



Budget Process:
Strengthen practices that increase transparency

November 2014
A Report by the Office of the Auditor

Suzanne Flynn
Metro Auditor

Brian Evans
Principal Management Auditor

Mary Hull Caballero
Principal Management Auditor



Knighton Award for Auditing

Audit receives recognition

The Auditor's Office was the recipient of the Bronze Award for Small Shops by ALGA (Association of Local Government Auditors). The winning audit is entitled *"Tracking Transportation Project Outcomes: Light rail case studies suggest path to improved planning"*. Auditors were presented with the award at the ALGA conference in Tampa Bay, FL, in May 2014. Knighton Award winners are selected each year by a judging panel and awards presented at the annual conference.

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SUZANNE FLYNN

Metro Auditor

600 NE Grand Avenue

Portland, OR 97232-2736

Phone: (503)797-1892 Fax: (503)797-1831

MEMORANDUM

November 12, 2014

To: Tom Hughes, Council President
Shirley Craddick, Councilor, District 1
Carlotta Collette, Councilor, District 2
Craig Dirksen, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Sam Chase, Councilor, District 5
Bob Stacey, Councilor, District 6

From: Suzanne Flynn, Metro Auditor

A handwritten signature in black ink, appearing to be "SF", written over the name "Suzanne Flynn".

Subject: Audit of Metro's Budget Process

This report covers our audit of Metro's budget process. Our objectives were to determine if Metro followed recommended practices. This audit was included in our FY 2014-15 Audit Schedule.

In recent years, Metro has worked to improve the budget process by increasing the accuracy of revenue forecasts, identifying Council priorities earlier and reducing last minute adjustments. We reviewed Metro's compliance with 59 recommended practices for budgeting and concluded that there was general compliance with most. We reviewed in-depth 12 of these practices and identified some improvements that could be made.

It was our conclusion that some practices limited stakeholder involvement. Most budget discussions were done internally and the general public was only given an opportunity to provide input towards the end of the process. The amount of time allowed for review, the reduction of detail and explanation in the budget document, and lack of clarity about the relationship between goals and program allocations reduced transparency.

We have discussed our findings and recommendations with Martha Bennett, COO; Scott Robinson, Deputy COO; and Tim Collier, Director, Finance & Regulatory Services. A formal follow-up to this audit will be scheduled within 2 years. We would like to acknowledge and thank all of the management and staff who assisted us in completing this audit.

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Summary

The Government Finance Officers Association recommends best practices for the budget process, based upon four principles:

- Establish broad goals to guide decision-making;
- Develop approaches to achieve goals;
- Develop a budget consistent with approaches to achieve goals; and
- Evaluate performance and make adjustments.

After a preliminary review, we examined 12 recommended practices for in-depth study. As a result, we concluded that transparency could be improved by increasing stakeholder involvement, clarifying the link between goals and funding decisions, and providing additional information.

Metro's FY 2014-15 budget process was well managed to meet public budgeting requirements. Changes were made to improve the accuracy of revenue forecasts and identify the Council's priorities earlier. Timelines were changed to reduce the need for last minute adjustments to the budget. The response to these changes was mostly positive.

Finding the right balance between administrative efficiency and providing opportunities for input is complicated. Most stakeholder groups engaged with Metro about programs. Specific discussions about budget decisions were mostly done internally between department directors, the Chief Operating Officer and the Metro Council. The public was usually offered opportunities to participate toward the end of the process. These opportunities were not always well publicized and the length of time allowed for discussion was shortened.

The budget document included a description of a framework for making decisions based upon regional goals, Council strategic priorities and a management prioritization tool. However, the majority of the budget decisions was to maintain existing programs. It was unclear how decisions related to the framework.

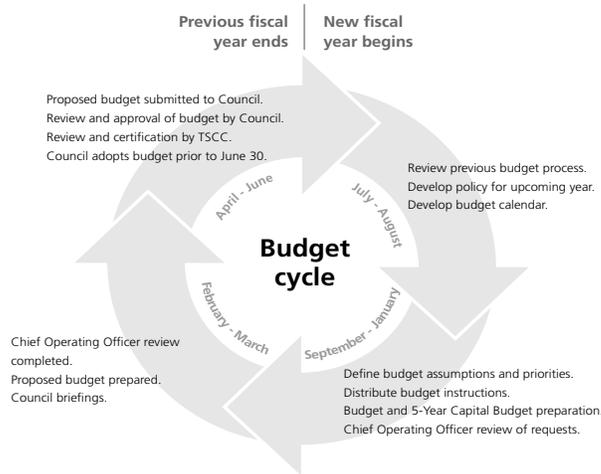
In recent years, Metro published less detail in its budget. This made it more difficult to see how resources were allocated to programs and to achieve goals. At least three reductions were made. A separate budget linking activities and expenditures to broad program goals was eliminated. There were also reductions in the detail provided about units with the department and staffing levels.

