

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF ACCEPTING)	RESOLUTION NO. 89-1030
TALBOT & KORVOLA, CERTIFIED PUBLIC)	
ACCOUNTANTS, "REPORT ON)	Introduced by the
PERFORMANCE AUDITING PLAN FOR THE)	Finance Committee
METROPOLITAN SERVICE DISTRICT)	
COUNCIL")	

WHEREAS, the Metropolitan Service District Council appropriated \$12,000 for FY1988-89 to have a Performance Audit Program Plan developed for the District; and

WHEREAS, the Council Department, in compliance with adopted District purchasing procedures, contracted with the firm of Talbot & Korvola, Certified Public Accountants, to develop a performance audit program plan; and

WHEREAS, Talbot & Korvola has completed the contracted scope of work within the budget and time allotted and prepared the required final report, with recommendations for program implementation, and performance audit program guidelines; and

WHEREAS, the Finance Committee has reviewed and considered the final report, program recommendations, and audit guidelines presented by Talbot & Korvola, January 5, 1989; and

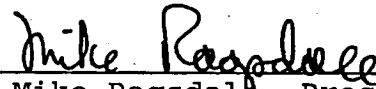
WHEREAS, the Finance Committee recommends accepting these reports; now therefore,

BE IT RESOLVED,

That the Council of the Metropolitan Service District hereby accepts Talbot & Korvola's "Report on Performance Auditing Plan for the Metropolitan Service District Council" and its accompanying Audit

Guidelines and supports implementing a performance audit program for the District beginning in FY1989-90.

ADOPTED by the Council of the Metropolitan Service District
this 26th day of January, 1989.



Mike Ragsdale, Presiding Officer

jpm a:\TKRES

COMMITTEE REPORT

Agenda Item No. 8.1

Meeting Date January 26, 1989

CONSIDERATION OF RESOLUTION NO. 88-1030, ACCEPTING TALBOT & KORVOLA'S "REPORT ON PERFORMANCE AUDITING PLAN FOR THE METROPOLITAN SERVICE DISTRICT COUNCIL"

Date: January 6, 1989

Presented by: Councilor Tanya Collier
Chair, Finance Committee

COMMITTEE RECOMMENDATION

Committee members present at the January 5 meeting -- Councilors DeJardin, Gardner, Van Bergen, Wyers and myself -- voted unanimously to recommend Council adoption of Resolution No. 89-1030. No Committee members were absent.

COMMITTEE DISCUSSION & ISSUES

Carl Meeuswen and Jack Talbot of Talbot & Korvola presented the final report and reviewed its executive summary with the Committee, noting the final report is very similar to the draft which the Committee received for review December 15. Talbot & Korvola did not receive any comments or recommendations from the Committee or Metro Administration for substantive changes; the report does incorporate some technical changes and language amendments.

Overall, Talbot & Korvola does not see any real impediments to implementing performance auditing at Metro. During the first year of the program, the process of conducting the performance audit and implementing its results will be very important towards establishing a solid, viable review program. Talbot & Korvola recommends Metro schedule first year performance audits of at least two of four areas -- Contracting, General Fund/Cost Allocations, Metro Policies and Procedures, Solid Waste Revenues -- and strongly urges Metro Policies and Procedures be one of the two areas. It was noted the recommended funding of \$80,000 to \$100,000 for each of the first two years was developed after comparing City of Portland and Multnomah County funding and staff resources devoted to their performance audit programs.

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METRO

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Portland, OR 97201-5398
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Resolution 89-1030

December 31, 1988

Carl H. Meeuwsen
Talbot & Korvola
Certified Public Accountants
Suite 200
3236 SW Kelly
Portland, Oregon 97201

Dear Carl:

Thank you for the opportunity to review the draft of your report to the Council regarding a performance auditing plan for Metro. In view of the short time provided your firm to develop this report, I am very impressed with the quality of the information developed by you for this report. I hope, should the Council choose to proceed with performance auditing, that a firm with the skill level demonstrated by your firm is selected to implement such a process.

I propose several suggestions which may improve your final report to the Council. For your information, I have discussed this matter with Rena Cusma, Metro's Executive Officer.

1. Oversight. This function should be the responsibility of the Council. The four potential audit areas recommended by you for the first year of performance auditing (p. 1) at Metro involve every member of the governing body. In my opinion, no one committee of the Council could provide you with sufficient guidance for a productive performance audit.

