



Inter-Departmental Communication

Office of the City Auditor

Date: October 7, 2015
To: Honorable Mayor and Members of the City Council
From: Douglas Jones, City Auditor 
Subject: Performance Audit - 2015 Governance Assessment with Responses from Previously Non-Reporting Organizations

At the August 12, 2015, Finance and Governance Committee meeting, the City Auditor's Office presented the 2015 Governance Assessment performance audit.¹ After the presentation, the committee directed us to attempt to obtain responses from the four boards that did not respond to our initial governance survey checklist request. This audit updates the exhibits and appendices in the original report to include the responses from the previously non-reporting boards.

The responses to the self-assessment checklist identify strengths and weaknesses in the six core governance functions. Although adding the responses from the four previously non-reporting boards changed numbers in the exhibits, our overall conclusions remain the same. Most boards and commissions reported having incorporated good governance practices to lead their organizations, adopted policies defining board and management responsibilities, and held their organizations accountable for achieving goals. Improvements could be made in oversight of management compliance with board directives, board performance and effectiveness, and representation of the public.

This audit is intended to help the City Council understand and evaluate the reported governance practices of the previously non-reporting boards. Because boards and commissions are not directly accountable to the public for their actions, the Council should provide oversight of those serving on city governing and policy boards. The checklist survey is a tool that boards and commissions should use to assess their own governance practices and a framework the Council should use for questioning boards on governance practices.

Objective

We conducted this audit of governance practices of boards and commissions under the authority of Article II, Section 216 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 provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those

¹ 2015 Governance Assessment, Office of the City Auditor, Kansas City, Missouri, August 2015.

charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making, and contribute to public accountability.²

The objective of this report is to incorporate the governance practices of the previously non-reporting boards.

Scope and Methodology

Section 2-722 of the Code of Ordinances requires that the city auditor distribute a governance assessment checklist at least once every four years to component units³ and appropriate governing or policy boards of the city. The code requires boards and commissions receiving the checklist to reply to the city auditor by April 30 and that a report be presented to the Council by November 1. The checklist is required to be substantially similar to the one developed for the 2001 *Good Governance Practices for Boards and Commissions* report.⁴

This audit summarizes the governance practices of the component units identified in the city's 2014 *Comprehensive Annual Financial Report*, the Board of Parks and Recreation Commissioners, the Kansas City Area Transportation Authority (KCATA) and the Planned Industrial Expansion Authority of Kansas City, Missouri (PIEA). KCATA and PIEA were included at the request of the prior Finance, Governance, and Ethics Committee.

We sent assessment checklists to 17 boards and commissions on February 23, 2015, and a reminder on March 27, 2015. Thirteen organizations completed the checklist and were included in our August 2015 audit. At the request of the Finance and Governance Committee, we again asked the following boards and commission to respond to the checklist survey: the EDC Charitable Fund, the EDC Loan Corporation, the Performing Arts Community Improvement District and the Planned Industrial Expansion Authority of Kansas City, Missouri. We received their responses in August and September 2015.

The survey information contained in this audit is self-reported by the organizations. We did not verify responses to the survey questions or determine their reasonableness. We drew conclusions based on the responses received to the checklist questions. We added the additional responses to the exhibits in our original report. Some respondents did not answer every question.

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception of reporting the views of management concerning the audit. Because we do

² Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

³ According to Governmental Accounting Standards Board (GASB) Statement No. 14, a component unit of a primary government is an organization that is legally separate from the government but for which the primary government is financially accountable because the government officials appoint a voting majority of the organization's governing body and either the government is able to impose its will on that organization or there is a potential for the organization to provide specific benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

⁴ *Special Report: Good Governance Practices for Boards and Commissions*, Office of the City Auditor, Kansas City, Missouri, August 2001.

not make any recommendations, we do not believe the absence of a management response affects the audit results.

Government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. No information was omitted from this report because it was deemed privileged or confidential.

Background

Kansas City Boards and Commissions

Boards and commissions are responsible for overseeing important public functions and activities in Kansas City, including policing, maintenance of parks, and development incentives. Like elected officials, boards and commissions are responsible for allocating public resources and overseeing the provision of services. In 2014, the boards and commissions we surveyed spent over \$509 million. (See Exhibit 1.) Unlike elected officials, these boards and commissions are not directly accountable to the voters for their actions.

