

Metro
Administrative Services
Department

Accounting and Finance
Benchmarks and Opportunities

January 2000

A Report by the Office of the Auditor



METRO

2000-10517-AUD

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Metro Auditor



METRO

Office of the Auditor

January 13, 2000

To the Metro Council and Executive Officer:

This report discusses the results of benchmarking Metro's finance and accounting activities against more than 800 other organizations.

Benchmarking shows that Metro's accounting and finance division excels in certain areas, such as investment in technology. However, investment in overall accounting and finance activities—about \$3.1 million in fiscal 1998—is low, hence important work is not being done and known inefficiencies are going uncorrected. For example, Metro's accounting staff cannot adequately implement new reporting requirements that may affect Metro's credit standing.

Because Metro has limited resources for making improvements, Metro needs to clearly define the level of accounting and financial services it will support and assure that this level adequately protects its financial standing. To this end, Metro should:

- establish materiality levels for making accounting adjustments
- streamline purchasing card processing to reduce coding, auditing, and accounting
- receive all invoices centrally to eliminate unnecessary duplication of effort
- document financial and accounting policies and procedures
- continually investigate electronic methods for increasing efficiency, such as collecting time charges automatically.

The last section of this report presents the written response of Metro's Executive Officer.

We appreciate the cooperation and assistance provided by Metro staff as we conducted this review, particularly the staff from the Administrative Services Department.

Very truly yours,

A handwritten signature in black ink that reads "Alexis Dow". The signature is fluid and cursive, with a long horizontal stroke at the end.

Alexis Dow, CPA
Metro Auditor

Auditor: Jim McMullin

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Executive Officer Mike Burton	

Executive Summary

This report discusses the results of benchmarking Metro's finance and accounting activities against more than 800 other organizations. Benchmarking shows that Metro's investment in accounting and finance activities—about \$3.1 million in fiscal 1998—is low in relation to other small service-type organizations. Low costs are not necessarily good, because important work is not being done and known inefficiencies are going uncorrected. For example, Metro's accounting staff cannot adequately:

- reconcile all accounts on time to ensure sound internal control and accurate reporting
- implement new reporting requirements that may affect Metro's credit-worthiness
- inventory and account for fixed assets
- take advantage of its information technology system to improve efficiency
- provide effective customer service to head off problems.

Benchmarking also indicates that Metro's investment in financial and accounting system technology is exemplary. But closer study shows that the technology is not being used to full advantage. For example, there is still a need to:

- simplify accounting systems and integrate them with core accounting processes
- streamline systems to eliminate duplication
- train more staff in how to use the potential offered by these systems.

Metro has limited resources for making these improvements. Accordingly, Metro needs to clearly define the level of accounting and financial services it is willing to support and assure that this level adequately protects its financial standing and creditworthiness. To live with lean support, Metro must also make transaction processing more efficient. To this end, Metro should:

- document financial and accounting policies and procedures
- establish materiality levels for making accounting adjustments
- streamline purchasing card processing to reduce coding, auditing, and accounting
- receive all invoices centrally to eliminate unnecessary duplication of effort
- continually investigate electronic methods for increasing efficiency, such as collecting time charges automatically.

Our more detailed recommendations are in the following section. This report also includes many best practices that may improve Metro's accounting and finance activities.

Recommendations

1. Metro should evaluate its level of accounting and financial services to assure it adequately supports management needs and protects Metro's financial standing.

Benchmarking and prior reviews¹ show that Metro is providing relatively low support for its accounting and financial services. Staffing levels have not kept pace with increased workloads and important activities are not being done adequately. We recommend that Metro define and support a level of accounting services that protects Metro's financial standing and provides acceptable (1) information for decision making, (2) efficiency and effectiveness of transaction processing, and (3) internal control procedures for ensuring that information is reliable and assets are safeguarded. Metro should develop a plan that:

- defines essential information, reports, outputs, and acceptable levels of performance
- identifies matters that will not be accomplished and the associated risks
- defines how Metro's accounting and financial technology (PeopleSoft) will be used and what resources will be needed to support it
- provides for documenting essential accounting and financial policies and procedures
- specifies what training is needed to assure the plan is accomplished and policies and procedures are followed
- determines the resources needed to provide an acceptable level of service
- provides for identifying and evaluating technological and innovative approaches that may improve Metro's operations.

2. Metro should document its accounting and financial policies and procedures.

Metro does not have its accounting and financial policies and procedures documented and available for use by departmental and accounting and finance staff. This is basic to any sound financial and accounting system, as clear direction is needed to assure that processes have sound financial controls, are consistently and efficiently applied and can be relied upon to provide accurate financial reports.

¹ InfoLink Project Review, December 1998, issued by the Office of the Auditor; Metro Budget Advisory Group review of 1998-1999 budget request for Metro's Support Services.

Policy manuals would also clarify the roles and relationships of Metro departments regarding accounting and finance policy and procedures. For example, even though the Accounting Services Division provides customer support to departments, it should have authority over the departments on establishing and interpreting accounting policies, procedures and practices. Establishing policies and procedures more clearly would help correct inefficiencies that can result when individual units establish their own separate practices.

3. Metro should establish materiality levels for journal entries and allocations.

Making small dollar adjustments to accounting records is costly, time consuming and usually not materially significant for management or financial reports. Many of the corrections that departments are asking the Accounting Services Division to make in journal entries involve transferring small amounts between departmental accounts. Metro should establish materiality levels below which adjustments to accounts and journal entries will not be made. Scarce staff resources should be used for better purposes.

4. Metro should simplify its accounting for transactions that use purchasing cards.

Purchasing cards are designed to reduce the labor and paperwork involved in making small purchases. Within Metro departments, purchasing cards are not having this effect.² Some department staffs are manually coding and posting each purchase. Accounts payable staff are manually preparing journal entries for most items. Other staff is also auditing every item purchased in this manner to assure that each purchase is appropriate and adequately documented.

The dollar value of such purchases does not justify this level of effort. Purchase cards account for 41 percent of the number of purchases but only 2% of the dollar value. If Metro were to individually code only those purchases over \$500, the number of journal entries would be cut from 14,000 to 7,000 annually.

² Purchasing Benchmarks and Opportunities, May 1999, issued by the Office of the Auditor, recommends that Metro explore ways to simplify and streamline purchasing card processes. Metro management agreed but has not yet improved this process.

We recommend that Metro reduce the level of resources involved in coding, auditing and accounting for purchasing card purchases. Specifically, Metro should:

- audit the support for purchasing card purchases on a sample basis and hold department managers accountable for approving such purchases.
- establish new procedures for coding and accounting for purchasing card purchases, such as (1) directing departments to individually code only purchases over a set dollar amount, such as \$500, and use a single account for all purchases under the set amount; or (2) designating a particular account that each card will be coded to.
- require departments to summarize purchases by code number, so that accounts payable staff has to enter only summary data into the general journal.
- investigate the feasibility of coding and accounting for purchasing card purchases on-line.

5. Metro should require all vendor invoices to be sent directly to the Accounting Services Division.

Several Metro departments are maintaining their own accounting systems for controlling purchases when they should be relying more on the information contained in Metro's formal accounting system. To maintain these systems, the departments require all vendor invoices be sent to them, resulting in duplication of effort, unnecessary review, and occasionally, late payments.

We recommend a different approach—directing all Metro vendors to send their invoices to the Accounting Services Division. Staff in this division can use information already in the PeopleSoft system to process invoices for purchased goods. Invoices that need coding and payment authorizations, such as those for purchased services, can be forwarded to responsible departmental staff.

To ensure that departments have the information they need to control their budgets, we recommend that department personnel be trained on how to access the information from the PeopleSoft system. If a department needs more detailed information than is available through this system, arrangements can be made to obtain it from Accounting Services.

6. Metro should make full use of e-business applications for improving financial processes.

Many best practices involve using electronic methods to improve operations. These practices are possible because of various technological innovations, such as the Automated Clearing House (ACH) system, Electronic Data Interchange (EDI), Extensible Markup Language (XML) and the Internet. We recommend that Metro continually investigate electronic methods that may improve its accounting activities, such as the following:

- using electronic methods to settle payments from customers. Examples include (1) encouraging customers such as solid waste haulers to allow automatic debits to their bank accounts, (2) allowing customers to send payments directly to the bank, where they could be deposited into Metro's account, or (3) accepting customer payments, such as for contractor business licenses, via the Internet.
- using an automated system to collect time charges. Outside of the Kronos time clock system, which covers about 60% of Metro employees, Metro's time collection involves employees preparing paper time sheets and hand coding time charges to various codes. The effort going into the paper system warrants investigating alternative automated approaches.³
- encouraging employees to have their paychecks deposited directly to their bank accounts. About 65% of Metro employee paychecks are directly deposited, whereas best of class organizations are at 80%.

³ Metro has purchased a PeopleSoft Time and Labor module for this purpose, but a consultant found that it may not meet Metro's needs. See InfoLink Project Review, Metro Administrative Services Department, A Report by Pacific Consulting Group Issued by the Office of the Auditor, December 1998.