In the alternative, should the Council desire not to be personally involved with all phases of performance auditing, I would recommend that the Council Internal Affairs Committee provide the oversight function. This committee's membership at this time consists of chairpersons of the Council's various standing committees.

2. Potential Audit Areas. Your definition of performance auditing (p.3), as it may apply to Metro at this time, should be restated as well as modified. I recommend:

"Performance auditing is a structured review of a program, organization, operation or function to evaluate and report on whether operating objectives are being achieved and whether resources (allocated for this purpose) are being used economically and efficiently."

Executive Officer
Rena Cusma

Metro Council

Mike Ragsdale
Presiding Officer
District 1

Corky Kirkpatrick
Deputy Presiding
Officer
District 4

Richard Waker
District 2

Jim Gardner
District 3

Tom DeJardin
District 5

George Van Bergen
District 6

Sharron Kelley
District 7

Mike Bonner
District 8

Tanya Collier
District 9

Larry Cooper
District 10

David Knowles
District 11

Gary Hansen
District 12

This recommendation provides the basis for selecting from the list of four potential audit areas (p.1) the two areas for specific review in the first year of auditing performance at Metro: 1) Metro Policies and Procedures and 2) General Fund/Cost Allocation.

In consideration of the full list of 13 potential performance audit areas shown in Appendix 1 of your report (pp.13-17), a performance audit to these two areas must be accomplished before any other performance audit can be performed at Metro. In my view, if these two audits are not the first audits performed at Metro, the reports of any other performance audit will be suspect or necessarily heavily qualified regarding any recommended actions based on the audit.

Metro Policies and Procedures should establish the ground rules for the measurement of "whether resources (allocated for this purpose) are being used economically and efficiently." The comments provided in your report (p.13, item 3) clearly supports this viewpoint. Specifically:

"The absence of a highly visible policy structure at Metro could lead to conflicts and redundancies which are inefficient, at best, and likely counter-productive. Addressing this issue would impact the total organization, from the council to the lowest departmental level." (Emphasis added.)

General Fund/Cost Allocation also "impacts the total organization." You have accurately identified (p.13, item 2) that there are concerns about the fairness of our allocation process, and questions pertaining to the value received for funds contributed. Significantly, the allocation of overhead may adversely impact discussions about possible merging of additional functions within the region.

I agree with you that a performance audit could analyze the current allocation process, evaluate other funding options and provide an independent report which should alleviate concerns. Your observation may be overly optimistic, in that a substantial number of "concerns" expressed by various people regarding our cost allocation process are usually offered for self-serving purposes. Generally, our cost allocation process is used by people to foster the perception that Metro is not a successful operation. This is of course not true, but we all know perception can become reality.

For your information, the General Fund allocation budgeted for this fiscal year, as a percentage of Metro's total budget, is 2.5%. This is the lowest percentage for the Fund since Metro started operation in January, 1979. In short, these expenses are necessary for this organization to meet its responsibilities and operations.

A cursory survey of central service costs and general fund type costs of area local governments shows their percentage to range between 8.5 to 12 percent. Metro thus has proportionally lower costs than all of the other governments contacted.

The primary benefit that would be achieved from a performance audit of Metro's cost allocation process would be the determination of whether there is a commitment to a policy of cost efficiency through the economy of scale by consolidating similiar functions, i.e., accounting, budgeting, building, contracting, insurance, investments, legal services, personnel to cite a few of these services.

Your comment that there are internal concerns about the fairness of this process is significant only to the degree that it serves to identify yet another level of perception. I believe it is essential that the taxpayer and the ratepayer receive a fair return of their investment. In this regard, a performance audit could objectively examine the total cost of Metro's operations for the purpose of "evaluating and reporting on whether resources allocated for this purpose (taxes and fees) are being used economically and efficiently." I would be amazed if a performance audit failed to reduce the total cost of Metro's operation by at least the 10 to 1 ratio you project on page 9 of your report.

3. Protocol. In several instances in your report you have not been respectful of the status of the Executive Officer. There is no one at Metro who is more supportive of performance auditing than Rena Cusma. Yet the report you have prepared does not seem to recognize that Ms. Cusma is the regionwide elected official who is responsible to the electors of this district for the administration and the execution of the various programs of this agency.

