

**Mission and Performance Reporting
Requirements for Non-Municipal Agencies**

A Performance Audit

March 2006

City Auditor's Office

City of Kansas City, Missouri

March 8, 2006

Honorable Mayor and Members of the City Council:

On November 21, 2005, the members of the Budget and Audit Committee expressed a need for more information on the mission and performance of non-municipal agencies to help them make more informed decisions about future funding. This audit focuses on mission and performance reporting requirements for non-municipal agencies that receive city funding. We found that these agencies are currently required to submit mission and performance information to the departments that administer the contracts.

During our contract file review, we learned that monitoring activities vary from department to department. While non-municipal agencies are contractually required to report on their progress at least quarterly, not all monitoring departments enforce that requirement. In addition, some monitoring departments make site visits to the agencies to review files and verify information, and others do not.

Since the monitoring departments are already supposed to collect the information the Finance and Audit Committee needs to help them evaluate future agency funding, we recommend the City Council enact an ordinance requiring the departments to report to the City Council regularly about the mission and performance of agencies that receive city funding.

We appreciate the courtesy and cooperation of staff in City Development, Health, and Neighborhood and Community Services in providing information for this report. We sent a draft report to the City Manager on March 1, 2006 for his review. The audit team for this project was Deborah Jenkins, Joyce Patton, and Nancy Hunt.

Mark Funkhouser
City Auditor

Mission and Performance Reporting Requirements for Non-Municipal Agencies

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Introduction

Objectives

We conducted this audit of non-municipal agencies performance reporting under the authority of Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the City Auditor's primary duties.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.¹

We designed this audit to answer the following question:

- Do current contracts between the city and non-municipal agencies identify the mission of the contracting agency and require performance reporting? If not, how should this information be incorporated into the contracting and reporting process?

Scope and Methodology

Our review focused on mission and performance reporting requirements for non-municipal agencies. A non-municipal agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service which furthers the public good.²

We conducted this audit in accordance with generally accepted government auditing standards. Our methods included:

- Reviewing the city's Contract Guidebook and other documents related to city contracts with non-municipal agencies.
- Interviewing staff in departments that monitor contracts with non-municipal agencies.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office 2003), p. 21.

² Contracts with the Commissioner of Purchases and Supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

- Reviewing monitoring department contract files.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Kansas City's Code of Ordinances Section 2-113 requires the City Auditor to review audits of agencies receiving at least \$100,000 in funding from the city and submit an annual summary to the Mayor, City Council, and City Manager that includes at least negative opinions, reportable conditions, and material weaknesses identified in agency audits.³

The City Auditor presented the scope statement for the 2006 summary of non-municipal agency financial audits at the November 21, 2005 Budget and Audit Committee⁴ meeting. Committee members told him that they were interested in obtaining more information about the missions and performance of these agencies – to know whether the agencies use the money the city provides to advance their mission.

We did this audit to determine whether current contracts with non-municipal agencies require information about their mission, performance standards, and regular reporting. And, if not, to examine whether code and contract language could be reasonably modified to include future reporting requirements.

³ Kansas City's Code of Ordinances Section 2-113 requires that all contracts with agencies receiving \$100,000 or more in city funding contain a provision requiring the agency to engage a certified public accountant (CPA) to do an annual financial audit and for the CPA to submit the audit, management letter, and response to the management letter to the City Auditor. Section 2-113 also requires that contracts with these agencies contain a provision requiring them to engage a qualified professional to analyze their internal control structure and furnish the City Auditor with a copy of the analysis.

⁴ In the time between the Budget and Audit committee's request for more information about non-municipal agencies and the release of this report, the Mayor combined the Finance Committee and the Budget and Audit Committee. The combined committee is called the Finance and Audit Committee.

Findings and Recommendations

Summary

Monitoring departments collect mission and performance information from non-municipal agencies receiving city funding through funding applications, contracts, and reports submitted by the agencies. Non-municipal agencies must provide information about their mission when they apply for city funding. Agencies also must explain how they propose to use the money and how they will incorporate the city funding into their overall budget. Contract provisions require these agencies to provide financial reports on a monthly basis, and performance reports on a quarterly and annual basis.

