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**Span of Control:**  
*Evaluate organizational structure to control costs*

November 2012  
A Report by the Office of the Auditor

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## MEMORANDUM

November 29, 2012

To: Tom Hughes, Council President  
Shirley Craddick, Councilor, District 1  
Carlotta Collette, Councilor, District 2  
Carl Hosticka, Councilor, District 3  
Kathryn Harrington, Councilor, District 4  
Rex Burkholder, Councilor, District 5  
Barbara Roberts, Councilor, District 6

From: Suzanne Flynn, Metro Auditor 

**Re: Span of Control: Evaluate organizational structure to control costs**

The attached report covers our audit of Metro's organizational structure. This audit was included in our FY2012-13 Audit Schedule.

We conducted this audit to determine the Sustainable Metro Initiative's impact on the ratio of employees per manager and the number of layers of management. We also reviewed personnel expenditures for the last 10 years. We found that Metro followed best practices for reorganizations, but could benefit from regular review of its span of control. We also determined that regular review of Metro's organizational structure could assist in controlling personnel costs.

We have discussed our findings and recommendations with Martha Bennett, COO; Scott Robinson, Deputy COO; Teri Dresler, General Manager, Visitor Venues; and Mary Rowe, Director, Human Resources. My office will schedule a formal follow-up to this audit within 1-2 years. We would like to acknowledge and thank the management and staff in the Human Resources Department who assisted us in completing this audit.



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## Summary

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In 2008, Metro began an organizational improvement initiative to realign its structure, enhance training opportunities and standardize practices agency-wide. This audit focused on the organizational structure component of the initiative. During the audit, we also reviewed personnel expenditures over the last 10 years and compared Metro's organizational change efforts to best practices.

There are two commonly used measures to evaluate the effectiveness and efficiency of an organization's structure. Collectively, they are known as the span of control. The first measure is the number of employees that report to each manager or supervisor. The second measure is the number of layers of management between the top and the bottom of the organizational chart. Management experts state that increasing the number of employees reporting to a manager and decreasing the layers of management can improve communication and employee morale and reduce costs.

We found that the reorganization did not significantly impact the span of control. The ratio of employees per manager increased slightly, a positive trend. However, the number of layers of management also increased, which could be interpreted as a negative trend.

Inflation adjusted personnel service expenditures increased by 24% between FY 2001-02 and FY 2010-11. In recent years, the growth has slowed. Based on the trend over the last 10 years, Metro's ability to control personnel expenditures in the future will rest mostly on managing costs for full-time salaried staff.

We believe there is an opportunity to use span of control analysis to identify areas where Metro's structure could be made more efficient and effective. Increasing the organization's ratio of employees per manager and/or reducing the layers of management could help control personnel service expenditures.

In regards to the organizational change effort, we found that Metro followed all six elements of successful change initiatives. Examples included clarifying roles among departments, involving employees to elicit ideas and involving the Metro Council to implement needed legislative changes. We recommend more work be done in the area of communication.



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## Background

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In May 2008, Metro began an organizational improvement plan called the Sustainable Metro Initiative (reorganization). The overarching goal of the reorganization was to transform Metro into a modern “mission-driven organization equipped to fulfill our promise as the world leader in regional conservation and civic innovation.” The plan sought to achieve this goal by making changes in three areas:

- staff training,
- management practices, and
- organizational structure.

In the four years since the plan was announced, Metro made changes in each of the three areas. Changes included new training opportunities for employees, standardization of policies and procedures, improved information and accounting processes to increase communication among departments, and organizational changes to provide more clarity about department missions and goals. Another reorganization took place about a year after the Sustainable Metro Initiative was first implemented. We included those changes in our analysis.