Rena Cusma should be extended the courtesy of determining at what point in the performance audit process she desires to involve administrative personnel of this district. In my view, Ms. Cusma always should be the first and final contact person for the purpose of establishing the priorities of her administration. Further, she should be

consulted regarding the standards to be followed in an audit, options for staffing an audit function and the budget level for performance auditing at Metro.

Notwithstanding my earlier statement, I did not discuss the subject of protocol with Ms. Cusma. She has too much class to make this comment to you. I am independently offering this observation in the hope that Metro will establish a very successful and long-term performance auditing plan.

4. Audit Costs and Staffing. It is not important for the purpose of your report to the Council, however, the costs and staffing of any performance audit process must be supported totally by new resources. The staff time required to support a performance audit and the expense of such an audit are not currently available at Metro.

5. Organizing A Performance Audit Capability. I agree with your recommendations regarding the audit standards and initially contracting with an outside firm for this audit service (pp. 5-6, items 1-2). I have commented above regarding the other four major prerequisites for establishing a performance audit capability.

The 13 potential performance auditing areas cannot be evaluated at this time with respect to relevant priorities. The first year's results of the performance audits of Metro Policies and Procedures and the General Fund/Cost Allocation process will allow for a more appropriate risk analysis of the remaining 11 areas on the list (pp. 13-17).

Lastly, with respect to Metro's contracting process, the Executive Officer and a special task force of the Council are now reviewing this process in its entirety. I expect that the current contracting system will undergo major revisions. Hence, you may find it counterproductive to review Metro's contracting process until this review is finished.

Sincerely,

Raymond A. Phelps, Jr.

cc: Rena Cusma
Dick Engstrom

Resolution 89-1030



Talbot & Korvola
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON
PERFORMANCE AUDITING PLAN
FOR THE
METROPOLITAN SERVICE DISTRICT COUNCIL

DECEMBER 1988

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APPENDIX I - POTENTIAL PERFORMANCE AUDIT AREAS

EXECUTIVE SUMMARY

Talbot & Korvola has completed it's overall review of Metro operations and has developed a plan for the agency to initiate a performance auditing program.

We do not see any major impediments to a successful performance auditing function provided our recommendations are adopted and acted on by the Council.

Our primary recommendations are that Metro:

1. Adopt the U.S. General Accounting Office's Government Auditing Standards, as it's guide for performance auditing work;
2. Contract for the professional services to perform this function for at least the first two years, and provide for continuing contract service if appropriate;
3. Budget \$80,000 to \$100,000 for each of the first two years for the performance audit function.
4. Establish a risk analysis system based on nine key criteria to identify areas for performance reviews; and
5. Assign the audit oversight responsibility to the Council's Internal Affairs Committee.

Our rationale leading to these recommendations is included in the body of our report.

Appendix I contains a listing of potential audit areas for Metro to consider for specific reviews. We recommend that Metro schedule performance audits in the first year of at least two of the following areas:

1. Contracting
2. General Fund/Cost allocations
3. Metro Policies and Procedures
4. Solid Waste Revenues

We have also developed a Performance Audit Guide that contains a mission statement, standards, and operating procedures to be followed for Metro's performance audit function. This Guide is provided as a separate document.

INTRODUCTION

The Metropolitan Service District (Metro) Council entered into a professional services agreement with Talbot & Korvola, CPA's, on September 26, 1988 for the primary purpose of developing a performance auditing plan for Metro. The work includes identifying any potential impediments to successful performance auditing, and making recommendations to overcome any perceived problems.

The contractor's report and performance auditing guide was to include criteria for prioritizing work, standards to be followed, options for staffing the function, suggested budget level, and recommendations for specific performance audits.

BACKGROUND

Metro was formed by the Oregon Legislature in 1977, and approved by the voters in 1978 as a directly-elected regional government. The purpose was to avoid duplication of public services and to increase the accountability of regional government officials to the public through the election process.

Metro is governed by 12 elected Councilors and by an elected Executive Officer. Metro serves the urban areas of Multnomah, Washington and Clackamas Counties. This region represents nearly one million people from 24 cities in the three counties.

Metro is responsible by statute for coordination of region-wide issues in the Portland Metropolitan Area. Services are provided in solid waste disposal management, transportation planning, technical services to local governments, operation of the Washington Park Zoo, and construction and operation of the Oregon Convention Center.