Analysis of Key Benchmarking Indicators

The Hackett Group's (THG) report on Metro's accounting and finance functions presents 37 tables of comparison between Metro and more than 800 organizations in the benchmarking universe. Their report appears as Appendix A. Information on The Hackett Group and benchmarking processes are described in the Background section of this report. With the assistance of the Accounting and Finance staff, we selected the following benchmarks as the most significant processes for presentation in this chapter.

General

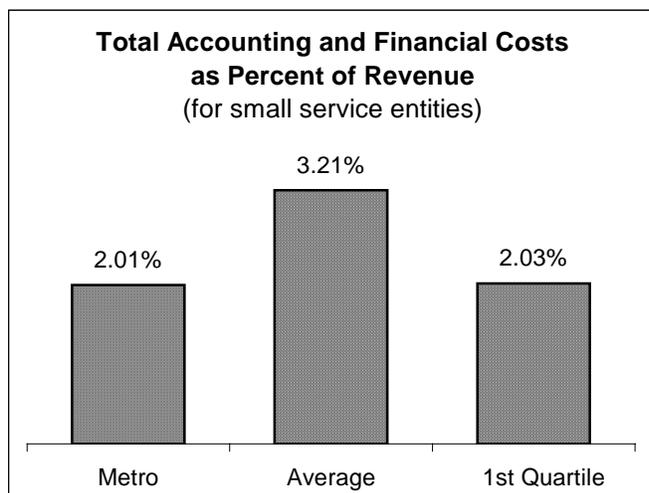
Metro's Accounting and Finance Costs	Benchmark 1
Finance Systems Costs	Benchmark 2
Average Accounting and Finance Systems Age	Benchmark 3

Transaction Processing

Accounts Payable	Benchmark 4
Accounts Receivable	Benchmark 5
Fixed Assets	Benchmark 6
Time Collection	Benchmark 7
Payroll	Benchmark 8
General Accounting	Benchmark 9

Many of the comparisons summarized in this chapter show that Metro has opportunities to improve its financial and accounting processes, procedures and functions by using selected best practices.

1 Metro's Accounting and Finance Costs Are Relatively Low



Metro's total accounting and financial costs are very low in relation to revenue.

Explanation

- Metro's total accounting and finance cost for fiscal 1998 was \$3,131,000.
- Metro's total revenue for fiscal 1998 was \$156 million.
- The data in the above graph was adjusted to reflect Metro's service nature, as discussed under Objectives, Scope and Methodology.

Benchmark Observations

- Metro's total accounting and finance costs are only 2/3 of those of the average small organization. Even though Metro's costs are aligned with 1st quartile organizations, this is not necessarily good.
- Even though Metro's accounting and finance activities appear to be staffed at a relatively low level, the benchmarking data for particular transaction processes indicates that Metro can streamline some processes and better use its staff by adopting specific best practices. Benchmarks 4 through 9 and our recommendations show where these opportunities exist.

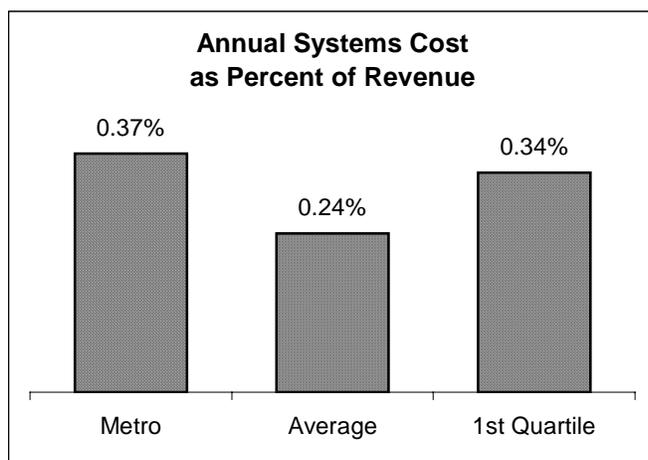
Further Observations

- Metro's Accounting Services Division budget, as a percent of total expenditures, is less than half of what it was in fiscal 1985, declining from 1.33% in fiscal 1984 to 0.58% in fiscal 1999.
- Metro's Accounting Services Division has had the same staffing level since fiscal 1993, though its workload has increased because:

- Metro assumed operations of the Expo Center, Open Spaces Program, Multnomah County Parks, cemeteries, marine facilities and a golf course
- The Contractor's License Program was added to the Division's duties
- Metro purchased and implemented PeopleSoft systems which require continuous upgrading and support
- The Governmental Accounting Standards Board (GASB) issued several standards, requiring Metro to develop new procedures for compliance.
- Metro's Budget Advisory Group, which reviewed Support Services for the 1998-1999 budget found that Accounting is staffed and funded at only 80% of the level required for timely, proactive management of data and systems.
- A December 1998 report on the InfoLink Project concluded that Metro does not have adequate staff to support the PeopleSoft system.⁴
- The Accounting Services Division recently developed a list of 18 areas where they believe accounting activities are not being adequately accomplished (Appendix B).

⁴ InfoLink Project Review, December 1998, A Report by Pacific Consulting Group issued by the Office of the Auditor.

2 Finance Systems Costs



Metro's accounting and finance systems cost reflects Metro's investment in up-to-date computer systems.

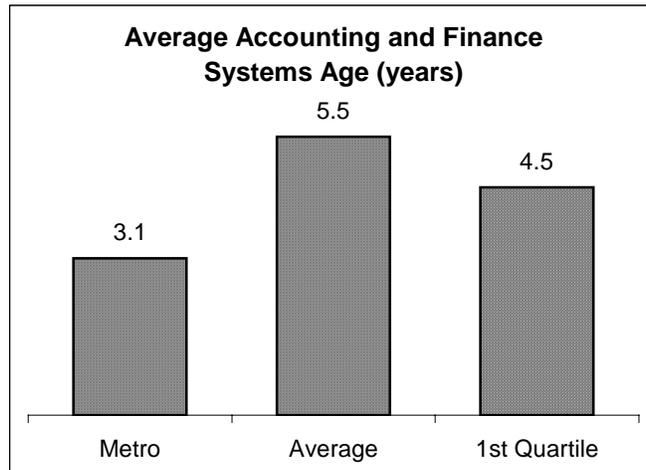
Explanation

- This benchmark compares the systems costs associated with supporting accounting and financial processes.
- In fiscal 1998 Metro spent about \$569,000 for systems to support its accounting and financial processes.
- The systems costs include computer processing, software and hardware, and Management Information Services support. The costs exclude one-time capital investments for hardware and purchased software.

Benchmark Observations

- Metro's accounting and finance system costs are 50% higher than those of the average organization, but are in line with best of class organizations that keep pace with the rapidly changing world of computer technology.
- Higher systems costs in relation to revenue can mean an organization is putting too much money into outdated systems or is regularly updating its systems to keep them current. The latter is the case with Metro.

3 Average Accounting and Finance Systems Age



Metro's accounting and finance systems are newer than even first quartile organizations.

Explanation

- In 1998 Metro had five of eleven PeopleSoft modules operational.
- The operational modules were General Ledger, Accounts Payable, Purchasing, Human Resources and Payroll.
- The Accounts Receivable and Billing modules became operational in November 1999.

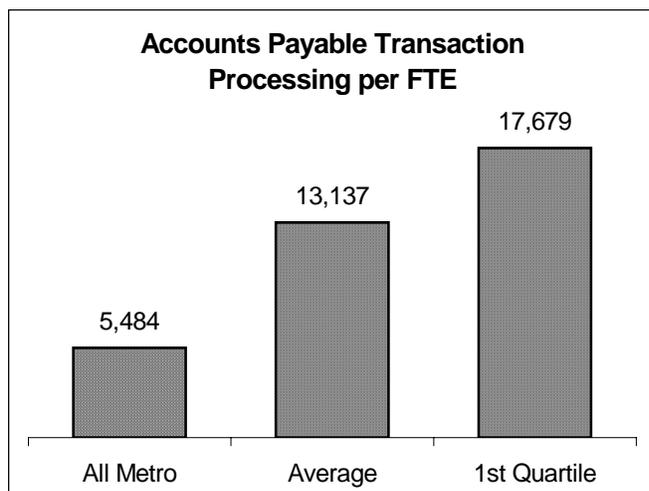
Benchmark Observations

- Metro has invested heavily in accounting and financial system hardware and software.
- This investment is in line with best of class organizations and Metro's systems are even newer than best of class.

Further Observations

- Metro is not yet obtaining the full benefits of these systems. Many end users still need training, limiting their ability to obtain information from PeopleSoft applications that would help them do their jobs. In addition, some processes need to be redesigned to simplify and streamline operations. See recommendations 4 and 5.

4 Accounts Payable



Metro's accounts payable process contains some unnecessary departmental activities.