We recommend that Metro make improvements in the areas of stakeholder participation, review time available and information detail.

Background

Metro's budget process is governed by Oregon law, the requirements of the Tax Supervising and Conservation Commission (TSCC) and internal policies and procedures. The budget development process begins in July and ends the following June. Metro's Fiscal Year (FY) 2014-15 budget totaled about \$484 million, including 794 full-time equivalent employees. Exhibit 1 shows the process used to create Metro's budget.

Exhibit 1
Metro budget cycle



Source: *FY 2014-15 Adopted Budget, Detail (pg. E-5)*

In the fall, Finance and Regulatory Services (FRS) developed a forecast of Metro's expected revenues and established the financial assumptions that guided budget requests from each department. While the financial groundwork was being developed, the Metro Council convened to set priorities for the coming year. Those priorities were intended to become the basis of subsequent spending decisions.

In January, departments submitted funding requests to the Chief Operating Officer (COO). These requests formed a base budget and generally reflected the same level of funding as the previous year. When more revenue became available, departments submitted requests for additional funding to expand service levels or add new programs. The Metro Council met again in February to review funding priorities and the revenue forecast.

In April, the COO presented the proposed budget to the Council. Councilors had authority as Metro's Budget Committee to make changes or accept it without changes. Once they voted on it, the approved budget was submitted to the Tax Supervising and Conservation Commission (TSCC) in May. The TSCC held a public hearing and determined whether it complied with the law. Once certified, the Council, acting as the governing body for the region, could make further changes within certain limits. After Council voted again, the document became the adopted budget. This budget went into effect July 1.

Scope and methodology

The objective of this audit was to determine if Metro's budget process followed recommended practices. The scope of the audit was the process that led to the adoption of the FY 2014-15 budget.

To accomplish our objective, we reviewed Metro's budget process and compared it to practices recommended by the Government Finance Officers Association. That group organizes 59 practices among the following four principles:

- Establish broad goals to guide government decision-making;
- Develop approaches to achieve goals;
- Develop a budget consistent with approaches to achieve goals; and
- Evaluate performance and make adjustments.

After an initial assessment, we identified 12 practices for in-depth review. We collected documents for each phase of the process and interviewed employees and managers in Finance and Regulatory Services. We also interviewed the Metro Council President, Metro councilors and the Chief Operating Officer. We compared the published budget books and timelines to previous years. We used the information we gathered to determine whether Metro's process conformed to the recommended practices. Recommended practices related to performance measures were not included in our review because a separate audit on that topic was in process.

This audit was included in the FY 2014-15 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.

Results

The process to develop the FY 2014-15 budget was well managed to meet public budgeting requirements. The process included changes from previous years to improve the accuracy of revenue forecasts and identify Council priorities earlier. To accomplish this, timelines were intentionally changed to reduce last minute adjustments to the budget. The response to the new process was mostly positive. However, we found that additional information and time would improve transparency.

The Government Finance Officers Association recommends 59 practices for the budget process. After preliminary review of all the recommended practices, we concluded that Metro appeared to be in general compliance with most. Nevertheless, our in-depth review of 12 practices indicated that improvements could be made in the following areas:

- Identifying stakeholder concerns, needs, priorities;
- Disseminating goals and reviewing them with stakeholders;
- Developing procedures to facilitate budget review, discussion, modification and adoption;
- Identifying opportunities for stakeholder input, and;
- Providing a guide to operations.

Limited stakeholder involvement

Finding the right balance between administrative efficiency and providing enough opportunities for input is complicated. Clearly defining budget stakeholders is an important step in making that determination. If stakeholders are defined narrowly, less time may be needed to get input. Conversely, defining stakeholders broadly may require more time to obtain input. Recommended practices define stakeholders as anyone affected by resource allocation plans and program decisions.

During the audit, there was a variety of opinions about who should be considered a stakeholder of Metro's budget (Exhibit 2).