Performance monitoring activities vary from department to department. We found one department that requires agencies to provide more frequent performance reporting than city policy requires. We found another department that does not enforce the quarterly reporting requirement in their contracts with non-municipal agencies. Some monitoring departments make site visits to review files and verify information, and some do not.

While monitoring departments should have mission and performance information, there has not been a process for them to communicate that information to the City Council. We recommend that the Finance and Audit committee require the creation of a process through which monitoring departments must regularly report information about the mission and performance of non-municipal agencies to the City Council.

City Already Requires Agencies to Describe Mission and Report Performance

Monitoring departments should already have information about the mission and performance of non-municipal agencies and could provide that information to the City Council. Agencies must include a mission statement in their funding application and specify how they will use the city's money. Contracts with non-municipal agencies are required to include a detailed scope of services, and departments are responsible for establishing performance standards that adhere to contract terms. These contracts must also include performance and financial reporting requirements.

Information on Agency Mission and Performance Available

During the funding application process, non-municipal agencies are required to submit information describing their mission and how the agency will use the city's money. Departments are required to establish performance standards for the agencies based on the terms of the contract. Contracts with non-municipal agencies require performance reporting throughout the year. The departments could provide the requested information to the City Council.

Monitoring departments collect agency information. The city's Contract Guidebook includes procedures city departments must use when entering into contracts. A contract preparation checklist specifies the information agencies must submit with their funding application including a statement of the agency's goals and purpose, a statement of proposed use of city funds, and an explanation of how city funds will be incorporated into the agency's overall budget. The Guidebook requires departments to establish performance standards for contractors that adhere to the terms of the written contract. The Guidebook also requires that contracts include language requiring monthly financial reports from the agencies as well as quarterly and annual performance reports.

Departments could supply requested information to the Council.

While departments have information on agency mission and performance, currently there is not a mechanism for them to report this information regularly to the City Council.

The Finance and Audit Committee should draft for Council consideration an ordinance requiring monitoring departments to report to the City Council regularly about the mission and performance of agencies that receive city funding.

Departments' Performance Monitoring Activities Vary

Performance monitoring by departments is uneven. Non-municipal agencies are contractually required to report on their performance at least quarterly, but not all monitoring departments enforce that requirement. In addition, some monitoring departments make site visits to the agencies to review files and verify information, and others do not.

Some Departments Monitor Performance More Closely Than Others

During our file review, we found that some monitoring departments track contractor performance more closely than other departments. For example, City Development requires more frequent reporting than city policy requires, and some monitoring departments conduct site visits to review agency records.

In City Development contracts, agencies are required to submit monthly, rather than quarterly, performance reports. The department tracks this requirement and notifies contractors who are out of compliance. Staff said the department also conducts site visits to review records and evaluate agency compliance with management, governance, fiscal, and contract administration guidelines.

Neighborhood and Community Services staff said that they do not enforce the quarterly performance reporting requirement contained in their contracts. However, they do enforce the requirement to submit an annual performance report. They said staff shortages have prevented them from doing annual site visits.

Health Department staff said they enforce the quarterly and annual performance reporting requirements. They conduct site visits at some agencies, but not all. The Health Department developed a “Health Department Contracts Handbook” for its staff. The Handbook advises that the amount and intensity of monitoring be determined by the level of risk posed by the agency and/or contract. It also illustrates various monitoring methods, and specifies how to prepare for, conduct, and document site visits.

Performance monitoring ensures services are provided as intended.

The city’s Contract Guidebook gives direction on performance monitoring. While recognizing that performance monitoring will be different depending on the contract type, the Guidebook specifies components of monitoring that apply to most contract types.

- Reports submitted by the contractor should be reviewed carefully.
- Information should be verified where appropriate and compared with the written contract.
- Contracts should include clear and specific performance standards that should be tracked.

- Departments should be prepared to take action if contract terms are not fulfilled.

The Guidebook also lists other monitoring methods such as making on-site inspections, following up on every complaint, surveying citizen or user satisfaction, and reconciling payments with invoices.

Recommendation

1. The Finance and Audit Committee should draft for Council consideration an ordinance requiring monitoring departments to report to the City Council regularly about the mission and performance of agencies that receive city funding.