Explanation

- Accounts payable involves processing and paying vendor invoices and other expenditures, including purchasing cards.
- This benchmark compares Metro against the aggregate of more than 800 companies in THG's database.

Benchmark Observations

- Metro's lower processing rate can be explained as follows.
 - 1) Metro manually handles vendor invoices for small quantities of non-repetitive purchases, whereas many organizations in the database are goods producers that use online purchasing and invoicing systems to purchase and pay for large quantities of items from the same vendors.
 - 2) Metro's payments often take longer to process than in private organizations because they are distributed to many sub-accounts (called chart-fields in the PeopleSoft system).
 - 3) Some Metro departments are unnecessarily receiving, copying and processing invoices.
- Metro processes about 13,000 payments annually, involving 20,000 vendor invoices and 14,000 purchasing card purchases.
- Metro has a total of 6.2 full-time equivalent employees (FTEs) processing accounts payable. Of these, 3.1 FTEs are in departments outside the Accounting Services Division, such as the Zoo, Growth Management, and Regional Parks and Greenspaces.

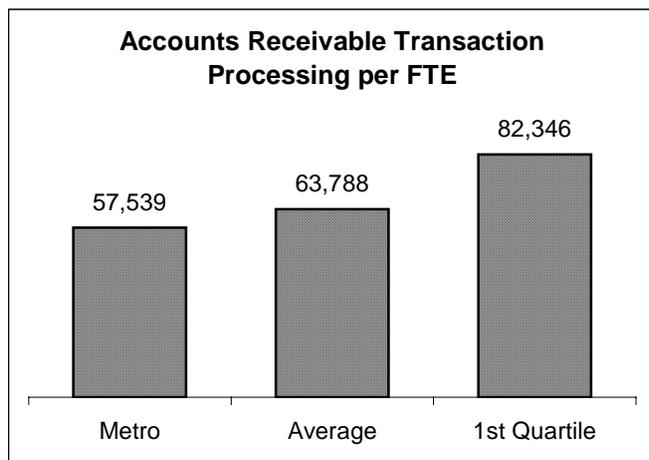
Metro uses many of the best practices suggested by THG

- Purchasing card usage is increasing each month.
- Checks do not require duplicate signatures.
- Metro uses a check-signing machine.
- Metro discourages manual checks.

Best practices that can help Metro save time on accounts payable

- Simplify accounting for purchasing card transactions (see recommendation 4).
- Receive invoices centrally (see recommendation 5).
- Automate recurring payments.
- Eliminate multiple copies and files maintained by departments (see recommendation 5).
- Use electronic methods to settle payment, including electronic funds transfers and Web-based payments (see recommendation 6).

5 Accounts Receivable



Metro processed fewer accounts receivable transactions per employee than most other organizations.

Explanation

- Accounts receivable involves recording and tracking ordinary trade receivables from customers extended credit privileges.

Benchmark Observations

- This study measured time spent using the old computer system which was difficult to work with and only minimally met user needs. A new accounts receivable PeopleSoft computer module is now installed, and promises to reduce processing time.
- Metro has 2.9 FTEs processing accounts receivable (1.9 in ASD, 1.0 in departments).
- Accounts Receivable personnel process about 162,000 invoices annually for REM.
- About 5,200 invoices are processed annually for the Zoo, Parks, MERC, Data Resource Center (DRC) and contractor licenses combined.

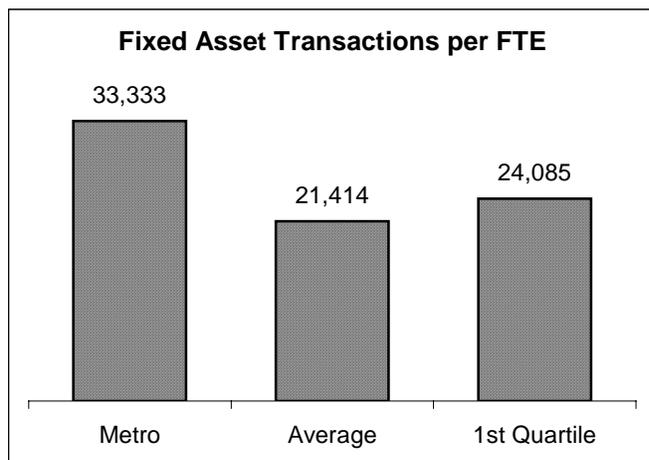
Metro uses many of the best practices suggested by THG

- Metro accepts credit cards for payment from solid waste haulers and DRC customers.
- A single customer master file is used Metro-wide and throughout the revenue-to-collection cycle (except for MERC, which maintains its own customer files).
- Accounts receivable processing is consolidated, except MERC's event billing.
- Invoices are posted automatically to the accounts receivable system from the billing system.

Other best practices that can help save time on accounts receivable

- Establish cost-effective short-pay tolerances to write off small dollar balances.
- Encourage customers, such as solid waste haulers, to permit automated clearing house direct debits.
- Completely consolidate accounts receivable processing, including MERC activities.
- Accept customer payments via the Internet (contractor business licenses).

6 Fixed Assets



Metro's assets are not adequately inventoried.

Explanation

- This benchmark addresses the process of recording, tagging and inventorying an organization's fixed assets.

Benchmark Observations

- In fiscal 1998 Metro had 10,000 assets in its fixed asset system, but devoted only 0.3 FTE to this activity.
- The benchmark data suggests that Metro is more efficient than 1st quartile organizations, but the low FTE devoted to this area means that fixed assets are not adequately tracked and accounted for.
- The level of staffing devoted to this area is not adequate to monitor and control Metro's assets. A physical inventory has not been made in nine years and in fiscal 1998 only 10% of Metro's assets were tagged with identifying labels.

Deloitte & Touche, the CPA firm that performs Metro's annual financial audit, noted these weak procedures and recommended that Metro tag its assets and inventory them at least biannually.⁵ Metro management stated that budget resources had not been available to do this in prior years.

⁵ Financial Statement Audit, Management Recommendations, March 1999, issued by the Office of the Auditor.

Some needed improvements are in process

- Beginning July 1, 1999, Metro increased the level at which assets are capitalized from \$1,000 to \$5,000. This is considered a best practice.
- The change will result in up to 80% of the number of capitalized assets being dropped from the inventory list. These dropped assets account for less than one percent of Metro's total asset value. Because there will be fewer assets to track, the remaining assets (about 2,400) and any new fixed assets acquired will be easier to inventory and account for.
- The Accounting Services Division plans to review its inventory lists, tag assets and conduct a physical inventory by June 2000. This is a high priority in view of new financial reporting requirements that require disclosing depreciation on assets. Metro must apply the new requirements starting in fiscal 2002, or face the risk of qualified or adverse audit opinions on its financial statements. Such opinions can adversely affect Metro's bond ratings and trigger inquiries by the Oregon Division of Audits.
- The PeopleSoft module Metro has already purchased to track fixed assets is still being evaluated as recommended in the December 1998 report on the InfoLink Project⁶. However, regardless of this evaluation's outcome, Metro will need an automated system to benefit from the best practices mentioned below.

Metro uses some best practices suggested by THG

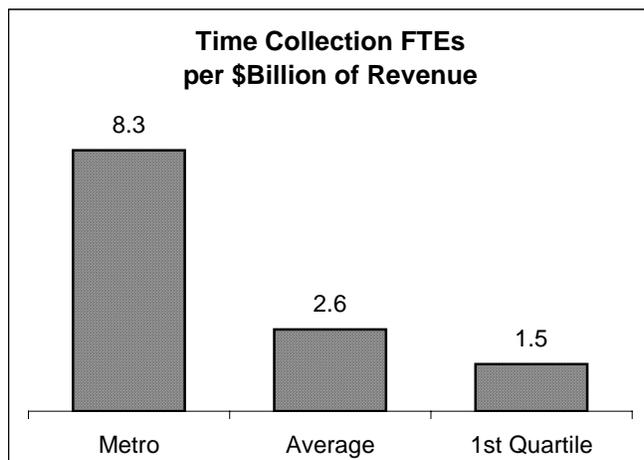
- Metro has a single fixed asset system established with standard capitalization policies.
- Metro raised its asset capitalization limit to the highest level possible to still meet the reporting requirements under federal grant rules.

Best practices that may improve Metro fixed asset management and accounting

- Establish a capital project tracking system, such as the PeopleSoft Fixed Asset module, linked directly to purchasing, accounts payable and labor systems for tracking purchased and constructed assets.
- Set up fixed assets automatically based on data accumulated in the capital project tracking system.
- Capture asset classification codes from purchase orders and requisitions.
- Establish an online system to transfer and dispose of fixed assets.
- Inventory fixed assets routinely using bar-code scanners.

⁶ InfoLink Project Review, December 1998, A Report by Pacific Consulting Group issued by the Office of the Auditor.

7 Time Collection



Metro spends more time than most organizations collecting employee attendance and time worked.

Explanation

- Time collection involves collecting information on employee attendance and time worked and allocating that information to specified reporting categories.