Exhibit 1. Board and Commission Expenditures for Fiscal Year 2014

Component Unit or Selected Agency	Expenditures
Board of Police Commissioners of Kansas City, Missouri	\$246,334,778
Kansas City Area Transportation Authority	97,604,105
Tax Increment Financing Commission of Kansas City, Missouri	89,177,856
Board of Parks and Recreation Commissioners	59,514,008
Economic Development Corporation of Kansas City, Missouri	5,442,520
Land Bank of Kansas City, Missouri	2,997,000
Port Authority of Kansas City, Missouri	2,799,730
American Jazz Museum, Inc.	2,201,000
Land Clearance for Redevelopment Authority	799,962
Kansas City, Missouri Homesteading Authority	645,000
Downtown Economic Stimulus Authority of Kansas City, Missouri	629,487
Kansas City International Airport Community Improvement District	446,148
EDC Loan Corporation	282,201
Planned Industrial Expansion Authority of Kansas City, Missouri	262,159
Performing Arts Community Improvement District	239,858
EDC Charitable Fund	182,987
Kansas City Maintenance Reserve Corporation	70,000
Total	\$509,628,799

Sources: Boards' and Commissions' audited financial statements, budget documents, and the 2014 Kansas City, Missouri, Comprehensive Annual Financial Report.

What Is Good Governance?

Governance is the exercise of authority, direction, and control by a governing board. Governance deals with *what* an organization is to do and is focused on planning, setting goals and objectives, and developing policies to guide the organization and monitor its progress toward implementation of its plans. The primary focus of governance should be on the long-term – the organization’s mission, values, policies, goals, objectives, and accountability.⁵

A key to good governance is asking good questions. Board members should question management—and one another—to exercise authority and to provide direction and control. The good governance practices we examined are:

- Leading the organization.
- Setting policies delineating management responsibilities.
- Ensuring management compliance with board directives.
- Ensuring accountability for achieving organizational goals.
- Ensuring a high level of board performance and effectiveness.
- Representing the public.

Findings

The following exhibits have been updated from our August 2015 audit to include the responses of the four originally non-reporting boards. Appendix A contains the checklist responses by organization for the four boards that were not included in the original report.

Exhibit 2. Responses on Leading the Organization

Question	Yes	No	Don't Know	N/A	Total
Has the board set overall goals for the organization?	14	2	1	0	17
Has the board prepared a mission statement?	11	5	0	1	17
Do the goals describe the end result of the organization's activities?	10	0	2	4	16
Has the board communicated organizational goals to management?	12	0	1	4	17
Has the board engaged in strategic planning?	12	1	2	1	16

Source: Governance Assessment Checklist Responses.

⁵ Guy LeClerc, W. David Moynagh, Jean-Pierre Boisclair, and Hugh R. Hanson, *Accountability, Performance Reporting, Comprehensive Audit – An Integrated Perspective*, (Ottawa, CCAF-FCVI, Inc., 1996), p. 8.

Exhibit 3. Responses on Setting Policies Delineating Responsibilities

Question	Yes	No	Don't Know	N/A	Total
Has the board adopted policies that delineate the power of the CEO?	10	3	0	4	17
Has the board adopted policies that prohibit management actions that are unethical or unacceptable?	14	1	0	2	17
Has the board adopted policies that prescribe board-CEO relationship?	10	2	0	5	17
Are management-related policies addressed to the CEO?	11	1	0	5	17
Has the board adopted any financial planning, revenue, and expenditure policies?	14	2	0	1	17

Source: Governance Assessment Checklist Responses.

Exhibit 4. Responses on Management Compliance with Board Directives

Question	Yes	No	Don't Know	N/A	Total
Has the board specified what the CEO must report on and when?	11	2	0	4	17
Has the board defined the criteria against which the CEO reports will be compared?	6	5	2	4	17
Has the board organized an audit committee?	8	5	0	4	17
Has the board provided for an internal audit function?	3	12	1	1	17
Is the internal auditor independent from the accounting and finance function?	3	1	0	12	16
Does the internal auditor have access to the audit committee?	3	0	0	14	17
Has the board provided for external review of the organization's financial statements?	17	0	0	0	17

Source: Governance Assessment Checklist Responses.