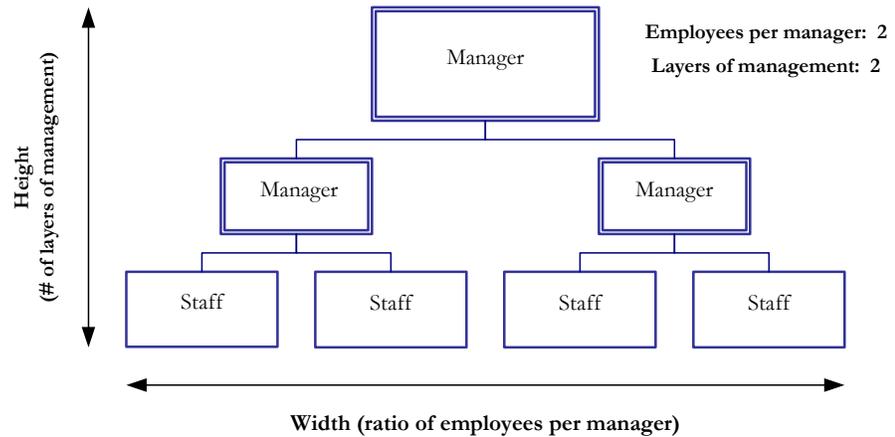
Five of Metro’s departments were significantly restructured as a result of the reorganization:

- The Planning Department was split in two. This created a new department, the Research Center, and the renamed Planning and Development Department.
- The Solid Waste and Recycling Department was split into three parts. One part became the Sustainability Center, one part joined Finance and Regulatory Services, and the third part joined Parks and Environmental Services.
- The Regional Parks and Greenspaces Department became Parks and Environmental Services. Some employees also joined the Sustainability Center.
- The Finance and Administrative Services Department became Finance and Regulatory Services.
- Employees in the Metropolitan Exposition and Recreation Commission Administrative Office joined Human Resources, Information Services and Finance and Regulatory Services.

One of the issues identified in the reorganization was inconsistency in span of control. There are two commonly used measures to evaluate the effectiveness and efficiency of an organization’s structure. Collectively, they are known as the span of control. The first measure is the number of employees that report to each manager or supervisor. The ratio of employees per manager refers to the width of an organization’s structure. “Wide” organizations have more employees reporting to each manager, while “narrow” organizations have fewer employees reporting to each manager.

The second measure is the number of layers of management between the top and bottom of the organizational chart. The number of layers of management describes the height of an organization's structure. "Flat" organizations have few layers of management between the Chief Executive and the lowest level employee, while "tall" organizations have more layers of management.

**Exhibit 1**  
Span of control example



Source: Metro Auditor's Office

In general, more employees per manager (wide) and fewer layers of management (flat) are recommended by management experts. This organizational structure is thought to be better aligned with positions where less oversight is needed. Among the benefits cited for wide and flat organizations are:

- improved communication and decision making,
- increased employee morale and motivation, and
- lower labor and administrative costs.

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## Scope and methodology

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The purpose of the audit was to determine what changes occurred in Metro's span of control from 2008 to 2012. There were three objectives:

1. Determine if Metro's span of control changed from 2008 to 2012.
2. Determine how personnel expenditures changed over the last 10 years.
3. Determine if Metro followed best practices for managing reorganizations and managing personnel service costs.

To meet our objectives, we reviewed audits from other jurisdictions, conducted a literature review, interviewed key management and staff at Metro, and reviewed span of control analysis completed by the Human Resources Department. We created organizational charts, analyzed data about span of control, and completed analysis of personnel expenditures over the last 10 years.

Our span of control analysis was based on snapshots of Metro's organizational structure for the payroll period ending July 15, 2008 and June 30, 2012. The reorganized structure was implemented on October 1, 2008. While the original intent of the audit was to focus on the changes resulting from the Sustainable Metro Initiative, we discovered that other organizational improvement initiatives also took place between 2008 and 2012. The most significant of these was a change in the governance structure of the Metropolitan Exposition and Recreation Commission (MERC). This made the Metro Council the governing body of MERC, which brought the MERC General Manager under the Chief Operating Officer of Metro. It also consolidated MERC's administrative services into Metro's other departments. We included those changes in our analysis.

The analysis included all Metro departments, except the Office of the Metro Attorney, the Office of the Metro Auditor and the Oregon Zoo. The Metro Attorney and Metro Auditor do not report to Metro's Chief Operating Officer, so their organizational structures were not comparable to the other departments. In addition, they were not included in the reorganization. The Oregon Zoo was excluded because there was missing data that prevented us from being able to identify reporting relationships for temporary employees at the Zoo in 2008. We did analyze span of control data for the Zoo, but it only included regular employees, which made comparisons with other departments inappropriate.