Benchmark Observations

- Metro collects time on about 1,300 employees.
- Forty percent of Metro employees manually prepare paper time sheets, which often involve charging time to multiple organization, program and project codes. Payroll personnel must then manually enter time charges into Metro's computer systems for payroll and project accounting purposes.
- Most union and part-time employees at MERC, REM and the Zoo use Metro's only relatively automated time collection system (Kronos). This is basically a time clock system whereby employee time charges are reported to payroll on disks which are uploaded into the payroll system.

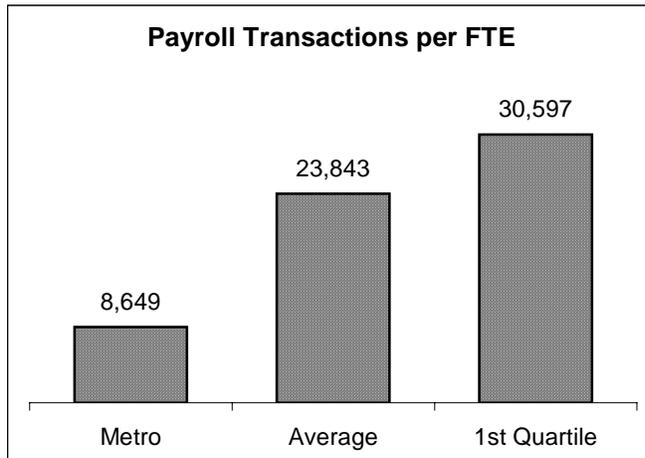
Metro uses some of the best practices suggested by THG

- Time-keeping cycles are standardized throughout Metro.
- Sixty percent of Metro's time collection is automated via the Kronos time clock system.
- Organization, program and project code charges are captured in the time collection tool (time sheet).

Best practices that can help accounting and other departments reduce time collection effort

- Use automated time collection tools to record, calculate and validate time worked. Metro has purchased a PeopleSoft Time and Labor module, but is still evaluating its feasibility. See recommendation 6.
- Use the automated time collection tool to automatically record verified time in the payroll and project accounting systems.

8 Payroll



Metro processed fewer payroll transactions per FTE than most organizations.

Explanation

- Payroll involves paying salaries and wages in accordance with organizational policies and government regulations.

Benchmark Observations

- Metro's transactions per FTE is based on processing about 32,000 paychecks annually using 3.7 FTEs.
- Metro's payroll process is complicated and time consuming. Payroll personnel manually key data from time sheets into the payroll system. Most time sheets contain charges that require keying in multiple organization, program and project codes.

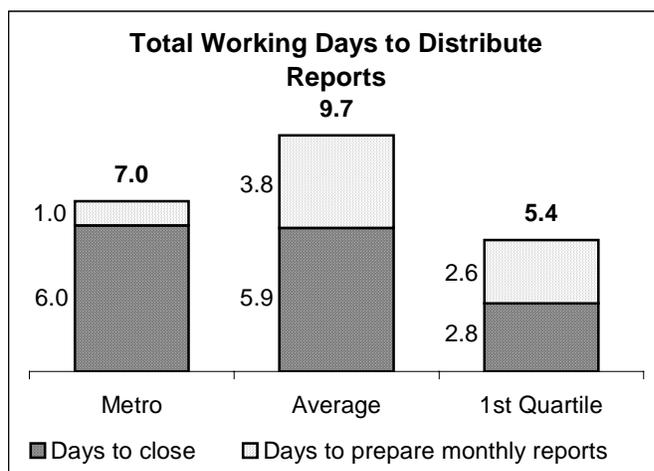
Metro uses many of the best practices suggested by THG

- Pay cycles are standardized with an established calendar.
- Vacation advances are eliminated.
- Employee identification is standardized and employee information is maintained in a single common database shared between human resources and payroll.
- Wages and salaries are calculated automatically.
- Deductions are calculated automatically based on established rules.
- Many employees (65%) use direct deposit of paychecks.

Best practices that may help accounting and other departments save time on payroll

- Increase employee participation in direct deposit of paychecks. Metro's participation is at 65%; the benchmark average is 80%.
- Install the PeopleSoft Time and Labor module or an alternative automated time and charges program to capture time charges and integrate them into the payroll system (see recommendation 6).

9 General Accounting



Metro reports are distributed timely, but are not reviewed for accuracy.

Explanation

- General accounting involves recording journal entries, maintaining the general ledger and preparing financial statements in accordance with organizational reporting requirements.

Observations

- Monthly reports are distributed 2.7 days faster than the average organization.
- Accounting Services' ability to close sooner is constrained because it takes 5 to 7 days to complete payroll and REM monthly billing. By installing an automatic time collection system, payroll processing could be reduced by about two days.
- Even though accounting and financial reports are produced in a timely manner, they are not reviewed for accuracy or analyzed for trends due to insufficient staff. See Appendix B.

Best practices that can help save time and get reports distributed faster

- Reconcile and analyze balance sheet accounts quarterly instead of monthly. This is happening now due to insufficient staff, rather than by policy.
- Raise materiality levels of journal entries and allocations (see recommendation 3).
- Install the PeopleSoft Time and Labor module or an alternative automated time and charges program to capture time charges and integrate them into the payroll system (see recommendation 6).

Background

This report presents benchmarking comparisons of Metro's accounting and financial processes against those of more than 800 private and public organizations. Although some of Metro's accounting and financial processes compare favorably, others suggest that Metro has opportunities to adapt and apply best practices from other organizations. Our analysis is based primarily on benchmarking research that our contractor, The Hackett Group (THG), has conducted since 1991.

Benchmarking – A Diagnostic Tool

Benchmarking is the process of comparing data between organizations leading to insights that promote positive change. The process attempts to discover specific practices responsible for high performance and to understand how these practices work in various organizational environments. Benchmarking is a simple, straightforward management tool that has been shown to improve operational efficiency and effectiveness.

Benchmarking began in the private sector when businesses learned that they could adapt and adopt practices found to be effective in other organizations, thereby avoiding the creation of new, untried approaches for changing their operations.

Benchmarking in the Public Sector

In recent years, the public sector has found that benchmarking is an effective tool for operating in environments that are becoming more results-oriented. For example, federal agencies have made significant operational improvements by using benchmarking in implementing the Government Performance and Results Act. At the state level, the Oregon Legislature passed a government efficiency bill that set expectations for benchmarks and performance measures. Agencies have reported significant operational improvements as a result of such measurements. Benchmarking in the public sector has led to (1) working smarter toward effective results; (2) building on the work, experience, failures and successes of others; and (3) enhancing agency accountability and public trust.

The Hackett Group (THG)

We performed our benchmarking survey through a contract with consultants at The Hackett Group, a widely recognized management consulting firm that has been conducting benchmarking research since 1991. THG's benchmarking

studies have helped more than 1,300 organizations evaluate their operational efficiency and effectiveness, identify and adapt better approaches and implement positive changes.

According to THG, it has the world's most comprehensive benchmarking database of organizations' key processes. THG's database represents a variety of organizations and is about equally split between goods producers and service providers. The size of these organizations ranges from \$21 million in annual sales to nearly \$57 billion, with finance staffs as small as 7 and as large as 6,000.

THG's summary benchmarking report on Metro's accounting and financial processes is presented in Appendix A.

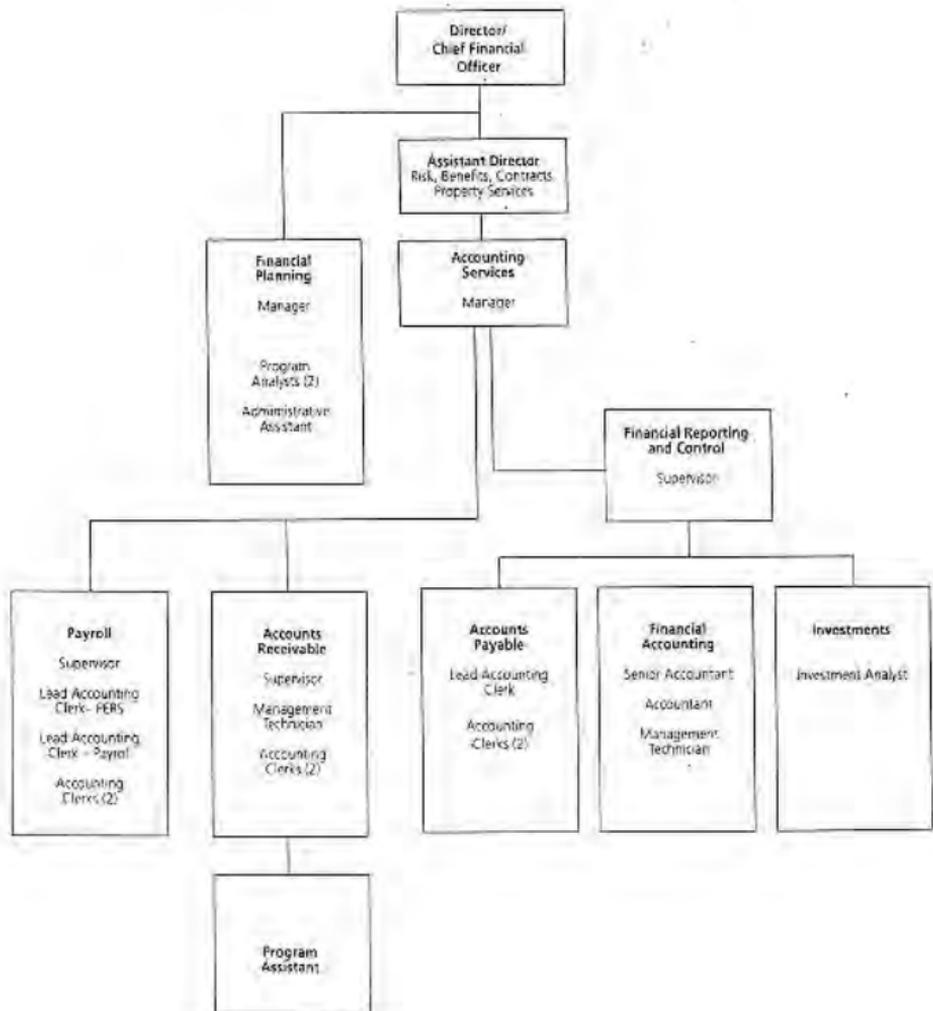
Metro Units Involved in the Benchmarking Study

