter Expertise	+ Subject Matter Expert	~ / - Generalist (with expertise in performance auditing function)
Relationships – Understanding Council Priorities	~ / - Informed through consultant contract mgr. and interviews	+ / ~ Present in organization and its development of project
Understanding SP City Gov't	~ / - Informed through consultant contract mgr. and interviews	~ Inside organization to develop longer-term relationships & organizational knowledge

(+ = positive, ~ = neutral and - = negative)

Topics for Performance Audits

Performance Audit Program 1996-2000	New Performance Audit Potential Topics
• Animal Control (1996) • Fire C of O and Code Enforcement (1997) • Fire Operations (1997) • Labor Relations (1999) • Recreation Services (1999) • License, Inspection and Environmental Protection (2000)	• Police Civilian Internal Affairs Review Commission (PCIARC) and/or HREEO • Rental Rehabilitation Loan Program • Fleet Management • HR • Street Maintenance

4.08 Independent Audit. The Council shall provide for an annual audit of all city accounts and may provide for such additional audits as it deems necessary. Any audit of all city accounts made pursuant to law by the state public examiner or other state officer designated by law shall be deemed an independent audit.

Work Group Proposal to Council

- Re-initiate a Council Performance Audit Program to
 - Enhance city operations' compliance with relevant codes, policies and budget directives; and
 - Increase efficiency and effectiveness of city operations
 - Demonstrate to the public the Council's commitment to efficiency, especially when it must raise taxes.
- The decision will be made in the fall of the prior year based upon available year-end resources. Contract(s) for consultant(s) will need to be in place by mid-November for the following year.
- The budget for a consultant will be based upon year-end projections for any budget reserves. These reserves have ranged from \$0 to \$200,000 depending upon Council expenses throughout the year.
- Using a consultant will not only allow the Council flexibility in its budget, but also provide subject matter experts on the audit topics selected.
- A proposed process for conducting the audit(s) is as follows:

Proposed Process for Performance Audits

- Council designates an audit steering committee made up of three Councilmembers to work with research staff on the following:
 - Identify topics that Council wants to consider for performance audits (through one-on-one meetings with Council members, during budget discussions, etc.)
 - Research and compile list of eligible consulting firms for audit work
 - Select the consultant to be used
 - Provide guidance in the contracting process
 - Provide oversight for the project deliverables and guidance to the consultant
 - Report back to the Council at Org Committee meetings throughout the year on the audit's progress
- Throughout the budget process each year, topics will be identified that the Council wants to consider for further study.
- Steering committee and/or Council Research staff will meet with each councilmember to discuss their priority topics as well as the specific questions the councilmembers want addressed in a study; the list will also be shared with the Administration for its input
- Steering Committee will present its recommendations for audit topics as well as estimated year-end savings available at a Council Org Committee meeting in early October
- The Council will determine the topic for study in October and authorize the steering committee to select a consultant
- The consultant's contract will be finalized by late November with work beginning January 1
- The contract will be managed by Council Research with input from the steering committee