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Date: March 27, 2012

To: Martha Bennett, Chief Operating Officer
Scott Robinson, Deputy Chief Operating Officer
Jim Desmond, Director, Sustainability Center
Paul Slyman, Director, Parks and Environmental Services

FROM: Suzanne Flynn, Metro Auditor

A handwritten signature in black ink, appearing to be 'SF' or similar initials.

RE: Letter to Management—Natural Areas Maintenance Audit

Audit standards require that we assess the risk of fraud within the scope of our audit objectives. We tested five areas after conducting a risk assessment and found a general lack of controls to manage risk. Some controls were in place, but for the most part they needed strengthening. Internal controls should be improved to reduce the opportunity for inappropriate activities.

Scope and Methodology

Our risk assessment identified five areas as having the potential for fraud or abuse. The five areas we assessed were:

- Rental properties and agricultural leases on natural area lands;
- Contract award process for vegetation management and plant material;
- Time and work activity tracking;
- Controls related to vehicle and equipment use; and
- Management of the risk of drug operations on public land.

To assess the risk in each area we obtained and analyzed data about rentals and leases, vehicle use data, employee time tracking and best practices from other jurisdictions. We also reviewed contract files and tested internal controls. We conducted interviews with management and staff to learn about policies and procedures.

This audit was included in the FY2011-12 audit schedule. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 findings.

Summary of Findings

There was a general lack of controls to manage the risks in each of the areas we reviewed. Metro should improve internal controls to lessen the risk of fraud or abuse occurring. We found:

- Metro could be subject to allocations of favoritism because of the way it handles rental properties and agricultural leases.

- The risk of favoritism was also a concern for contracts related to vegetation management services and plant materials.
- Information to track vehicle utilization and employee work activities was incomplete.
- Metro does not have a documented procedure or train staff about how to respond if they encounter indicators of drug operations.

On a positive note, controls for equipment were in place and working as intended. The equipment inventory was up-to-date and we located the equipment from our sample at its designated storage site.

Rental Properties and Agricultural Leases

Metro owns 67 properties that it rents or leases to members of the public. These assets were acquired from other governments or were included in land purchases made from two bond measures. In some cases Metro demolished houses and other assets when they were acquired if the repair or maintenance costs were considered to be larger than the revenue they would receive from renting them. In other cases Metro rented or leased the property to generate revenue and maintain a presence at the site.

The application and selection process for tenants was not clear or documented for the 40 rental houses in Metro's portfolio. Four are currently rented by Metro employees, two of which are located inside park boundaries where having an employee as the tenant is helpful. In addition, another house is rented by two former Metro employees. In addition, people connected to businesses that are also Metro vendors rented two houses and five parcels of agricultural land.

We reviewed the rental and lease agreements of a judgmental sample of 21 properties and found inconsistencies in documentation and the amounts charged over time. We found no documented policies and procedures for renting property to Metro employees. Metro maintains a list of interested parties who were contacted when a property was available for rent. The possibility of renting these assets and the process to get on the list was not publicized. There was no policy that addressed how to handle the potential conflicts of interest that could arise from renting to employees and contractors. Lack of policies and procedures created the opportunity for favoritism.

There was little information about how rental prices were determined. Staff said they use comparables to determine rental rates, but did not have documentation of them. Some rental houses with month-to-month leases had not experienced rental rate changes in more than five years. For example, one tenant who is a Metro vendor lived in the same house for the last nine years and the rent charged for this property did not change while this tenant lived there. For another property, rent had not been adjusted as specified in the agreements resulting in Metro receiving less revenue than it should have. Without clear documentation and transparency, Metro is at risk of appearing to favor some tenants over others and not receiving as much revenue as it could from its assets.

Contract Award Process

Metro contracts with vendors for land management activities and to obtain plants for restoration work. We reviewed the contract award process of a judgmental sample of six contract solicitations to analyze the risk of collusion or steering of work to specific contractors. Overall, we found the procurement process and contracts files were well managed. However, we found controls could be improved to reduce the risk of steering work after contracts were awarded.

The process to award contracts typically involved a request for proposals (RFP) or a request for bids (RFB). Businesses that responded to the contract opportunity were evaluated against each other using

established scoring criteria. For this type of work, Metro awarded multiple contracts under the same RFP/RFB solicitation. Management explained that they need multiple vendors for two reasons. One is that contractors have different sets of experience and skills so they need a variety of options depending on the project. Second, Metro wanted to have flexibility to schedule the work without having to be dependent on one contractor.

Management could improve controls by monitoring contract disbursements after they are awarded. After contractors were selected, individual staff members have the ability to use any of awarded contractors for a project. When we looked at the disbursements to each vendor we found that some contractors were receiving a larger proportion of the total contract value than was expected when the contracts were awarded. There may be many reasons why this occurred including substandard performance of some contractors, lack of expertise or scheduling problems. To reduce the risk of steering work and improve transparency Metro should periodically review contract disbursements and provide a short explanation if some contractors are receiving a disproportionate allocation of the total contract value.

Work Time and Activity Tracking

During the audit we learned that there were few procedures to track work activities and hours. Because natural areas employees often work alone and on weekends, management needs a system to track hours and work activities. While management has started to collect some information, it is incomplete and inconsistently used. The lack of an accountability system increased the risk that work activities and staffing could be mismanaged.