All employee types (regular and temporary employees) were included. Our methodology for span of control analysis was based on the total count of employees who reported to each manager. Our definition of management included all managers and supervisors who had employees directly reporting to them in Metro's Human Resource Information System. We also included as managers those positions that listed management responsibilities over other employees in the required duties of their classification descriptions. Some of these managers did not supervise employees. Throughout the report, "manager" is used to refer to both supervisors and managers, regardless of whether they had employees reporting to them. We did not include vacant positions in our analysis.

Analysis of personnel service expenditure trends included two sets of data. One data set included expenditures by account type (financial data) over the 10-year period from FY 2001-02 to FY 2010-11. This provided information about broad categories of personnel service expenditures such as employee types (e.g., regular full-time, regular part-time, temporary) and fringe benefits (e.g., health care and retirement).

The second data set analyzed the distribution of personnel service expenditures between employee groups (human resource data). The data provided snapshots of expenditures taken for the pay period ending June 30 of 2003, 2007 and 2011. This provided information on the distribution of expenditures among three groups of employees: managers, non-management union employees, and non-management non-union employees.

This audit was included in the FY 2011-12 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 objectives.

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## Results

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The Sustainable Metro Initiative (reorganization) slightly increased the ratio of employees per manager, which was a positive trend. However, it also increased the number of layers of management, a negative trend. While the changes improved Metro's previous organizational structure, the reorganization did not significantly impact the span of control across the agency.

Expenditures for personnel services grew in nine of the ten years we reviewed. Recent changes slowed rising personnel costs. Nevertheless, in FY 2010-11, Metro's workforce was 10% bigger than 10 years ago, but personnel costs were 24% higher after adjusting for inflation.

There is an opportunity to use span of control analysis to identify areas where Metro's structure could be made more efficient and effective. Over the next several years Metro is expected to have a shortfall in each of its primary operating funds. These three funds account for 97% of Metro's workforce. Increasing the organization's ratio of employees per manager and/or reducing the layers of management could help control personnel service expenditures.

### **Reorganization did not significantly impact span of control**

When the modern theory of span of control was developed, management experts sought to determine the optimal span of control. They hoped to use the optimal span of control as a target for developing or reforming an organization's structure. Today, the idea of an optimal span of control has fallen out of favor. Experts now stress the need for flexibility. They advocate for spans of control that take into account the complexity of work, degree of coordination required, and geographic location of subordinates among other considerations. Because Metro focused on improving consistency, the reorganization did not align with best practices for using span of control as a management tool.

We found it challenging to reach conclusions about "consistency" without more specific information about the desired outcomes. Different conclusions could be drawn about the reorganization depending on what level of the organization was evaluated and what measure was used.

Overall, Metro's span of control changed very little between 2008 and 2012. The agency-wide ratio increased from an average of 6.2 employees per manager in 2008 to 6.4 employees per manager in 2012. This was a positive trend that made the organization slightly wider. Conversely, agency-wide layers of management increased between 2008 and 2012. The average number of layers of management at Metro was 3.9 in 2008, but rose to 4.4 in 2012. This was a negative trend that made the organization slightly taller.

**Exhibit 2**  
Agency-wide span of control change

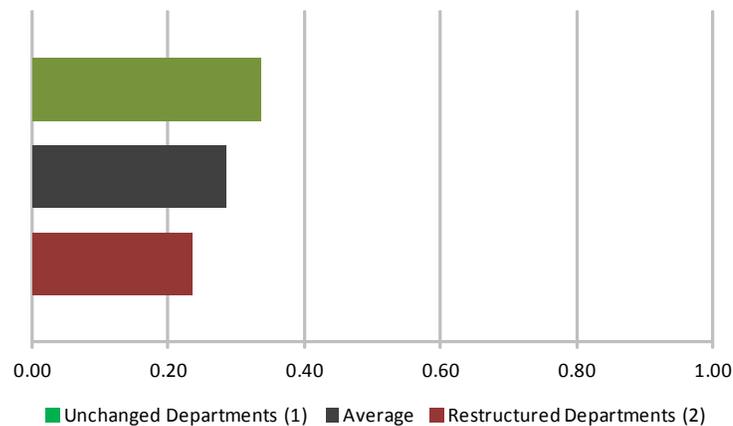
Measure	2008	2012	Net Change	% Change
Managers	144	126	-18	-12.5%
Non-managers	743	686	-57	-7.7%
Total	887	812	-75	-8.5%
<b>Employees per manager</b>	<b>6.2</b>	<b>6.4</b>	<b>0.28</b>	<b>4.6%</b>
<b>Layers of management</b>	<b>3.9</b>	<b>4.4</b>	<b>0.52</b>	<b>13.5%</b>