Metro's Accounting Services and Financial Planning Divisions support the financial activities of other Metro Departments and most MERC activities. These Divisions are part of the Administrative Services Department and have 28 persons involved in financial management, financial reporting and control, accounts payable, accounts receivable, payroll and budgeting. Exhibit A shows how the two Divisions are organized.

This benchmarking study also included financial and accounting activities, such as time collection, accounts payable and accounts receivable, of other Metro departments. Personnel from each of the departments completed the accounting and finance benchmarking questionnaire that forms the basis of this study.

Exhibit A

Administrative Services Department: Accounting Services Division and Financial Planning



Objectives, Scope and Methodology

We conducted this study to determine how Metro's financial processes compare with those of more than 800 public and private organizations included in THG's database. Our objectives were to:

- determine the relative efficiency and effectiveness of Metro's accounting and financial processes
- identify opportunities where Metro's accounting and financial processes can be improved.

We worked closely with Metro accounting and finance staff and THG throughout the study. Our work included:

- attending THG's orientation and training meeting where THG consultants defined the financial processes included in the study and discussed how data would be collected and reported
- working with Metro Accounting Services Division staff to collect FTE and cost data and distribute the questionnaire containing 485 questions to the various departments
- reviewing the completed questionnaire and verifying the accuracy and consistency of the data reported
- analyzing the data contained in THG's benchmarking report
- conferring with THG consultants to clarify aspects of their report
- obtaining THG's list of best practices and discussing them with relevant Metro personnel to determine which ones apply to Metro
- obtaining the views of Metro personnel affected by the study results
- reviewing several audit and consultant reports relating to Metro's financial systems
- developing suggestions and recommendations for improving Metro's financial processes.

We collected data across the following 3 accounting and financial categories and 24 processes for the year ended June 30, 1998. The study required a full year's data. The most recent data available when we started the study was for fiscal 1998.

Transaction Processing

- Accounts Payable
- Accounts Receivable
- Time Collection
- Payroll
- Fixed Assets
- Travel and Expense
- Credit
- Collections
- Customer Billing
- General Accounting
- Benefits Administration
- External Reporting
- Cost Accounting

Control and Risk Management

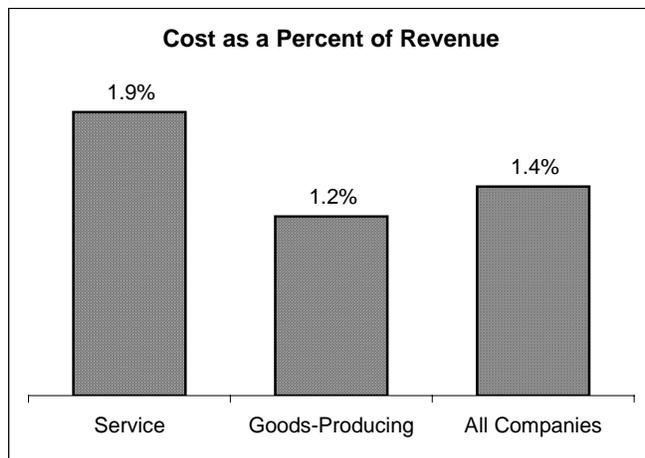
- Budgeting
- Outlook/Interim Forecast
- Business Performance Reporting
- Cash Management
- Treasury Management
- Risk Management

Decision Support

- Cost Analysis
- Business Performance Analysis
- New business/Pricing Analysis
- Strategic Planning Support
- Finance Function Management

We recognize that Metro is not “typical” of the accounting and finance departments benchmarked by THG, especially considering its small size and government environment. However, THG’s precise definitions and data gathering processes helped create comparability in spite of organizational differences within the database. The consistent use of THG’s methodologies enables comparisons to be made between Metro’s financial and accounting processes and similar processes of other organizations, regardless of size or type of industry.

We were able to further refine these comparisons by adjusting THG’s benchmark data in some instances to better reflect the service nature of Metro’s activities and its small size. These adjustments were possible because THG developed a ratio comparing service company finance and accounting costs to those of goods-producing companies. The following graph shows this relationship.



One reason that service company accounting and finance costs are higher than those of goods-producers is that even though each take about the same time to process a transaction, service companies have more transactions for a given amount of revenue. As the graph shows, the average service company incurs 1.36 (1.9/1.4) times more accounting and finance costs than all companies at the same level of revenue. This is the ratio we used to adjust THG data.

In addition, THG provided some data that enabled us to benchmark Metro directly with other small organizations. This data compares certain accounting and financial processes on a per \$10 million of revenue basis.

The report discusses Metro financial processes that we consider significant based on the study results. The best practices relating to these processes were discussed with Metro personnel to determine:

- which best practices Metro is now using
- whether Metro can adopt any of the practices not currently being used.

The recommendations and suggestions we make are based on these discussions and other information that became known during the study.

We performed our work between April 1999 and November 1999 in accordance with generally accepted auditing standards.

Appendix A

THG Benchmark Report on Metro's Accounting and Finance Functions

Financial
Executives Institute

Metro

Reported in US Dollars

Baseline

Item 1 **Annual Total Finance Cost**

	<u>Cost</u>	<u>Percentage</u>
Labor Cost	\$2,089,000	67%
Outsourcing Cost	\$45,000	1%
Systems Cost	\$569,000	18%
Other Cost	\$428,000	14%
Annual Total Finance Cost	<u>\$3,131,000</u>	<u>100%</u>

Item 2 **Overall Cost As A Percent Of Revenue**

Annual Total Finance Cost	\$3,131,000
Revenue	\$155,900,000
Cost As A Percent Of Revenue	2.01%

Item 3 **Staffing By Job Category**

	<u>FTEs</u>	<u>Percentage</u>
Manager	6	16%
Professional	11	29%
Clerical	21	55%
Total Staffing By Job Category	<u>38</u>	<u>100%</u>



Item 4 **Finance FTEs Per \$10 Million of Revenue**

	<u>FTEs</u>	<u>FTEs / \$10 Million</u>
Transaction Processing	25.7	1.6
Control & Risk Management	7.7	0.5
Decision Support	4.4	0.3
Total FTEs Per \$10 Million of Revenue	<u>37.8</u>	<u>2.4</u>

Item 5 **Finance Staff Time Allocation**

	<u>Metro</u>
Transaction Processing	68%
Control & Risk Management	20%
Decision Support	9%
Finance Function Management	2%
Total Finance Staff Time Allocation	<u>100%</u>

Item 6 **Education, Experience, Turnover**

		<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
MBA/CPA -- Manager		83%	51%	98%
MBA/CPA -- Professional		42%	32%	60%
Turnover		18%	12%	3%
Experience (Years)		29	16	11

External Cost Comparisons

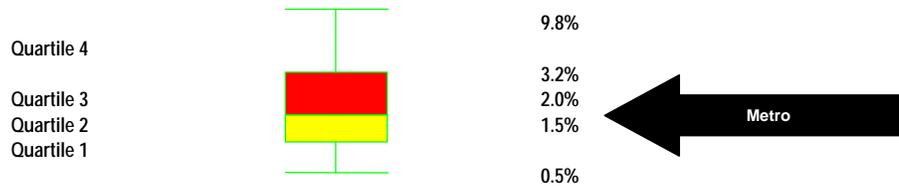
Item 7 **Finance Cost As A Percent Of Revenue**

(small company)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Labor	1.34%	1.44%	0.89%
Outsourcing	0.03%	0.14%	0.06%
Systems	0.36%	0.35%	0.27%
Other	0.27%	0.43%	0.27%
Total Cost As A Percent Of Revenue	<u>2.01%</u>	<u>2.36%</u>	<u>1.49%</u>

Finance Cost As A Percent Of Revenue By Quartile

Small Company Database



Item 8 **Finance Cost Components**

(small company)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Labor	67%	61%	60%
Outsourcing	1%	6%	4%
Systems	18%	15%	18%
Other	14%	18%	18%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Item 9 **Finance FTEs Per \$10 Million Of Revenue**

(small company)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Transaction Processing	1.65	1.53	0.87
Control & Risk Management	0.49	0.37	0.26
Decision Support*	0.28	0.24	0.25
Total FTEs Per \$10 Million of Revenue	<u>2.42</u>	<u>2.14</u>	<u>1.38</u>

*Decision Support Includes Function Mgt.