Exhibit 5. Responses on Accountability for Achieving Organizational Mission and Goals

Question	Yes	No	Don't Know	N/A	Total
Has the board monitored the organization's progress toward accomplishing its mission?	12	2	1	2	17
Does the board hold the CEO responsible for the organization's performance as it relates to the achievement of overall organizational goals?	11	0	0	6	17
Has the board assessed the CEO's performance?	7	3	3	4	17
Has the board reviewed and updated the policies, mission statement, and goals?	11	3	1	2	17
Has the board sought information on whether the organization is achieving its goals from sources independent of management?	8	6	0	3	17

Source: Governance Assessment Checklist Responses.

Exhibit 6. Responses on Board Performance and Effectiveness

Question	Yes	No	Don't Know	N/A	Total
Has the board adopted policies that prescribe board activities and the manner in which board meetings are conducted, the committees are structured, and the decisions are communicated?	14	1	0	1	16
Has the board adopted a board manual or by-laws?	15	1	0	1	17
Has the board adopted a code of ethical conduct?	11	3	0	3	17
Has the board adopted a conflict of interest policy?	12	2	1	2	17
Has the board developed job descriptions for board members?	7	6	1	3	17
Has the board had an orientation for new members?	9	5	1	1	16
Has the board had ongoing training for the board members?	5	10	1	1	17
Has the board adopted and enforced an attendance/absenteeism policy?	3	12	1	1	17
Has the board had a collective self-evaluation?	2	12	3	0	17
Has the board set and controlled the agenda?	17	0	0	0	17

Source: Governance Assessment Checklist Responses.

Exhibit 7. Responses on Representation of the Public

Question	Yes	No	Don't Know	N/A	Total
Has the board had meetings with the Mayor and City Council?	7	10	0	0	17
Has the board assessed the needs, concerns, and demands of the people of Kansas City regarding the organization's activities?	12	5	0	0	17
Has the board conducted business in accordance with the Missouri Sunshine Law?	17	0	0	0	17
Has the board communicated with other city boards and organizations to see how its activities fit within the city's "big picture"?	11	6	0	0	17
Has the board developed a "board profile" to help the Mayor in choosing candidates for appointments to the board?	5	6	3	3	17
Does the board profile describe the desired knowledge, skills, abilities, and other characteristics for prospective board members?	3	4	1	9	17
Has the board developed job descriptions for candidates for appointment?	2	8	4	3	17

Source: Governance Assessment Checklist Responses.

Appendix A

Checklist Responses by Organization

EDC Charitable Fund

2014 Expenditures – \$182,987

The EDC Charitable Fund is a nonprofit corporation that merges public and private funds and development incentives to acquire, construct, maintain, and operate redevelopment projects. The EDC Charitable Fund has a five-member board of directors consisting of four Economic Development Corporation (EDC) board members, including a City Council member and the president of the EDC. The city has provided significant funding, by use of federal grants, to the EDC Charitable Fund, which reflects the fund’s dependence on the city.

EDC Charitable Fund

Core Governance Functions	Yes	No	Don't Know	N/A	Total by Category
Leading the organization	0	1	4	0	5
Setting policies delineating responsibilities	0	4	0	1	5
Ensuring compliance with board directives	1	3	1	2	7
Ensuring accountability for achieving goals	1	3	1	0	5
Ensuring high board performance and effectiveness	3	1	2	4	10
Representing the public interest	1	3	3	0	7

The respondent answered “No” to the following questions:

- Has the board prepared a mission statement?
- Has the board adopted policies that delineate the power of the CEO?
- Has the board adopted policies that prohibit management actions that are unethical or unacceptable?
- Are management-related policies addressed to the CEO?
- Has the board adopted any financial planning, revenue, and expenditure policies?
- Has the board specified what the CEO must report on and when?
- Has the board organized an audit committee?
- Has the board provided for an internal audit function?
- Has the board monitored the organization's progress toward accomplishing its mission?
- Has the board assessed the CEO's performance?
- Has the board sought information on whether the organization is achieving its goals from sources independent of management?
- Has the board adopted policies that prescribe board activities and the manner in which board meetings are conducted, the committees are structured, and the decisions are communicated?
- Has the board had meetings with the Mayor and City Council?
- Has the board assessed the needs, concerns, and demands of the people of Kansas City regarding the organization's activities?
- Has the board communicated with other city boards and organizations to see how its activities fit within the city's "big picture"?