Exhibit 2
Potential stakeholders in
Metro's budget process

- Residents of the region
- Advisory committees to Metro's programs
- Department directors
- State of Oregon
- Users/customers of Metro's services
- Metro Council
- City and County governments in the region
- Employees
- Advocacy groups
- Employee unions

Source: Auditor's Office summaries of interviews

Most of these stakeholder groups engaged with Metro about its programs in some form, but specific discussions of the budget were primarily done internally between department directors, the COO and Metro Council. Opportunities for the general public to participate occurred near the end of the process when public hearings were held. By that time, most of the budget decisions had been made.

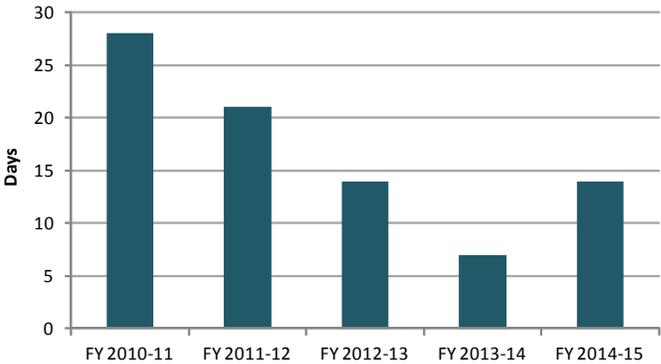
There were other opportunities to participate in budget discussions, but it would have been difficult for citizens to know about them. Agendas for the Council retreats, during which Metro’s priorities were discussed, did not connect the meetings’ purpose to the budget. Also, one of the retreats was not held in Council Chambers, where the Council usually meets.

Similarly, the TSCC’s public meeting to discuss Metro’s compliance with Oregon budget law was not included in Metro’s meeting agendas. Although TSCC provided notice of meetings on its website, it would be helpful for Metro to also notify the public since the focus was on Metro’s budget. In addition, the meeting was held prior to a regular Council meeting in a separate room from the Council Chambers. This made it more difficult for the public to learn about that step in the process.

Metro councilors’ participation in the budget process was constrained by organizational factors. Six of the seven Metro Council positions are considered to be part-time positions (less than 40 hours per week). In addition, staff assigned to each councilor focused primarily on administrative tasks, which reduced the Council’s ability to research issues on their own.

Another constraint was a decrease in the amount of time between the budget presentation by the COO and Council’s approval. In FY 2010-11 and FY 2011-12, Council had at least 21 days to discuss the proposed budget before approving it. The next year, they had 14 days and in FY 2013-14 they had seven days. Last year they had 14 days. Some councilors said they needed more time to review the proposed budget before voting on it.

Exhibit 3
Days between proposed and approved budgets



Source: Metro Auditor’s Office analysis

The time between the presentation of the proposed budget and the date it was adopted in its final form was also reduced. In FY 2010-11, there were 77 days compared to 56 days in FY 2014-15, a difference of three weeks.

Management stated that the timeline was changed to improve the quality of information presented to the Council. In prior years, early estimates of Metro's revenue were based on limited information. Early forecasts indicated there would be a large shortfall, which improved as more information became available. By waiting, decision-makers could avoid unnecessary discussion about budget cuts that did not materialize. Management viewed it as a trade-off; provide more time with less accurate data or less time with more accurate data.

While the shortened timeline may have improved the process, it may also have reduced its effectiveness by giving the Council and the public fewer days for review. Another consequence of less time was that councilors had fewer opportunities to amend the proposed budget.

**Links between
outcomes and
funding decisions
unclear**

The COO described the budget decision process as first, setting aside money in reserve funds for future needs, second, maintaining current programs, and third, allocating any remaining resources to new or expanded programs that aligned with Metro's broad goals.

After funding reserves and existing programs, there was little revenue left for other options. In FY 2014-15, \$5.3 million (1% of the total budget) was approved for additional spending requests. As a result, the vast majority of the budget was devoted to maintaining existing programs.

The practice of carrying forward existing funding levels from one year to the next was a missed opportunity to consider whether some spending helps the region achieve its goals better than others. Part of the challenge in having those discussions may be the variety of outcomes, goals, strategies and initiatives at Metro.

The budget included a description of a framework for making funding decisions. The framework described in the budget referenced: (1) the six desired outcomes, which were adopted by Council in 2010; (2) strategic priorities, which were identified by Metro Council for the FY 2014-15 budget, and (3) the Metro Compass, which has been a tool used by management since FY 2012-13. See Exhibit 4 for outcomes and goals the budget was trying to achieve.