Item 10 **Wage Rates**

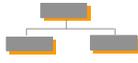
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Management	\$88,463	\$94,693	\$84,000
Professional	\$65,370	\$61,683	\$52,830
Clerical	\$39,983	\$33,707	\$31,741
Overall	\$55,261	\$54,064	\$48,715

Item 11 **Staff Mix**

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Management	16%	15%	10%
Professional	29%	39%	43%
Clerical	54%	46%	48%
Total Staff Mix	<u>100%</u>	<u>100%</u>	<u>100%</u>

Item 12 **Spans Of Control By Process Categories**

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Transaction Processing	1:10	1:9	1:24
Control & Risk	1:4	1:3	1:6
Decision Support	1:2	1:3	1:5



Item 13 **Productivity of Core Processes**

(Transactions Per FTE)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Accounts Payable	5,484	13,137	17,679
Freight Payments	0	40,040	62,636
Travel & Expense	1,500	7,667	10,104
Fixed Assets	33,333	21,414	24,085
Payroll	8,649	23,843	30,597
Credit	667	14,449	15,909
Customer Billing	254,769	144,863	223,320
Accounts Receivable	2,897	63,788	82,346
Collections	120	3,981	4,466

Item 14

Best Practices Utilization Varies Among Core Processes

Accounts Payable	Metro	Average
Pay Vendors On Receipt	None	Low
Procurement Card Usage	Medium	Low
Purchase Orders Via EDI	None	Medium
Travel & Expense	Metro	Average
Electronic Filing of T&E	None	Medium
Exception-Based Control Reporting	Medium	Medium
Elimination of Mgmt Approval for Payment	None	High
Payroll	Metro	Average
Single Shared Database with H.R.	High	Medium
Direct Deposit of Payroll	Medium	Medium
Customer Billing	Metro	Average
Seamless Interface w/Billing, Credit...	None	Medium
Single Billing System for Different Products...	High	High
Accounts Receivable	Metro	Average
Company-Wide View of Customer A/R Status	High	Medium
Single, Common, Integrated Customer Files...	High	High
Small-Dollar Balances Written Off	Low	Medium
Credit & Collections	Metro	Average
On-Line View of Customer Account...	None	Medium
Proactively Contact for Correct Billing Info	None	Medium

Transaction Processing

Item 15

Supplier Processes - Staffing (FTEs Per \$Billion Of Revenue)

	Metro	Average	1st Quartile
Accounts Payable	39.8	14.3	11.8

Item 16

People Processes - Staffing (FTEs Per \$Billion Of Revenue)

	Metro	Average	1st Quartile
Travel & Expense	1.3	2.5	1.3
Time Collection	8.3	2.6	1.5
Payroll	23.7	6.5	4.5
Benefits Administration	22.4	3.7	2.6

Item 17

Accounting Processes - Staffing (FTEs Per \$Billion Of Revenue)

	Metro	Average	1st Quartile
Fixed Assets	1.9	3.3	1.8
General Accounting/Consolidations	27.6	11.7	8.6
External Reporting	2.6	1.7	1.2
Cost Accounting	1.3	6.2	2.8

Best Practices

General Accounting	Metro	Average
Centrally Maintained Single Chart of Accts.	High	High
General Ledger Performs Auto Consolidation	High	Medium
Soft Closes Utilized in Non-Reporting Months	High	Low

Item 18 **Customer Processes - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Accounts Receivable	18.6	6.8	3.4
Credit	5.8	2.9	1.1
Collections	3.2	9.0	2.4
Customer Billing	8.3	13.0	4.1

Control & Risk Management

Item 19 **Planning & Reporting - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Budgeting	16.7	4.7	2.7
Outlook/Interim Forecast	4.5	3.0	1.4
Business Performance Reporting	5.8	5.6	3.2

<u>Budgeting</u>	<u>Metro</u>	<u>Average</u>
Sophisticated Tools Create Pro Forma Budgets	None	Medium
Iterate To Meet Operational Targets...	High	Medium
Agreement on Summary Budget...	High	High

<u>Outlook/Interim Forecasting</u>	<u>Metro</u>	<u>Average</u>
Revised Forecasts Only On Exception Basis...	High	Medium
Forecast System Linked to Budgeting...	None	Medium

<u>Business Performance Reporting</u>	<u>Metro</u>	<u>Average</u>
Trends and Exceptions Auto-Identified	High	Medium
Reports address future actions	Low	Medium

Item 20 **Risk Management - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Cash Management	3.2	2.0	1.2
Treasury Management	3.2	1.4	0.8
Tax Planning	0.0	1.1	0.5
Internal Auditing	0.0	4.0	2.0
Risk Management	14.1	1.1	0.7

Item 21 **Regulatory - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Government Compliance	0.6	2.4	0.4
Tax Regulatory	1.3	0.7	0.1

Decision Support

Item 22 **Decision Support Analysis - Staffing**
(FTEs Per \$Billion Of Revenue)

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Cost Analysis	1.9	3.0	1.5
Business Performance Analysis	2.6	4.5	2.3
Pricing Analysis	1.3	3.6	1.1
Strategic Planning Support	16.7	2.1	1.0
Finance Function Management	5.8	4.0	2.9

Item 23 Days To Close

Metro	6.0
Average	5.9
1st Quartile	2.8

Item 24 Days To Monthly Report Distribution

Metro	1.0
Average	3.8
1st Quartile	2.6

Item 25 Days To Complete The Budget

Metro	400
Average	91
1st Quartile	67

Item 26 Outsourcing Cost As A Percent Of Revenue

	<u>Metro</u>		
Annual Revenue	\$155,900,000		
Annual Outsourcing Cost	\$45,385		
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Outsourcing Cost As A % Of Revenue	0.029%	0.055%	0.042%

Item 27 Finance Systems Cost As A Percent Of Revenue

	<u>Metro</u>		
Annual Revenue	\$155,900,000		
Computer Processing Cost	\$296,500	52%	
MIS Support Services Cost	\$32,100	6%	
Computer Hardware Cost	\$240,000	42%	
Annual Systems Cost	<u>\$568,600</u>	<u>100%</u>	
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Systems Cost As A % Of Revenue	0.365%	0.243%	0.336%

Item 28 Average Finance Systems Age (Years)

Metro	3.1
Average	5.5
First Quartile	4.5

Item 29 **Number of Systems Per \$Billion Of Revenue**

	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
General Accounting	1.0	2.0	1.1
Accounts Payable	1.0	1.9	1.2
Accounts Receivable	2.0	1.8	1.2
Payroll & Time Collection	3.0	3.5	1.7
Fixed Assets	1.0	1.5	1.0
Travel & Expense	0.0	1.0	0.1
Cost Accounting	5.0	2.5	1.2
Freight Payment	0.0	0.8	0.3
Credit & Collections	1.0	2.9	1.0
Customer Billing	2.0	2.7	1.5
Budgeting	2.0	3.2	1.6
Business Performance Reporting	1.0	3.7	1.9
Total Systems *	19.0	27.4	13.6

* Selected Processes

Item 30 **Technology Use By Hardware Type**

	<u>Metro</u>
Mainframe	0.06
Networked PC	0.38
Client-Server	0.26
Stand Alone PC	0
Midrange	0.26
Manual	0.04

Item 31 **Other Finance Cost As A Percent Of Revenue**

	<u>Metro</u>		
Annual Revenue	\$155,900,000		
Facilities Cost	\$303,900	71%	
Travel and Expense Cost	\$8,100	2%	
Training Cost	\$10,900	3%	
Postage Cost	\$6,000	1%	
Other (Miscellaneous) Cost	\$99,100	23%	
Total Annual Other Cost	\$428,000	100%	
	<u>Metro</u>	<u>Average</u>	<u>1st Quartile</u>
Other Cost As A Percent Of Revenue	0.274%	0.209%	0.105%

Item 32 **So What Will A World-Class \$ Billion Company Look Like?**

	<u>1st Quartile</u>	<u>Average</u>
Cost as a Percent of Revenue	1.05%	1.20%
FTEs	81	86
A/P productivity per FTE	17,679	13,137
Processing Locations	1	>3
Systems per Process	1	2 - 3
Budget Cycle	67 Days	91 Days
Closing Cycle	<3 Days	5-8 Days