Metro's adopted budget for 1988-89 includes funds for the following primary activities (not including transfers, contingencies, and unappropriated balances):

<u>Operations</u>	<u>Millions</u>
Planning and Transportation	\$1.8
Metro ER Commission	1.8
General Support Services	4.0
Convention Center	5.9
Zoo	7.1
Solid Waste	13.3
<u>Capital</u>	
Convention Center	\$34.9
Zoo	3.7
Solid Waste	3.5

WORK PERFORMED

To accomplish our objective, we performed the following:

1. Obtained an overview of the entire Metro operation. We interviewed individual Councilors, the Council Administrator and his staff, and the Executive Officer. We reviewed (a) Metro's enabling legislation, (b) the organizational structures and related operating and procedural manuals, (c) the Council's implementing legislation and resolutions, (d) current budgets, and (e) internal and external reports on Metro activities, including financial reports by Metro's external auditors.
2. Obtained a basic understanding of Executive Office operations. We (a) conducted in-depth interviews with the Executive Officer and her staff, all department managers and other key officials, and (b) reviewed pertinent data and records for all functions.
3. Obtained and evaluated accounting and other information systems and resulting reports.
4. Obtained and considered the views of elected auditors for the City of Portland and Multnomah and Washington Counties. We also reviewed the financial and management letter reports of Metro's independent financial auditors.
5. Met with Senator Glen Otto and members of the task force team evaluating Metro responsibilities and authorities.

PERFORMANCE AUDITING

We believe a fundamental understanding of performance auditing is important if Metro is to successfully implement our recommendations. Our report is based on this premise.

Performance auditing is a structured review of a program, organization, operation or function to evaluate and report on whether operating objectives are being achieved and whether resources (allocated for this purpose) are being used economically and efficiently.

Performance auditing essentially consists of two types of audits:

- Economy and efficiency audits are performed primarily to identify methods to improve procedures, usually at cost savings. This includes determining whether an organization's resources (i.e., funds, property, and personnel) are adequately controlled and used in an efficient, and economical manner.
- Program results audits are performed to evaluate whether desired results or benefits of an organization's programs

and activities are being achieved in accordance with applicable legislation, policy, or regulations. The audit also determines whether management has considered alternatives that might provide the same results at a lower cost.

Performance audits often lead to recommendations designed to improve program success and effectiveness. Most reviews produce measurable cost savings, increases in revenues, or other identifiable improvements. Performance auditing is not a substitute for management judgment, but rather is a management tool to assist in making decisions to improve operations. It differs from financial auditing which is directed towards forming an opinion on an organization's financial statements.

ORGANIZING A PERFORMANCE AUDIT CAPABILITY

Performance auditing can provide an opportunity to save money, increase efficiency, and improve the quality of products and the delivery of services. However, proper planning and thoughtful decisions need to be made during the organization of a performance auditing function to ensure the time and resources devoted will produce positive results.

There are six major prerequisites which Metro must consider in establishing a performance audit capability:

1. Establishing and adhering to appropriate auditing standards;
2. Obtaining the highest level of professional staff, whether in-house or through contracts;
3. Establishing an appropriate organizational structure to oversee the auditing function and assure that recommendations are acted on;
4. Establishing and following a system for prioritizing review efforts to obtain the most value for money spent;
5. Setting up appropriate administrative guidelines to assure an orderly process; and
6. Authorizing appropriate funding to perform reviews on a continuing basis;

We will address each of these areas separately as they relate to Metro.

1. Audit Standards

It is important to adopt standards to be followed with respect to planning the work, performing the audits, documenting performance, and reporting results. Standards will assist in establishing order and discipline in the conduct of the work.

The United States General Accounting Office (GAO) has been the entity most responsible for development of performance auditing in the public sector. In 1972 the GAO published a landmark guide, Standards for Audit of Governmental Organizations, Programs, Activities and Functions, subsequently known as the "Yellow Book". The standards, which were revised and reissued in 1981 and again in 1988, have helped shape much of the evolution of performance auditing.

We recommend that Metro adopt GAO's 1988 revised "Yellow Book", which is now titled Government Auditing Standards, as its guide for performance auditing work. In addition to updating the general audit standards, the revision includes separate chapters on "Field Work Standards for Performance Audits" and "Reporting Standards for Performance Audits" which cover all the essential elements for this type of audit.

