



Performance Audits of Local Government— Implementation of Initiative 900

An Update

Background

At the November 2005 election, Washington's voters approved Initiative 900, (Chapter 1, Laws of 2006, Regular Session). This legislation mandated that "the state auditor shall conduct independent, comprehensive performance audits of state government and each of its agencies, accounts, and programs; local governments and each of its agencies, accounts, and programs; ..." This mandate was accompanied in the initiative by a redirection of a small portion of the state sales tax to defray the added costs of state and local performance audits.

AWC was very concerned about the breadth of this initiative and was one of the lone voices, although unsuccessfully, in opposition to the measure. Our concerns were primarily that while individually tailored performance measures, adopted by individual jurisdictions, might be advantageous, a "one size fits all" approach could result in significant misrepresentations regarding local government operations.

Now, one year after passage of the initiative, the State Auditor has indicated that the next round of local government financial audits will include performance audit elements.

What Will Be Audited?

As part of the State Auditor's Office (SAO) implementation of Initiative 900, the State Auditor will conduct performance audits on the following:

- **Take-Home Vehicle Practices** (completed by 6/30/07)
- **Overtime Practices** (completed by 6/30/07)

- **Open Public Records** (completed by 6/30/07)
This audit will focus heavily on those laws discussed in Chapters 8 and 9 of the July 2006 MRSC Publication, "Public Records Act for Washington Cities and Counties" (www.mrsc.org/Publications/pr06.pdf).
- **Use of Impact Fees** (completed by 12/31/07)

A complete timeline of all audits can be found on the SAO website at www.sao.wa.gov/PerformanceAudit/PDFDocuments/PA_Work_Plan_11-14-06.pdf.

Who Will Be Audited?

- **Take-Home Vehicle and Overtime Practices:**
In November, the SAO sent questionnaires to numerous cities and counties regarding take-home vehicles and overtime practices. The SAO collected the information in order to select those cities and counties that show the most opportunity for a performance audit. The information gathering does not necessarily mean that you will have a performance audit in these areas. According to the SAO, Cities and Counties will be notified the week of December 18 whether they will be subject to a performance audit in one of these areas.
- **Public Records:** Initially, the 10 largest cities*, 10 largest counties and 10 largest state agencies (30 entities in all). This could be expanded to Ports, PUDs and Hospital Districts in the future, but "unlikely" that it will include smaller cities, counties and state agencies or other local governments.

continued



- **Impact Fees:** All cities with populations exceeding 40,000 along with King, Pierce and Clark counties.

**The 10 largest cities are Seattle, Spokane, Tacoma, Vancouver, Bellevue, Everett, Federal Way, Spokane Valley, Kent and Yakima.*

Costs for Audits

We have been assured from the SAO that cities will not have to pay for these performance audits. However, no funding will be available to local governments to compensate for staff time spent on the audits.

Audit Process

The audit process will be similar to each agency's annual financial and compliance audit. The SAO will schedule an entrance conference at which time they will review the objectives of the audit and assistance required from the city. Audit findings, if any, will be based upon the Government Audit Standards "Yellow Book" applications. The City will have an opportunity to respond (30 days) and likewise will have to hold a public hearing within 30 days, as outlined in I-900, to consider the findings if any are identified.

What Is Next?

AWC will meet with the Auditor after the first of the year to discuss the audits currently in process as well as future audits. With respect to the audits which have already been identified, use of impact fees is of particular concern.

The SAO workplan states, "Evaluate whether cities and counties effectively use impact fees to pay for public facilities that are in demand as a result of new development and **directly benefit** new development." However, pursuant to RCW 82.02.050, impact fees shall be used for system improvements that will **reasonably benefit** the new development. Impact fees may only be collected and spent on public facilities identified in a capital facilities plan that place additional demands on existing public facilities by new development; and additional public facility improvements required to serve new development. AWC will address this issue in our next meeting with the Auditor.

AWC will continue to have on-going discussions with the Auditor and his staff regarding the implementation of I-900. As part of our efforts to keep our members informed, please look for regular updates in our **Legislative Bulletin**. In addition, AWC will hold a workshop on performance audits at our annual conference in June.

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