Exhibit 4
Metro's framework for
budget decisions



Source: FY 2014-15 Adopted Budget, Summary (pgs. A-11 to A-15)

The description of each of these elements of the framework was followed by a summary for each department. The budget did not explain how the six desired outcomes, strategic priorities, Compass and departments fit together. We were told that the framework was typically only used to evaluate proposals for new or expanded programs or as a screening tool for Council initiatives. This was contrary to what was described in the budget document.

**Less information
was provided**

In recent years, Metro published less detail in its budget. Less information made it difficult to understand how Metro's programs aligned with its goals and the resources allocated to each. It also left readers unable to compare programs over time.

There were at least three reductions of information in recent years. The first was the discontinuation of the Program Budget in FY 2012-13. The Program Budget was a separate document that organized Metro's activities and expenditures by broad program goal. The goals were great communities, healthy environment, regional services and responsible operations.

Organizing budget information in that manner provided a clearer picture to the public about what Metro was attempting to accomplish and what resources were devoted to each goal. Rather than presenting information by departments, the Program Budget focused instead on how individual programs worked together to address the goals.

Management provided three reasons for discontinuing the Program Budget. It was not being used by management; there were questions about the accuracy of the data it contained; and it was time-intensive to create. However, some Metro councilors said more information about how programs were aligned with Metro's goals would be helpful to them. Recent changes in the software Metro uses to create its budget may make it easier to document the linkages between resources, programs and goals.

The second change was a reduction in the spending detail published in the budget. The FY 2013-14 budget contained information about programs and organizational units within a department. Without that information in the FY 2014-15 budget, there was no way to determine how much was allocated for programs or compare budgeted amounts with actual expenditures from previous years. The effect of this change was a significant reduction in the amount of information. The FY 2013-14 budget detail for the General Fund contained 97 pages of information. The same section of the FY 2014-15 budget was 41 pages.

The third change reduced the amount of detail about staffing levels. In the FY 2013-14 budget, the job titles and number of positions (FTE) were provided in the summaries of personnel services for programs and organizational units within departments. Without that information in the FY 2014-15 budget, it was not possible to determine how specific positions and their corresponding FTE were allocated in the budget. Management stated this action was to eliminate the ability to identify individual salaries, however, this is public record.

All of these changes made it less clear how Metro was organized and how it allocated resources to meet its goals. That information was critical to inform stakeholders about Metro's work and to meet basic standards of transparency.

Providing transparency about how public resources are being used is an important aspect of achieving two of Metro's goals for the FY 2014-15 budget. During the first meeting about budget priorities last fall, Council identified the need to keep local governments in the region informed to build trust. In addition, one of Metro's strategic goals was to increase citizen engagement and involvement throughout the region and with Metro.

Recommendations

To increase opportunities for stakeholder participation and review in the budget process, Metro should:

1. Define budget process stakeholders.
2. Enable stakeholder participation by indicating on public notices when retreats and other meetings will include discussions about budget priorities.
3. Ensure that stakeholders have enough time to review and discuss the proposed budget before approval.
4. Provide sufficient information in the budget to show how programs and resources are aligned with Metro's strategic framework.

Management response

Date: November 10, 2014
To: Suzanne Flynn
From: Martha Bennett, Chief Operating Officer
Scott Robinson, Deputy Chief Operating Officer
Tim Collier, Director of Finance and Regulatory Services
Subject: Management Response to Budget Audit

Thank you for the opportunity to respond to your recent audit on the Metro budget process. The audit will help improve our budget process and enhance transparency. This memorandum summarizes our response to your recommendations.

We are not surprised the audit confirmed Metro's budget process is well managed to meet public budget requirements consistent with the expectations of the Government Finance Officers Association. We are proud of Metro's double Triple-A bond rating. We are proud of the numerous awards our Comprehensive Annual Financial Reports receive. We are very proud of the work we do with a vast range of citizen oversight committees. And, we are proud of the independent, governor-appointed Tax Supervising and Conservation Commission's ongoing praise for our budget work.

But even with our ongoing successes, we continually strive to improve accountability and transparency. Your recommendations will help us build on the solid body of work we currently have in place.

While your audit makes one passing reference to it, we want to highlight the recent implementation of an agency wide budgeting system, Team Budget. Although your audit did not include much information about the new system it already has made a significant positive impact on our budgeting and will continue to provide improved transparency because of the enhanced data analysis and reporting capabilities it provides.