Source: Metro Auditor's Office based on data in PeopleSoft, Human Resources Information System. Does not include Oregon Zoo, Office of the Metro Attorney and Office of the Metro Auditor.

When we looked at span of control measures for each department, the results were also mixed. The ratio of employees to managers increased in about half the departments, but the number of layers of management also increased. Direct department to department comparisons were possible for the seven departments that were not significantly restructured. The ratios for three of these departments increased and four decreased. The average number of employees per manager of these departments increased from 5.9 in 2008 to 6.2 in 2012.

If the reorganization impacted span of control, one would expect to see the greatest degree of change in the departments that were restructured. However, this was not the case. We compared the five departments that were restructured during the reorganization by analyzing them as a group for both 2008 and 2012. The overall span of control for these departments increased slightly to 6.7 in 2012 compared to 6.5 in 2008. This was less than the change experienced in the departments that were not restructured.

**Exhibit 3**  
Change in the ratio of employees per manager 2008 to 2012

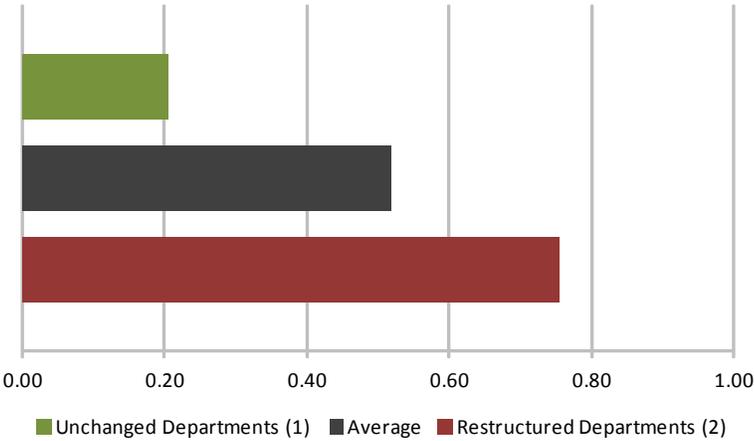


Source: Metro Auditor's Office based on data in PeopleSoft, Human Resources Information System.  
 1) Includes: Human Resources, Council Office, Information Services, Communications, Portland Center for the Performing Arts, Oregon Convention Center and Exposition Center.  
 2) Includes: Planning and Development, Research Center, Finance and Regulatory Services, Sustainability Center, and Parks and Environmental Services.

The number of layers of management increased for the majority of departments between 2008 and 2012. This was mostly caused by the creation of two upper level management positions just below the Chief Operating Officer (COO). One of the positions was the Deputy Chief Operating Officer. This increased the layers of management for several of Metro’s departments that began reporting to the Deputy COO in October 2008.

The other was the General Manager of Visitor Venues position, which was created after the consolidation of Metro’s governance structure in 2009. At that time, responsibilities for operations of the Metropolitan Exposition and Recreation Commission (MERC) changed from reporting to the MERC Commission to reporting to the Metro Council. As a result, the General Manager position became a deputy level position reporting to the COO. Four Metro departments now report to the General Manager (Portland Center for the Performing Arts, Oregon Convention Center, Exposition Center and Oregon Zoo).