2. Professional Staff - In-House or Contract

The GAO first general standard includes the requirement that:

"The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required."

The standards place responsibility on the audit organization to ensure that the staff can do the work. There are basic requirements for continuing education and training (80 hours every two years) to ensure the auditors keep current on audit developments.

There are other requirements for speciality areas such as computer knowledge, statistical sampling, engineering knowledge, etc. These qualifications apply to the knowledge and skills of the audit organization as a whole, and not necessarily to one individual.

When starting a new audit function, the question arises as to whether to establish an internal capability, contract with an independent firm, or pursue a combined approach. No single answer is right for all organizations. Each approach has its advantages.

Some advantages of internal capability include:

- Ability to shift assignments and priorities
- Organizational acceptance - i.e., that it will become a normal part of doing business
- Ability to mold working relationships
- Better knowledge of company operation over time.

Some advantages of contracting include:

- An experienced work force
- A greater range of expertise
- Staffing flexibility to assure timely project completion.
- Outside perception of true independence.

We recommend that Metro begin its performance auditing program by contracting for the services, rather than performing them in-house, for the following principal reasons:

- a. Independent contract auditors would provide a more objective, independent view. Nearly all of the Metro Councilors and Executive staff concurred in the importance of this factor to counter some of the outside criticism Metro has received.
- b. Size of staff. Our observations and experience with other similar size entities suggests that an effective internal audit organization would require a minimum of five professionals in order to cover the basic areas of competence necessary to meet the general standards for qualification of auditors. One person, acting alone, is seldom able to function effectively. Building an effective audit staff can be time consuming and expensive.
- c. Salary levels. A top professional performance audit manager will probably require a salary level of \$50,000 to \$60,000 annually. This level may be out of line with the salaries paid other Metro managers.

For continuity, we suggest the initial contract be established for a two-year period, with three one year options to follow at Metro's discretion. This will provide for the initial continuity which is important to start the program, and will allow Metro to re-evaluate this option after two years and decide the most appropriate way to proceed. Once funding is established and a performance audit contractor selected the reviews would be assigned as specific tasks. Detailed work plans and estimated budgets would be required before tasks were initiated by the Contractor.

3. Audit Oversight

An appropriate organization must be responsible for the performance auditing function. Audit oversight is important to assure the function is independent and can provide an objective analysis of Metro's programs and functions. It is also important to have the authority to assure that appropriate areas are selected for audit, that the function is properly funded and supported, and that audit recommendations are acted on in a timely manner.

In the case of Metro, the Council has general guidance, budgeting, and oversight responsibilities. Conversely, responsibility for administration and execution of the various programs falls directly within the purview of the Executive Officer. We believe Metro can best be served if the Council and the Executive Officer jointly participate in deciding areas to be examined, following preestablished criteria. However, final responsibility for audit selection as well as other oversight functions must devolve to the Metro Council.

In view of Metro's organization and structure, we recommend that the oversight responsibility rest with the Council's Internal Affairs Committee. This committee is currently comprised of the chairperson's of each of the council's various standing committees. It would therefore assure a full council viewpoint without requiring the difficult task of involving all council members in detailed discussions. A permanent staff person should be designated as audit coordinator to be responsible for preparing requests for proposals and assisting the Audit Committee in:

- Selecting the best qualified firm for contract award;
- Monitoring the contract to assure quality and timeliness of work; and
- Updating the risk analysis data and coordinating selection of areas for performance reviews.

4. Prioritizing Reviews

Approaching performance audit projects will likely be a new experience for those at Metro who will have the audit oversight responsibility. Most organizations can identify an abundance of possible performance audit subjects. The difficulty is not in identifying potential areas, but in sorting them out and deciding which ones are likely to yield the most useful results.

A well-rounded performance audit function will identify and weigh a variety of factors in establishing a balance of program, efficiency, and effectiveness reviews.

We recommend that Metro establish a risk analysis system to identify potential audit areas, based on the following criteria:

1. Suspected or potential fraud, waste, or abuse
2. Potential for cost savings
3. Potential for increased revenues
4. High risks of Metro liability
5. Size of program in terms of FTE and dollars
6. Number and size of outside contracts
7. Public interest in the operation
8. Financing from Federal or State grants
9. Financing from internally developed rates.