The new tool also has eased the administrative burden on many staff and allows for more accuracy in the development of the budget. While it is true that during this early portion of implementation the data in the new system currently is limited compared with the outdated system, more data will be added moving forward, allowing for even better reporting.

Metro also has improved its public notice capabilities. More than 100 links are generated when searching the Metro website for "budget news." Those links include substantial coverage of budget-related questions, draft proposals and COO and Council deliberations and decisions. They also include detailed reports about budget actions. Significantly, despite the claim in your audit, Metro advertised the TSCC meeting you reference consistent with public notice rules.

Your report also focuses on what you perceive as a reduction in information, although you include changes that occurred outside the scope of the current audit. More importantly, we believe that information largely was reorganized, not reduced. Specifically, the presentation of staffing data was changed readers could identify FTE totals by department with more historical information than was previously available. We believe this actually enhances the information for the reader.

As to the audit's recommendations, we believe many agencies similarly struggle with balancing the technical process with the need to provide sufficient time for review and input. We recognize we can always do better and generally welcome your recommendations.

Recommendation: 1. Define budget process stakeholders.

Response: The potential stakeholder list provided in Exhibit 2 is extensive. Fortunately, it is the list of stakeholders Metro typically engages at a programmatic level. Departments and the Council directly engage with stakeholders on priorities, and therefore, about budget. For example, the work programs for the Parks and Natural Areas Levy was developed by a large group of diverse stakeholders who made specific suggestions about what Metro should try to accomplish and how much should be spent in particular areas. Staff then took that direction and built the budget for those programs.

At the same time, Metro's departments and major programs also rely on citizen oversight committees to help define program and spending priorities. In addition to the independent TSCC, a partial list of Metro oversight committees includes but is not limited to the Cemetery Advisory Committee; the Natural Areas Program Performance Oversight Committee; the Joint Policy Advisory Committee on Transportation, the Equity Strategy Advisory Committee, the Nature in Neighborhoods Capital Grants Review Committee, the Transportation Policy Alternatives Committee, the North Portland Enhancement Grant Committee, the Metro Audit Committee, the Powell-Division Transit and Development Project Steering Committee, the Metro Central Enhancement Grant Committee, Smith and Bybee Wetlands Management Committee, the Metro Exposition and Recreation Commission, the Southwest Corridor Plan Steering Committee, the Metro Policy Advisory Committee, the Transit Oriented Development Steering Committee, the Metro Public Engagement Review Committee, The Metro Solid Waste Advisory Committee, the Oregon Zoo Bond Oversight Committee and the Metro Technical Advisory Committee.

Each of these groups, while not solely focused on budget, provides direct oversight of Metro programs and projects, and by definition therefore, over spending priorities. When performance or fiscal questions emerge, these groups dig in and staff provides the needed information.

That said, we will continue to look for ways to better define budget stakeholders. Metro currently is building a new contact management system that we believe has the potential to better track residents and others who are specifically interested in budget development. In the meantime, our experience suggests the general public and most stakeholders are more interested in the programmatic aspects of our work than in the technical details of budget development. Spending more time and money to engage people who are not interested is not in the best interest of the public. This is certainly case when there already is an exceptionally high level of engagement in Metro programs and projects and a high level of transparency for all public budget documents.

Recommendation 2. Enable stakeholder participation by indicating on public notices when retreats and other meetings will involve discussions about budget priorities.

Response: We believe that we can always improve in transparency with noticing. We will work on more clearly defining the notice when a particular meeting can discuss budget priorities.

Recommendation 3: Ensure that stakeholders have enough time to review and discuss the proposed budget before approval.

Response: We will work with Council and Metro’s public engagement team as we develop the budget calendar to determine where and when Councilors and the public might benefit from more time to review materials.

Recommendation 4: Provide sufficient information to show how programs and resources are aligned with Metro’s strategic framework.

Response: We will work to better provide information on how programs are better aligned with the strategic framework. One new tool we will be using is a “Budget in Brief” document currently in development for the fiscal 2015-16 year. We believe this will provide high level information about how we invest resources. We also will ask our departments to expand their budget narratives to better describe how they are aligned with the strategic framework and how their work impacts the region. And finally, as the data in Team Budget becomes more robust over time we will be able to provide better reports and more detailed information.



METRO

Office of the Metro Auditor
600 NE Grand Avenue
Portland, Oregon 97232
503-797-1892
www.oregonmetro.gov