**Exhibit 4**  
Change in layers of management  
2008 to 2012



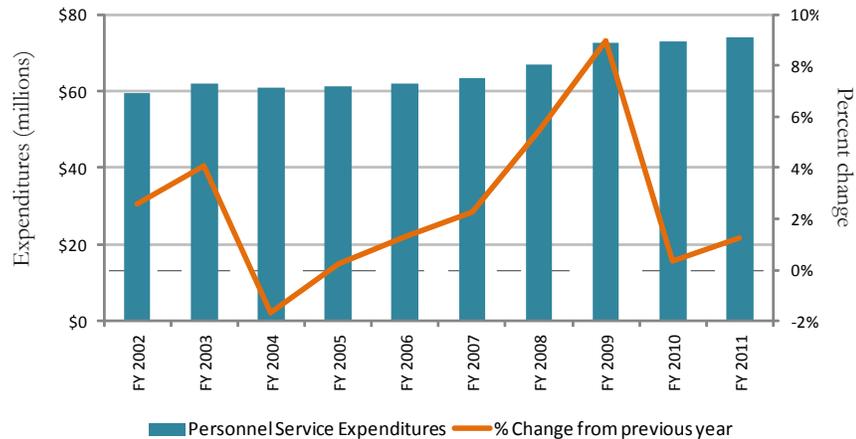
Source: Metro Auditor’s Office based on data in PeopleSoft, Human Resources Information System.  
 1) Includes: Human Resources, Council Office, Information Services, Communications, Portland Center for the Performing Arts, Oregon Convention Center and Exposition Center.  
 2) Includes: Planning and Development, Research Center, Finance and Regulatory Services, Sustainability Center, and Parks and Environmental Services.

Analysis of each manager showed the same trends. There was a greater frequency of managers with 5-10 employees in 2012 (36%) compared to 2008 (30%). This was a positive trend, according to management literature. Conversely, there was a larger concentration of employees with four or more layers of management between them and the COO in 2012 (79%) than in 2008 (63%). This was a negative trend, according to the literature, that could increase costs while reducing communication and employee morale.

## Personnel service expenditures increased

Overall, inflation adjusted personnel service expenditures increased by 24% between FY 2001-02 and FY 2010-11. During that period, Metro's workforce grew by 10%. Expenditure growth slowed considerably in recent years due primarily to reduced expenditures for overtime and part-time, temporary and seasonal employees.

**Exhibit 5**  
Expenditures and growth trends for personnel services FY 2001-02 to FY 2010-11



Source: Metro Auditor's Office based on data in PeopleSoft, Human Resources Information System.

The large percentage decrease in FY 2003-04 was the result of a voluntary separation program Metro implemented to reduce the size of its workforce. Part of the reason expenditures increased in FY 2008-09 was because some managers were moved into policy advisor positions. This increased expenditures because those who moved maintained their same compensation levels, while other managers were promoted to fill the vacancies that were left.

Another cause of increasing expenditures was changes in the composition of the workforce. The percentage of managers and non-management union employees in the workforce increased, while the percentage of non-management non-union employees in the workforce decreased. The average expenditure for management and non-management union employees was higher than non-management non-union employees. The percentage of expenditures for each employee group reinforces this conclusion.

**Exhibit 6**  
Distribution of labor force and expenditures by employee group

Percent of Total FTE	2003	2007	2011
Managers	15%	16%	16%
Non-managers (union)	56%	60%	62%
Non-managers (non-union)	28%	24%	21%
Percent of Total Expenditure			
Managers	27%	29%	26%
Non-managers (union)	53%	55%	58%
Non-managers (non-union)	19%	16%	15%

Source: Metro Auditor's Office based on a snapshot of data taken from PeopleSoft, Human Resource Information System, for the payroll period ending June 30 of each year.

For the 10-year period from FY 2001-02 through FY 2010-11, two categories accounted for 77% of the increase in personnel service expenditures.

- Regular, full-time, exempt (salaried) employees accounted for 58% of the increase, and
- Fringe benefits, including health care and retirement, accounted for 19%.

Based on trends over the last 10 years, Metro's ability to control personnel service expenditures in the future will rest mostly on managing costs for full-time salaried staff. We believe Metro should focus on the size and distribution of its workforce because this is the category of expenditures for which it has the greatest control. The size of the workforce also directly affects expenditures for fringe benefits.