We suggest that the highest ranking areas be identified in a tentative audit plan for the next two-year period. This tentative audit schedule should be circulated to all Council members, the Executive Officer, and all department managers for their suggestions, comments, and concerns before the Internal Affairs Committee makes a final decision.

The risk analysis data should be updated and approved at least annually.

5. Administrative Guidelines

Guidelines are important so that all persons involved know the process and procedures that will be followed when conducting a performance audit. For example, who is to receive reports, when they are to be released, and who will deal with the media should the reports become public, are all important considerations.

One very important administrative matter is that all managers should be advised that they will have an opportunity to review and comment on draft reports before they are finalized.

The Audit Guide we developed as part of this review has the most important guidelines included.

6. Funding

This essential element is a product of top management commitment. Funds are always in short supply. However, the benefits resulting from a series of coordinated performance audit reviews, each building on the success of its predecessor, far exceed the results from sporadic, under-funded studies.

On an overall basis, successful performance auditing traditionally more than pays it's own way. A good program will have identifiable cost savings, increases in revenues, or other measurable benefits that exceed audit costs anywhere from a 4 to 1 to a 10 to 1 ratio.

The primary funding consideration for Metro is to establish an appropriate level to adequately establish the program with a long range view of increasing overall effectiveness.

The following information on other performance audit programs will be helpful to Metro in determining an appropriate funding level for this function:

- A. The Portland City Auditor has a staff of 10 professional auditors who work essentially all of their time on performance audits. Their 1988 budget is \$533,000, and they cover programs totaling about \$325 million annually.

Since this program started in 1984, they have prepared 36 audit reports identifying over \$8 million in potential savings and increased revenues. Each major review involves an average of 1500 hours, and requires about six months to complete.

The Chief Auditor is paid a salary of about \$52,000 plus extensive fringe benefits.

- B. The Multnomah County Auditor has a staff of 5 professional auditors who work 80 percent of their time on economy and efficiency, and program results audits. They also perform some work by contract.

The County's current budget is \$340,000 exclusive of fringe benefits which normally run at about 35 percent. They cover county programs with a total budget of about \$230 million.

The County identified savings of about \$750,000 in its last annual report on this subject which was issued in 1982.

In view of the size and diversity of Metro's programs, we recommend an initial minimum funding level of \$80,000 to \$100,000 annually. This would provide funds to make two major reviews a year, with some additional survey work, or time to respond to special requests.

INFORMATION SYSTEMS

Metro's financial accounting systems provide a significant amount of information, captured at sufficient detail to analyze costs. Deficiencies in the accounting system relative to timing and efficiency are being addressed in the Central Financial Management System currently under development. This fully automated system is scheduled for final implementation in mid-summer 1989.

We have not reviewed the planned system in depth and do not offer opinions on the computer system or implementation process. However, we have reviewed the proposed chart of accounts and the basic account number structure which is the primary building block of the system. Assuming the system is implemented on schedule and the detailed code structure is followed at the department level, the new system will provide sufficient information for performance audit analysis.

There will undoubtedly be a time period in 1989 where information systems overlap within certain departments. Currently there are instances where departments maintain their own fiscal information as backup to assure accuracy and timeliness. Although such activity appears redundant, (and may be eliminated after implementation of the Central Financial Management System) it will provide additional sources of information to assist in performance auditing cost analyses.

The organizational changes which have occurred in the past few years may make analysis complex. Comparability from period to period will be difficult to obtain. However, because substantial historical data exists, we do not believe a performance audit function will be impeded by a lack of consistent quantifiable information.

IMPEDIMENTS TO SUCCESSFUL PERFORMANCE AUDITING PROGRAM

We reviewed what we consider the seven basic ingredients required for a successful performance auditing program at Metro with the Council members, the Executive Officer, and other key staff. Brief comments on each of these points follow (several items are covered in other parts of this report).