Potential Opportunities

Item 33 Transaction Processing Opportunities

	Productivity Opportunity (\$000)	
	<i>* Savings capped at 50%</i>	
	<u>At Average</u>	<u>At 1st Quartile</u>
<u>Supplier Process:</u>		
Accts Payable	125 *	125 *
Freight Payments		
Travel & Expense	5 *	5 *
<u>Customer Process:</u>		
Accts Receivable	62 *	62 *
Credit	16 *	16 *
Collections	11 *	11 *
Customer Billing		
<u>Accounting Process:</u>		
Fixed Assets		
General Accounting	122 *	122 *
External Reporting	9	14 *
Cost Accounting		
Tax Accounting		
Tax Filing & Reporting		
<u>People Process:</u>		
Time Collection	24 *	24 *
Payroll	92 *	92 *
Benefits Administration	92 *	92 *
	<hr/>	<hr/>
Total Transaction Processing Opportunities	<u>558</u>	<u>563</u>

Item 34 Control & Risk Process Opportunities

	Productivity Opportunity (\$000)	
	<i>* Savings capped at 50%</i>	
	<u>At Average</u>	<u>At 1st Quartile</u>
Budgeting	89 *	89 *
Outlook/Interim Forecast	16	24 *
Business Performance Reporting	1	27
<u>Operational Support & Control:</u>		
Cash Management	12	16 *
Treasury Management	18 *	18 *
Tax Planning		
Internal Audit		
Risk Management	65 *	65 *
	<hr/>	<hr/>
Total Control & Risk Opportunities	<u>202</u>	<u>240</u>

Item 35 **Decision Support Opportunities**

	Productivity Opportunity (\$000)	
	<i>* Savings capped at 50%</i>	
	<u>At Average</u>	<u>At 1st Quartile</u>
Cost Analysis		5
Business Performance Analysis		3
New Business/Pricing Analysis		2
Strategic Planning Support	99 *	99 *
	<hr/>	<hr/>
Total Decision Support Opportunities	<u>99</u>	<u>109</u>

Item 36 **Total Potential Productivity Opportunity**

	Productivity Opportunity (\$000)	
	<u>At Average</u>	<u>At 1st Quartile</u>
Transaction Processing	558	563
Control & Risk Management	202	240
Decision Support	99	109
	<hr/>	<hr/>
Total Productivity Opportunity	<u>859</u>	<u>912</u>

Item 37 **Benchmark Results Summary**

	Metro Comparison <u>to Average</u>	Metro Comparison <u>to 1st Quartile</u>
Total Finance Cost as a % of Revenue	-15%	35%
FTEs per \$10 Million of Revenue	13%	76%
Systems Cost	50%	9%
Other Costs	31%	161%

Appendix B

Accounting Services Division Priorities Not Being Addressed

The Manager of the Accounting Services Division created this document.

Accounting Services Division Priorities Not Being Addressed Due to Resource Limitations/New Assignments

Accounting Services Division staff continually work to maintain sound internal control systems, business processes, services and financial reporting. In recent years, due to continuing budget pressures, added demands and other external forces, resources available to provide those controls and services have been deteriorating. Accordingly, we have a higher probability of compromised and ineffective internal controls resulting in greater risk for fraud and financial losses, waste and abuse, non-compliance with laws and regulations, qualified or adverse audit opinions, downgraded credit ratings, and possible public embarrassment. In addition, we have a lessened ability to improve inefficient processes and provide reliable and timely financial reports and data.

We are currently a “fire department” – putting efforts towards the tasks that are flaming up each day, rather than putting in efforts to prevent the fires before they start. Metro is “burning out” the employees in the Division, especially at the supervisor level and running a greater risk of turnover in key positions.

While basic Metro business transaction processing remains the highest priority, the major categories of areas not receiving adequate attention over the past few years are noted below (supported by a detailed list of more than 120 separate tasks or projects).

Summary of Major Categories:

Accounting Services Division is **not** accomplishing, to our professional standards, the following (Accounting Services view on priority based upon risk to Metro – High Priority = (H), Medium Priority = (M)):

Account reconciliations (H) – not completed as timely or as complete as needed for sound internal control and financial reporting. Metro has a total of 759 balance sheet accounts to reconcile on a periodic basis (some monthly, some quarterly). Priority is currently given to the most sensitive accounts (such as our primary bank account and payroll account – which includes 64 balance sheet accounts reconciled at once for efficiency). By MERC contract provisions, MERC related accounts are next in priority. Untimely or uncompleted account reconciliations can lead to inaccurate financial information and potential financial losses (overpayments, lack of collection, etc). This circumstance can

also trigger the \$5,000 (per month) MERC contract penalty clause, adding costs to other Metro departments. Ultimately, this can also lead to audit problems and other issues noted above.

Financial report review (H) – the review of monthly financial reports prior to or upon issuance to spot errors, reporting issues, or trends. Combined with timely account reconciliations noted above, review of financial reports prior to issuance can identify errors needing correction prior to issuance, resulting in more reliable financial information. Customer service is affected by not assuring an accurate, quality product each month when financial reports are issued. This also causes inefficiency and additional work at fiscal year end, for CAFR preparation and audit purposes, as all the issues are identified at that time and resolutions developed.

GASB Statement implementations (H) (especially Statement 34) on a pro-active, well thought out basis (as opposed to “crisis” mode at year end). The Governmental Accounting Standards Board (GASB) establishes financial reporting and accounting standards for all governmental units (other than the Federal Government) in the United States. Metro must implement each standard as issued. Such implementation requires data gathering, analysis, documentation and implementation. The recent GASB Statement 31, for example, on accounting for investments continues to consume resources at year-end to make the appropriate disclosures and financial reporting. GASB Statement 34 is the most significant standard issued in the history of financial (commercial) and governmental accounting and significantly alters accounting procedures and financial reports. Metro must implement this standard by the end of fiscal 2002, which will be a significant effort over many months involving various financial policy considerations. For “smaller” impact standards, the result is inefficiency and potential higher audit costs at year-end. For major impact standards, such as GASB 34, the potential result is the lack of compliance with the standard and adverse audit opinions which would result in damage to Metro’s credit ratings (bonds), increased financing costs, significantly increased audit fees, and public embarrassment.

Fixed assets (H) – no progress on procedure development, improvements in record keeping or tagging and inventorying of assets. Attempts to include resources in the budget to complete inventories in the past have met with the items being cut prior to budget adoption. Efforts to develop internal written procedures and the resulting implementation efforts have been superceded by other priorities assigned to the division. Metro accepts a greater risk of loss of

assets by not conducting formal period fixed asset inventories, and therefore also risks overstating fixed asset amounts in financial reports. This later item becomes more important with the pending implementation of GASB Statement 34, and the depreciation charges impact on each fund.

Cross-training (H) – to reduce risk of loss (and create backup) of functional lead PeopleSoft knowledge. Each Accounting supervisor has gained extensive knowledge in the set up and operation of complex accounting applications. Metro is at risk should one of the functional leads leave Metro, without detailed cross training. This would result in inefficiency, potential inability to process business transactions and higher expenditures for outside consultant assistance.

Effective supervision (H) – Supervisors continue to be assigned extensive daily and project work tasks, which cannot be delegated due to lack of resources – which limits our ability to effectively coach, mentor, manage and supervise staff. The result is more “surprises,” less cross-training (see previous paragraph), lower staff morale, less information sharing, lack of professional growth, and greater inefficiency in achieving objectives.

PeopleSoft upgrades (H) (approx. 12 months behind the curve) – To continue to be on vendor supported software, Metro must upgrade to the latest released version within 18 months of release. Currently, Metro is implementing each upgrade, on average, approximately two to three months after support has expired. Metro desires to be on a current version within 6 months of its release to take advantage of system improvements and efficiencies. Upgrades require functional participation in testing and implementation, which has been added to existing on-going daily assignments, resulting in longer implementation time-lines and reduced progress on other division priorities. In addition, Metro risks running business transaction processing on unsupported software which can result in system down time, non-payment of vendors and employees, billing problems with customers, higher consultant costs and difficulties in achieving legal compliance in reporting obligations (e.g., W-2, 1099 issues).

Records management (H) – Accounting Services produces a considerable number of records that must be maintained in accordance with State of Oregon archivist requirements. Performing this function inadequately can result in violations of records retention laws and regulations, inefficiency in accessing information, reduced internal control and increased audit costs.

Policy/procedure documentation – internal (H) for Accounting Services staff use. Due to the recent implementation of PeopleSoft applications and the associated business process redesign that has been implemented as part of this project, written procedure manuals (preferably web-based), have yet to be completed for each of the functional areas (payroll, accounts payable, accounts receivable, general ledger, financial reporting, etc.). The updated procedures would replace those developed under contract in 1991. The impacts of not addressing this area are on-going training issues, greater risk of the lack of adherence to policy and procedure, greater inefficiency in transaction processing, and increased likelihood of audit issues.