The respondent answered “Don’t Know” to the following questions:

- Has the board set overall goals for the organization?
- Do the goals describe the end result of the organization's activities?
- Has the board communicated organizational goals to management?
- Has the board engaged in strategic planning?
- Has the board defined the criteria against which the CEO reports will be compared?
- Has the board reviewed and updated the policies, mission statement, and goals?
- Has the board developed job descriptions for board members?
- Has the board had a collective self-evaluation?
- Has the board developed a "board profile" to help the Mayor in choosing candidates for appointments to the board?
- Does the board profile describe the desired knowledge, skills, abilities, and other characteristics for prospective board members?
- Has the board developed job descriptions for candidates for appointment?

The respondent answered "Not Applicable" (N/A) to the following questions:

- Has the board adopted policies that prescribe board-CEO relationship?
- Is the internal auditor independent from the accounting and finance function?
- Does the internal auditor have access to the audit committee?
- Has the board adopted a code of ethical conduct?
- Has the board had an orientation for new members?
- Has the board had ongoing training for the board members?
- Has the board adopted and enforced an attendance/absenteeism policy?

EDC Loan Corporation

2014 Expenditures – \$ 282,201

The EDC Loan Corporation is a non-profit corporation that specializes in lending to and financing for small business. Its goal is to use its resources and efforts to partner with not only small businesses, but also local lenders to assist in various forms of financing. There are programs to help all kinds of needs: acquisition of land and buildings; new construction or renovations; machinery and equipment; and working capital.

EDC Loan Corporation					
Core Governance Functions	Yes	No	Don't Know	N/A	Total by Category
Leading the organization	5	0	0	0	5
Setting policies delineating responsibilities	2	0	0	3	5
Ensuring compliance with board directives	2	0	2	3	7
Ensuring accountability for achieving goals	3	0	0	2	5
Ensuring high board performance and effectiveness	6	0	4	0	10
Representing the public interest	6	1	0	0	7

The respondent answered “No” to the following question:

- Has the board had meetings with the Mayor and City Council?

The respondent answered “Don’t Know” to the following questions:

- Has the board defined the criteria against which the CEO reports will be compared?
- Has the board provided for an internal audit function?
- Has the board had an orientation for new members?
- Has the board had ongoing training for the board members?
- Has the board adopted and enforced an attendance/absenteeism policy?
- Has the board had a collective self-evaluation?

The respondent answered “Not Applicable” (N/A) to the following questions:

- Has the board adopted policies that delineate the power of the CEO?
- Has the board adopted policies that prescribe board-CEO relationship?
- Are management-related policies addressed to the CEO?
- Has the board specified what the CEO must report on and when?
- Is the internal auditor independent from the accounting and finance function?
- Does the internal auditor have access to the audit committee?
- Does the board hold the CEO responsible for the organization's performance as it relates to the achievement of overall organizational goals?
- Has the board assessed the CEO's performance?

Performing Arts Community Improvement District

2014 Expenditures - \$239,858

The Performing Arts Community Improvement District (PACID) collects sales taxes and fees, rents, and other charges within the district for the purpose of funding the expansion and improvements of the downtown Kansas City, Missouri, area surrounding Bartle Hall and the Performing Arts Center. The mayor appoints all eight members of the PACID board of directors.