Another reason to focus on the size of the workforce is because Metro already made changes to address rising fringe benefit costs. Employees now contribute more for health care benefits and new employees contribute more for retirement benefits. This should help contain some of the cost increases in the future. Moreover, fringe benefits, while rising faster than some other categories, remained relatively stable at about 25% of total personnel expenditures over the last 10 years.

Beyond the changes that Metro already made, it has relatively little control over health care and retirement costs. Metro employees are part of the Public Employee Retirement System (PERS), which is administered by the State of Oregon. Revised employer contributions rates were recently announced by the PERS Board, which will increase Metro's expenditures in this category by at least 54% starting in FY 2013-14. Metro had some control over health care costs. It picked what providers it used and what benefits to offer on an annual basis, but in general health care costs were more difficult to control than the size of the workforce.

**Use span of control analysis to help address forecasted funding gap**

Over the next several years, Metro has estimated a shortfall in each of its primary operating funds. These three funds account for 97% of Metro's workforce. The combined shortfall in the General and MERC funds is forecasted to grow to about \$7 million in FY 2015-16. Based on our analysis of span of control and trends in personnel service expenditures, we believe there is an opportunity to use span of control analysis as a tool to help Metro identify areas where its structure could be made more efficient and effective.

There are several ways to achieve changes in an organization's span of control. If the goal is to increase the ratio of employees to managers there are two options. One is to hire more employees and assign them to existing managers. This would likely increase personnel costs. The other option is to reduce the number of managers and reallocate their employees to other managers. This would likely reduce personnel costs.

If the goal is to decrease the number of layers of management, there are also two options. Both involve reducing management positions, which would likely reduce personnel costs. One option is to make changes at the top of the organization that impact the number of layers of management throughout the organization. The other option is to focus on specific organizational units where there are several layers of middle management. This would impact the number of layers of management in some departments but not others.

Metro has a broad range of operations that require different organizational structures. Because of this, we do not recommend a cookie cutter approach to changing the organization's span of control. In general, we believe that an analysis of the ratio of employees per manager should be the first priority. While the number of layers of management increased after the reorganization, these changes were based on sound analysis of business needs. They addressed areas of weakness in the organizational structure, and Metro's governance and enterprise operations appear to be better managed as a result.

Based on our analysis, we believe there is an opportunity to increase the number of employees that report to each manager. Some capacity appears to exist to make greater use of management positions that have few or no direct reports. There is a wide variety of business needs among these departments, so a better understanding of their operations would be needed to make specific recommendations. That level of analysis was not included in the scope of this audit.

### **Data to analyze span of control needs improvement**

Metro's Human Resources department conducted an analysis of span of control in December 2011 that included all Metro departments. This was a good first step in making use of this tool. However, we found that the methodology overstated employee to manager ratios for some departments and there were some other errors in the calculations.

For example, the methodology used by Human Resources (HR) concluded that there were five employees per manager at the Expo Center. Applying our methodology to the same data resulted in a ratio of 2.5 employees per manager. This is because the HR methodology did not consider employees who did not have direct reports identified in Metro's PeopleSoft Human Resources Information System as managers. According to the Venue Director, these employees had direct reports. We verified that those employees' classification descriptions included duties for managing employees.

We determined that overstated ratios were caused by two factors:

1. Incorrect data in PeopleSoft, Human Resources Information System, and/or
2. Misalignment between on-the-ground operations and classification descriptions.

We recommend Human Resources address the data quality and methodological issues we identified. Consistently collecting and analyzing span of control data can help Metro manage its organizational structure and associated costs. In addition, periodically analyzing span of control data can facilitate comparisons between Metro and other organizations, as well as help monitor changes over time.

**Metro followed best practices**

Metro followed best practices for managing reorganizations. According to the Government Accountability Office, there are six elements of successful organizational change initiatives. Metro's reorganization addressed all six elements:

- 1) a demonstrated leadership commitment and accountability for change;
- 2) the integration of management improvement initiatives into programmatic decision-making;
- 3) thoughtful and rigorous planning to guide decisions, particularly to address human capital and information technology issues;
- 4) employee involvement to elicit ideas and build commitment and accountability;
- 5) organizational alignment to streamline operations and clarify accountability; and
- 6) strong and continuing [legislative] involvement.