PeopleSoft and policy/procedure training (H) for Metro departments. A formal training program should be implemented that provides periodic training in financial, accounting and PeopleSoft topics in order for Metro departments to efficiently carry out their duties in accordance with Metro policy. This training would aid in consistent treatment of transactions and compliance with Metro standards. The impacts here are similar to those noted in the previous paragraph.

PeopleSoft implementation (M) of additional functionality for efficiency gains (allocations, detail budget ledger, drilldowns, workflow). Resources are required to take advantage of additional tools in the software that are available to us, but need dedicated efforts to test and implement. Consequences of not having resources to address these issues are not meeting our customers expectations, and not getting the full return on the investment in technology that is possible. This includes efficiency gains that could help free up resources to address our other needs.

Policy/procedure documentation – external (M) for Metro departmental staff use. Written (preferably web-based) policies and procedures will assist greatly in improving efficiency and consistency of processes and improve overall financial controls and reports. Recent implementation of PeopleSoft applications and business process redesign, as well as recent major GASB pronouncements, make the need even greater. This task, when proposed previously, has been eliminated from budget proposals and is superceded by other assigned priorities. The lack of such procedure manuals results in inconsistency in transaction handling by Metro departments, insufficient and incorrect training of new staff, inefficiency, lower levels of compliance with Metro policy and procedure, and potential violations of Metro Code, Executive Orders and other laws and regulations.

Surprise cash counts/audits (M) of Zoo, REM and Parks. While a goal of quarterly audits is desired and recommended by external auditors as a sound internal control, other priorities have significantly reduced our recent capabilities to reach this level of review and assist Metro departments in maintaining and improving controls over cash receipts. Metro assumes greater risk of cash losses at these facilities and non-compliance with policy and procedure.

Various customer service initiatives (M) – including outreach, problem investigation and resolution, technical assistance, *proactive* problem solving, consulting services. Each year the division has found itself performing less of these services in order to maintain basic transaction level and financial reporting timelines. The result is lower customer satisfaction, lack of compliance with policies and procedures, inefficiency and added work for audit purposes at fiscal year-end.

Change management (M) (procedure, electronic commerce, financial reporting, data access) – Assist Metro departments in implementing change in business process redesign. The impact is lower customer service and increasing inefficiency (and cost).

Benchmarking performance and monitoring (M). PeopleSoft provides the data access tools that have previously not been available to monitor or service levels and develop benchmarks. Development of a benchmarking program for the division has fallen below other assigned priorities and daily transaction processing and reporting. Not performing this function will result in less information available to use as tools to implement efficiencies and monitor performance, and potentially higher costs in transaction processing.

Other PeopleSoft applications (M) (Asset Management, Project/Costing, Time and Labor, Budget) – While efficiencies for Metro as a whole might be gained by implementing one or more of the above applications, resources currently do not exist to make this possible. This topic is to be investigated later this fiscal year.

Response to the Report



METRO

Date: January 13, 2000

To: Alexis Dow, Metro Auditor

From: Mike Burton, Executive Officer 

Re: Response to Report on Accounting and Finance Benchmarks and Opportunities

Thank you for the opportunity to review and comment on the benchmarking report prepared by your office. I appreciate the observations made in the report and the opportunity to respond. I also want to acknowledge the efforts of my staff in working with you and the Hackett Group in collecting and discussing the data that forms the basis of your report.

Your report focuses primarily on Accounting operations. I with you, am concerned about the lack of resources in Accounting and Finance as evidenced by the observation that "Metro's total accounting and finance costs are very low in relation to revenue." I agree with the recommendation in your report, but would point out that ASD's central service functions will require additional resources to accomplish many of the recommendations.

1. **Accounting and Finance Benchmark Recommendation:** *"Metro should evaluate its level of accounting and finance services to assure it adequately supports management needs and protects Metro's financial standing."*
- **Agreement with Findings and Recommendations:** Agreed.
- **Proposed Action Plan:** I have directed the Chief Financial Officer to prepare the following:
 - Define mission critical financial programs.

- Define essential information, reports, outputs and acceptable levels of performance (distinguishing between true requirements and those services that are “nice to have.”)
 - Identify matters that will not be accomplished and the associated risks.
 - Specify the on-going training requirements to assure the plan is accomplished and policies and procedures are followed.
 - Identify and evaluate technological and innovative approaches that may improve Metro’s operations.
 - Once this evaluation is completed, I will determine the resources needed to provide an acceptable level of service based upon the above, and recommend necessary resources to Council.
- Proposed Timetable: While certain of the plan elements above have already begun, this process will be completed by October 30, 2000. Any additional resources required will have to be approved by Council.
2. **Recommendation**: *“Metro should document its accounting and financial policies and procedures.”*
- Agreement with Findings and Recommendations: Agreed.
 - Proposed Action Plan: Resources have not been available or provided to complete this task, given all other assigned priorities. Development of such a policy and procedure document would permit both more effective customer service and better compliance.

Accounting procedures have undergone significant modification and re-engineering with the implementation of *PeopleSoft* software applications. Written procedure development should be a part of a system implementation work plan. However, resources are not currently available to accomplish all of the needed work. This work includes implementation of upgrades, documentation of the resulting procedures (and keeping this documentation updated with each upgrade and procedure redesign), implementation of major accounting policy changes resulting from GASB pronouncements, performing the work required for added Metro programs and facilities, and continuing the daily business functions of Metro.

As to financial policies, staff reductions in the Financial Planning Division have reduced the ability to formulate and document financial policies other than those contained in the adopted budget. This work effort would include pulling together in one policy and procedure document the existing financial policies.

Finance, Contracts, and Accounting Services staff will work on development of such written policies and procedures *as priorities and budget resources permit*.

- Proposed Timetable: Ongoing and dependent upon priorities and available budget as noted in the financial audit management letter response. Complete by June 30, 2002 or earlier if possible.

3. **Recommendation**: *“Metro should establish materiality levels for journal entries and allocations”*.

- Agreement with Findings and Recommendations: Agreed.
 - Proposed Action Plan: I have directed staff to develop a formal recommendation establishing materiality levels for journal entries and allocations.
 - Proposed Timetable: Recommendation developed by April 1, 2000.
4. **Recommendation**: *“Metro should simplify its accounting for transactions that use purchasing cards”*.

- Agreement with Findings and Recommendations: Agreed.
- Proposed Action Plan: Metro’s Contract Services section is currently involved in a project with the purchasing card service provider (Bank of America) and Metro departments to automate and streamline certain of the functions currently performed. I have directed staff to return to me a recommendation on single accounts for purchasing cards at the completion of the automation process.

In addition, the *PeopleSoft v7.5* Purchasing application has an automated purchasing card application which I have directed staff to evaluate. The upgrade to *PeopleSoft v7.5* is currently being scheduled.

Finally, Metro will:

- Audit the support for purchasing card purchases on a sample basis. This is a current practice.
- Require departments to summarize purchases by chartfield combination (coding). This will implemented immediately.
- Develop procedures for coding based upon certain dollar limits. This will be implemented immediately.

- Proposed Timetable: I have directed staff to express Metro's urgency to Bank of America on the automation project. Completion is expected by April 30, 2000.
5. **Recommendation**: *"Metro should require all vendor invoices to be sent directly to the Accounting Services Division."*
- Agreement with Findings and Recommendations: Agreed, with the exception of invoices for MERC, which has a Council-authorized exception to Metro policy and procedure.
 - Proposed Action Plan: Accounting Services Division and Purchasing have previously worked together to place this requirement in Metro's standard contract form and implemented this procedure. I will direct operating Departments to comply with this procedure.
 - Proposed Timetable: Immediately.
6. **Recommendation**: *"Metro should make full use of e-business applications for improving financial processes."*
- Agreement with Findings and Recommendations: Agreed.
 - Proposed Action Plan: This effort is on-going and is one of the fundamental purposes for implementing *PeopleSoft* application software and integrating various technological solutions to business processes. This will require on-going budget resources to accomplish upgrades to the latest versions of the application software.

I am making significant changes in Metro's information technology area in order to emphasize e-government. I am reorganizing the division into a department reporting directly to the Chief Operations Officer with the IT Director a member of cabinet. I am establishing a division within the IT Department dedicated to e-government, web development, and strategic planning. They will work in conjunction with the PeopleSoft Applications Team and functional leads to utilize the e-business capabilities of PeopleSoft.

- Proposed Timetable: Ongoing. Efforts will include internal and external web development, encourage direct deposit, using automated time cards, using electronic payments, etc. These are subject to appropriate budget resources.

General Observation

I understand, as to data interpretation, one of the challenges presented is the definition of a "transaction" for purposes of comparison to the THG database. THG is apparently unwilling to disclose these details without additional

compensation beyond the terms of the current contract. I believe that any discrepancy between definitions would actually strengthen, even more, the recommendations you have made.



METRO

Metro Auditor Report Evaluation Form

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Suggestions for our report format: _____

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Thanks for taking the time to help us.

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