Creation of a consistent time tracking system by property and activity would address two challenges facing management. First, employees work in a variety of locations throughout the region and often work alone. Controls to ensure they are using work time appropriately are needed. Second, the Natural Areas Program has had challenges in the past with documenting and reporting its work to policymakers and the general public. Controls to capture work activities and hours spent on various properties and activities could help the Program describe the time, cost and results of its work.

Management stated that in the past their primary control for managing employee work time and activities was the professionalism and accountability of their staff. They recently implemented new controls including issuing smart phones to all field staff, requiring staff to share their calendars and keep them up to date at least a week in advance, and coding work time to specific activities in the calendar. We found these new procedures to be an improvement over what was done in the past but they did not provide reliable information. To input data an employee must create a new calendar item for each activity during the day. Getting data out of the system required knowledge about who was working on which days and exporting the data to a spreadsheet.

Our review of calendars and coding of work activities indicated the new procedures were only partially being followed. During our site visits employees used their smart phones to coordinate work. Some employees were keeping calendars up to date while others were not. The coding system was just beginning to be implemented during the audit but based on a sample of data we suggest a simpler system could be put in place.

Vehicle Utilization and Equipment Storage

Metro continues to have control weaknesses related to vehicle utilization and fuel purchases. Over the last several years Metro has undertaken efforts to better track these assets and monitor their use including purchasing a software program and updating its inventory of assets. We obtained fuel and

mileage data for each of the vehicles assigned to Natural Area Technicians and Scientists to determine if there were patterns that might indicate inappropriate use of work vehicles.

Vehicle utilization data did not provide reliable information to make conclusions about fraud or abuse. Mileage and fuel reports, in their current form, were not a good control. Odometer readings were out of sequence for several vehicles and employees switched fuel cards in one instance which prevented our ability to tie fuel charges to specific employees. In some cases inaccurate odometer readings appeared to be the result of errors. In others, the information was consistently wrong giving the appearance of a lack of effort to provide meaningful information, as shown in Exhibit 1 below.

Exhibit 1: Mileage Data at Time of Refueling for One Vehicle

| Date | Odometer Reading |
|------------|------------------|
| 10/21/2010 | 120,000 |
| 10/27/2010 | 120,000 |
| 11/16/2010 | 120,000 |
| 12/09/2010 | 120,000 |
| 12/14/2010 | 120,000 |
| 01/03/2011 | 120,000 |
| 01/10/2011 | 121,000 |
| 01/18/2011 | 121,000 |
| 02/01/2011 | 12,100 |
| 02/14/2011 | 121,000 |
| 03/02/2011 | 21,000 |
| 03/10/2011 | 122,000 |
| 03/17/2011 | 122,000 |
| 03/30/2011 | 120,000 |
| 04/11/2011 | 12,200 |
| 04/25/2011 | 122,000 |
| 05/04/2011 | 123,000 |
| 05/12/2011 | 123,000 |
| 05/19/2011 | 123,000 |

Metro should implement stronger controls for vehicle utilization. The data captured from fuel cards needs to be improved. Better controls are needed to track where and when a vehicle was in use to ensure appropriate use. As noted above, employees work across a large area and are often alone which increases the opportunity for fraud or abuse. Given the challenges of obtaining meaningful data from current procedures, we recommend investigating other procedures to monitor vehicle utilization in relation to work assignments.

We also selected a sample of 10 of the 55 pieces of equipment stored at Metro’s Tualatin Field Station to determine if it was onsite and available for use. All of the equipment that we sampled was present and accounted for. The assets were easy to identify and locate.

Managing the Risk of Illegal Drug Operations

During the audit, we learned about the risk of public lands being used for illegal drug operations. Some Metro employees are accustomed to dealing with illegal camping at properties so they have experience dealing with these encroachments and working with local law enforcement to address them. Being alert to these risks, of which illegal drug operations are an extreme form, is a normal part of their work. We discussed this risk with management and learned that for the most part Metro was following best practices. To improve controls in this area, the organization should document its procedures and communicate them to employees.

Recommendations

In order to strengthen internal controls and reduce the risk of fraud, waste and abuse, Metro should:

1. Develop policies and procedures for rental and lease properties that include:
 - a. Application process
 - b. Criteria and methodology to establish and adjust rent and lease amounts
 - c. Management of potential conflicts of interest when renting to employees or contractors
 - d. File management standards
2. Develop procedures to monitor actual contract expenditures by vendor to compare planned allocations to actual expenditures.
3. Create a system to track employee time and work activities.
4. Enforce requirements to accurately enter fueling data and periodically review data for trends and anomalies.
5. Document procedures to handle illegal drug operations and ensure staff are aware of the procedure.

 Metro | Memo

Date: April 12, 2012
To: Suzanne Flynn, Metro Auditor
From: Martha Bennett, Chief Operating Officer *MBS*
Scott Robinson, Deputy Chief Operating Officer *SR*
Jim Desmond, Sustainability Center Director *JD*
Paul Slyman, Parks & Environmental Services Director *PS*
Cc: Kathleen Brennan-Hunter, Natural Areas Program Director
Subject: Management response to Natural Areas Maintenance audit Letter to Management

Thank you for the Letter to Management following your completion of the Natural Areas Maintenance audit.

As with the Natural Areas Maintenance audit recommendations, it is clear that program staff can and should do a better job documenting and organizing their policies and procedures. We have asked staff to implement these recommendations and expect that within a year there will be progress on all recommendations.

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