Examples of Metro's success in meeting these elements included clarifying roles among the departments that were reorganized, involving employees to elicit ideas and involving Metro Council to implement needed legislative changes.

Communication is an underlying requirement of all these elements. This is an area where we believe more work could be done. The organization communicated its plans about the reorganization prior to its implementation, but has been less communicative about the results of its efforts. For example, some of the changes announced in October 2008 were implemented in FY2011-12, while other reorganizations have taken place under separate names. This created mistrust about the purpose and outcomes of the various efforts.



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## Recommendations

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To help maintain an effective and efficient organizational structure and manage personnel costs, Metro should:

1. Improve the quality of human resource data to ensure span of control analysis is based on the actual structure of Metro's departments.
2. Build on previous efforts to use span of control analysis as a tool to monitor the organization's structure.
3. Increase transparency by documenting the methodology used to evaluate span of control and communicate how that information will be used in the budget process.



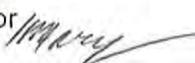
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## Management Response

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 Metro | Memo

Date: November 26, 2012  
To: Suzanne Flynn, Metro Auditor  
From: Scott Robinson, Deputy COO   
Mary Rowe, Human Resources Director   
Subject: Response to Span of Control Audit

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Thank you for the opportunity to respond to your recent audit regarding span of control. We appreciate the time and effort that you and your staff spent conducting this audit. Management agrees with your recommendations and as a public agency recognizes the importance of an on-going focus on the efficiency and effectiveness of our operations.

Of the three areas of the audit that your department studied, we appreciate that you cited Metro as having followed best practices for managing reorganizations and that you acknowledged Metro, through the negotiation process with the collective bargaining units, has made changes to address the rising cost associated with fringe benefits, in particular, health care and retirement costs. We also appreciate that the audit noted that modern theories of span of control require some degree of flexibility in order to account the complexities of work, degree of coordination required, and the geographic location of subordinates among other considerations, rather than apply a single ratio for span of control.

While span of control was not an explicit outcome that guided past reorganization efforts, Management agrees with the auditor's conclusion that Metro's future ability to control personnel costs will require a focus on the size and distribution of its workforce. To that end, the auditor's recommendations provide appropriate guidance to Metro management in moving forward and have resulted in a number of efforts already underway to fully implement the recommendations.

A more detailed statement regarding management's response to the individual recommendations made by the auditor, as well as any activities currently underway relative to the audit findings are provided below.

**Response to Recommendations in the Auditor's Report**

The following summarizes management's response to the specific recommendations noted in the audit report.

**Recommendation #1**

**Improve the quality of human resource data to ensure span of control analysis is based on the actual structure of Metro's departments.**

**Response:** Human Resources has begun working with department directors to ensure that discrepancy's noted by the auditor are reviewed and corrected as necessary to ensure the accuracy of the reporting relationships in the PeopleSoft system.

**Recommendation # 2**

**Build on previous efforts to use span of control analysis as a tool to monitor the organization's structure.**

**Response:** As a follow up to our initial analysis and review with department directors in 2012, Human Resources will be reissuing reports no later than December, 2012 for review and analysis by department directors. As part of our annual review, Human Resources, the Deputy COO and/or General Manager of Visitor Venues as appropriate will meet with department directors to discuss their current span of control and any areas where additional improvements can be made. This review is part of the annual budget discussion with department.

The review of the organizational structure is considered an ongoing process and the span of control documents one tool that will be used to help inform decisions on the organizational structure. As part of the annual review process, a comparison to the previous year's structure will be included.

**Recommendation # 3**

**Increase the transparency by documenting the methodology used to evaluate the span of control and communicate how that information will be used in the budget process.**

**Response:** A best practices document has been developed and reviewed by department directors. This documentation, along with individual meetings with directors has been conducted. A separate communication has been held with AFSCME leadership as well. We are also developing a more general communication plan to provide consistent messaging to a broader audience at Metro.

**Conclusion**

Again, we want to thank the auditor and her staff for this work. We appreciate the time you and your staff took in conducting the audit and the insight that it provides for continuing our process improvement efforts.

Cc: Martha Bennett, COO  
Teri Dresler, General Manager of Visitor Venues





**METRO**

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