Performing Arts Community Improvement District					
Core Governance Functions	Yes	No	Don't Know	N/A	Total by Category
Leading the organization	3	1	0	1	5
Setting policies delineating responsibilities	1	1	0	3	5
Ensuring compliance with board directives	1	3	0	3	7
Ensuring accountability for achieving goals	1	1	0	3	5
Ensuring high board performance and effectiveness	3	4	0	1	8
Representing the public interest	1	4	0	2	7

The respondent answered “No” to the following questions:

- Has the board engaged in strategic planning?
- Has the board adopted any financial planning, revenue, and expenditure policies?
- Has the board organized an audit committee?
- Has the board provided for an internal audit function?
- Is the internal auditor independent from the accounting and finance function?
- Has the board reviewed and updated the policies, mission statement, and goals?
- Has the board adopted a code of ethical conduct?
- Has the board had ongoing training for the board members?
- Has the board adopted and enforced an attendance/absenteeism policy?
- Has the board had a collective self-evaluation?
- Has the board had meetings with the Mayor and City Council?
- Has the board assessed the needs, concerns, and demands of the people of Kansas City regarding the organization's activities?
- Has the board communicated with other city boards and organizations to see how its activities fit within the city's "big picture"?
- Has the board developed a "board profile" to help the Mayor in choosing candidates for appointments to the board?

The respondent answered “Not Applicable” (N/A) to the following questions:

- Has the board communicated organizational goals to management?⁶
- Has the board adopted policies that delineate the power of the CEO?⁷

⁶ Respondent wrote “There is no managerial staff.”

⁷ Respondent wrote “There is no CEO.”

- Has the board adopted policies that prescribe board-CEO relationship?
- Are management-related policies addressed to the CEO?
- Has the board specified what the CEO must report on and when?
- Has the board defined the criteria against which the CEO reports will be compared?
- Does the internal auditor have access to the audit committee?
- Does the board hold the CEO responsible for the organization's performance as it relates to the achievement of overall organizational goals?
- Has the board assessed the CEO's performance?
- Has the board sought information on whether the organization is achieving its goals from sources independent of management?
- Has the board developed job descriptions for board members?
- Does the board profile describe the desired knowledge, skills, abilities, and other characteristics for prospective board members?
- Has the board developed job descriptions for candidates for appointment?

The respondent left the following questions blank⁸:

- Has the board adopted policies that prescribe board activities and the manner in which board meetings are conducted, the committees are structured, and the decisions are communicated?
- Has the board had an orientation for new members?

⁸ Questions left blank by responding organizations were omitted in the total.

Planned Industrial Expansion Authority of Kansas City, Missouri

2014 Expenditures – \$262,159

The Planned Industrial Expansion Authority of Kansas City, Missouri (PIEA) eliminates blight and fosters development and redevelopment activities in areas designated by the city. PIEA can grant tax abatement of new property taxes resulting from new construction or rehabilitation for up to 25 years. The mayor appoints 15 commissioners to the PIEA board. The PIEA is not a component unit of the city.

Planned Industrial Expansion Authority

Core Governance Functions	Yes	No	Don't Know	N/A	Total by Category
Leading the organization	3	1	1	0	5
Setting policies delineating responsibilities	5	0	0	0	5
Ensuring compliance with board directives	4	2	0	1	7
Ensuring accountability for achieving goals	1	2	2	0	5
Ensuring high board performance and effectiveness	3	5	2	0	10
Representing the public interest	3	1	2	1	7

The respondent answered “No” to the following questions:

- Has the board prepared a mission statement?
- Has the board defined the criteria against which the CEO reports will be compared?
- Has the board organized an audit committee?
- Has the board reviewed and updated the policies, mission statement, and goals?
- Has the board sought information on whether the organization is achieving its goals from sources independent of management?
- Has the board adopted a board manual or by-laws?
- Has the board adopted a code of ethical conduct?
- Has the board developed job descriptions for board members?
- Has the board had ongoing training for the board members?
- Has the board adopted and enforced an attendance/absenteeism policy?
- Has the board had meetings with the Mayor and City Council?

The respondent answered “Don’t Know” to the following questions:

- Has the board engaged in strategic planning?
- Has the board monitored the organization's progress toward accomplishing its mission?
- Has the board assessed the CEO's performance?
- Has the board adopted a conflict of interest policy?
- Has the board had a collective self-evaluation?
- Has the board developed a "board profile" to help the Mayor in choosing candidates for appointments to the board?
- Has the board developed job descriptions for candidates for appointment?

The respondent answered “Not Applicable” (N/A) to the following questions:

- Does the internal auditor have access to the audit committee?
- Does the board profile describe the desired knowledge, skills, abilities, and other characteristics for prospective board members?