1. A realistic understanding of what can be achieved. Our discussions with the individual Councilors and other Metro representatives at all levels revealed a refreshing understanding of the potential benefits to be gained through a performance audit activity.
2. Top management commitment. The discussions indicated that management will fully support a performance auditing program. Both the Metro Council and the Executive Officer appear fully committed to a performance auditing function.
3. Appropriate process and structure to oversee the performance audit function and implement recommendations. Such a structure and process can be readily implemented at Metro. This requisite is addressed in another part of this report.
4. Qualified professional audit staff. We have addressed this need in another portion of our report. It was interesting to note that almost all the Metro officials believed this function should not be performed by in-house staff.
5. Confidence of internal management. We were greatly encouraged by the support and confidence exhibited by all levels of management. In such a positive environment, there are strong reasons for optimism.
6. Appropriate funding to assure a high-level continuing review function. This area is covered in detail on page 9 of this report. The Council has the authority to commit the necessary funds to start this program.
7. Adequate accounting and information systems. This area is also discussed separately on page 10 of this report. We believe the accounting and information systems provide the basic data needed to begin analysis of specific programs or functions.

Conclusion

Based on our recommendations relative to staff, organization structure, and funding, we do not believe there are any major impediments to prevent Metro from implementing a successful performance auditing program. It is very important to start the program in the proper direction and build the confidence of all managers into accepting it as a basic part of Metro's management process.

SPECIFIC PERFORMANCE AUDITS

We recommend that Metro adopt a performance audit program to include reviews of organizational program areas as well as functional areas so that each activity receives some independent assessment over a period of time.

Typically organizational reviews start with a general survey of the programs carried out by that organization, to identify target areas for detailed examination. Then, specific detailed reviews are scheduled in accordance with overall priorities.

Functional areas usually are performed through a detailed examination since it has already been identified as a target area.

Our overview of Metro activities, and our risk assessment analysis based on criteria discussed on page seven of this report, identified several areas which we believe are appropriate for performance reviews at Metro. A brief description of these areas and the reasons for our selection are included as Appendix I.

We suggest that Metro provide resource capability to perform at least two major reviews a year, with additional time available to perform survey work and to respond to any specific concerns or problems that may arise during the year.

For the first year, we recommend that performance audit be performed in at least two of the following areas:

1. Contracting
2. General Fund/Cost allocation
3. Metro Policies and Procedures
4. Solid Waste Revenues

These areas and other potential performance audits are described in more detail in Appendix I.

APPENDIX I - POTENTIAL PERFORMANCE AUDIT AREAS

Our survey of Metro activities to determine potential areas for performance audits was based generally on the risk analysis system criteria shown on page 7 of this report. Where appropriate, we have mentioned the criteria in our area description.

The areas we have identified and the reasons for these choices are summarized as below. The first 7 issues are priority items which should be addressed first.

1. Contracting. The 88-89 approved budget shows Metro has 431 contracts that total about \$60 million.

The dollar amount of this program and the general nature of contracting indicate this is a high risk area for potential fraud, waste, or abuse. It also carries a high risk for Metro liability and, because of the number of people involved in the process, it represents a strong candidate for potential cost savings.

The specific area to be considered for a performance audit include:

- Organization, e.g., centralization vs. decentralization
- Policies and procedures (including issues between Council and Executive)
- Administration
- Audit
- Privatization issues

2. General Fund/Cost Allocation. The general fund totals about \$4 million which is used to finance council operations and Metro's central office functions. Funds are allocated from the zoo, solid waste, convention center, and other internal sources.

There are internal concerns about the fairness of the allocation process, and questions with respect to value received for funds contributed. The allocation of overhead may adversely impact discussions about possible merging of additional functions.

A performance audit could analyze the current allocation process, evaluate other funding options and provide an independent report which should alleviate concerns.

3. Metro Policies and Procedures

We noted differences in perceived policy and operating authority between the Council and the Executive Officer. There appears to be some differences as to the policy prerogative of the council and what executing authorities should be left to the Executive.

Some policies have evolved over time and are not easily found in authoritative form, leading to varying interpretation and

potential miscommunication. This means that a large and rapidly growing Metro organization is not supported by a highly structured, easily communicated set of ground rules. Considering the number of people impact by the administration of policy, it is not surprising to find some differences in this area.

The absence of a highly visible policy structure at Metro could lead to conflicts and redundancies which are inefficient, at best, and likely counterproductive. Addressing this issue would impact the total organization, from the council to the lowest departmental level.

A performance audit could be made in this area to (1) review in depth the authority and responsibility of each body as intended in the underlying legislation, (2) identify policies and determine how they are implemented, (3) identify the existence, cause, and effect of any factors which cause breakdowns in communication between the two entities, and (4) make recommendations as necessary to resolve any difficulties.

4. Solid Waste Revenues. This program generates over \$30 million annually from disposal and user fees, transfer charges, and a variety of other sources.

The dollar size of this program and the fact that most of the revenues are generated from internally developed rates where there is a high level of public interest makes this a high candidate for a performance review. A review would include:

- Evaluation of basis of setting rates, e.g., to carry out program objectives, recover costs, etc.
- Procedures to set rates for different operations
- Collection of revenues
- Audit procedures.

5. Survey of Solid Waste Program. This function has 39 FTE with an annual operating budget of about \$15 million exclusive of transfer and contingencies, and unappropriated balances. A significant amount of the work is performed by contract -- solid waste has about 75 active contracts including a \$366 million contract recently awarded for the Gilliam County landfill site, and will soon award a substantial contract for transfer of waste to that site.

A high percentage of the officials and staff interviewed believed that "Solid Waste has some problems" but were not specific as to where and why.

The FTE and operating dollars, the number and size of outside contracts along with the public interest suggest a high potential for cost savings through a performance audit. Since the program is so large, an audit survey should be undertaken first to evaluate overall operations, and to pinpoint specific target areas for detailed examination where it appears efficiencies are possible.

6. Zoo Revenues. The 88-89 budget shows that the Zoo will take in about \$11.6 million in revenues through taxes and internal operations which includes admissions, concessions, and railroad fees. The rates charged for internal operations are evaluated and changed annually.

In view of the large amount of revenues, of which about half are generated from internally developed rates which impact zoo visitors, a performance review could be made to:

- Identify the basis for the "50-50" policy of taxes versus internal generated revenues;
- Evaluate basis for setting rates in each internal area, i.e., recovery of costs or other objectives;
- Evaluate collection procedures;
- Determine whether appropriate audits are performed of concession and other revenue contracts.

7. Planning Fund. This fund receives about \$3 million of revenues annually from a variety of sources including Federal and State grants, dues and assessments, and several other sources. These funds are used to finance the Transportation, and Planning and Development functions.

The heads of these two organizations are responsible for generating these funds, and for setting the rates to charge for services.

The variety of revenue sources including Federal and State grants, and the amount of internally generated rates suggest a performance audit to include such areas as:

- Evaluation of policy for funding these functions;
- Review of sources of revenues;
- Evaluation of internally generated rates;
- Analysis of procedures to assure Metro is receiving all appropriate funds;
- Overview of Directors financial responsibilities versus program responsibilities.

8. Public Relations. Public Affairs is responsible for conducting Metro's communications program to inform the public of Metro's activities and services. It has a budget of about \$1.1 million with 14 FTE. As a practical matter, their work primarily involves activities supporting the solid waste program.

Other Metro organizations, namely the Zoo and the Convention Center, have their own marketing and public relations functions which includes staff and contracts with private organizations for additional support.

A performance review of this service could be performed to determine whether this split of functions results in duplications or inefficiencies.

9. Survey of Zoo Operations. The Zoo's 157 FTE represents the largest staff function within Metro. The 88-89 operating budget totals about \$11.6 million. The Zoo has a substantial number of operating contracts that total over \$1 million annually, in addition to construction contracts that will total about \$3.7 million for 1988-89.

The size of this program in dollars and FTE, and the number of outside contracts, together with the high level of public interest, indicate that a survey could be undertaken to evaluate overall operations. Any areas identified as potential for cost savings or other efficiencies should be targeted for specific detailed examination reviews.

10. Data Processing. The Department of Finance and Administration provides the central support for Metro's data processing functions. It is in the process of installing a revised accounting system and making other changes to increase their capabilities. It appears that other departments have a certain amount of their own data processing capabilities.

Data processing in general is a costly operation which should be looked at periodically through a performance review to provide management with an independent assessment of that function. One important consideration is whether possible duplication and inefficiencies exist because of decentralization or other problems. The use of outside contractors versus in-house staff and the basis for those determinations should also be reviewed.

11. Planning. The Planning and Development Department has certain responsibilities for regional land development and solid waste management planning, as well as for providing assistance to local governments. It appears that other departments have their own planning staffs. For example, three planning positions were recently moved from Solid Waste to Planning and Development, but several planning positions still remain in Solid Waste.

A performance review could be made to determine Metro's total planning responsibilities, and to identify where the functions are being carried out. Possible inefficiencies may exist if there is significant decentralization.

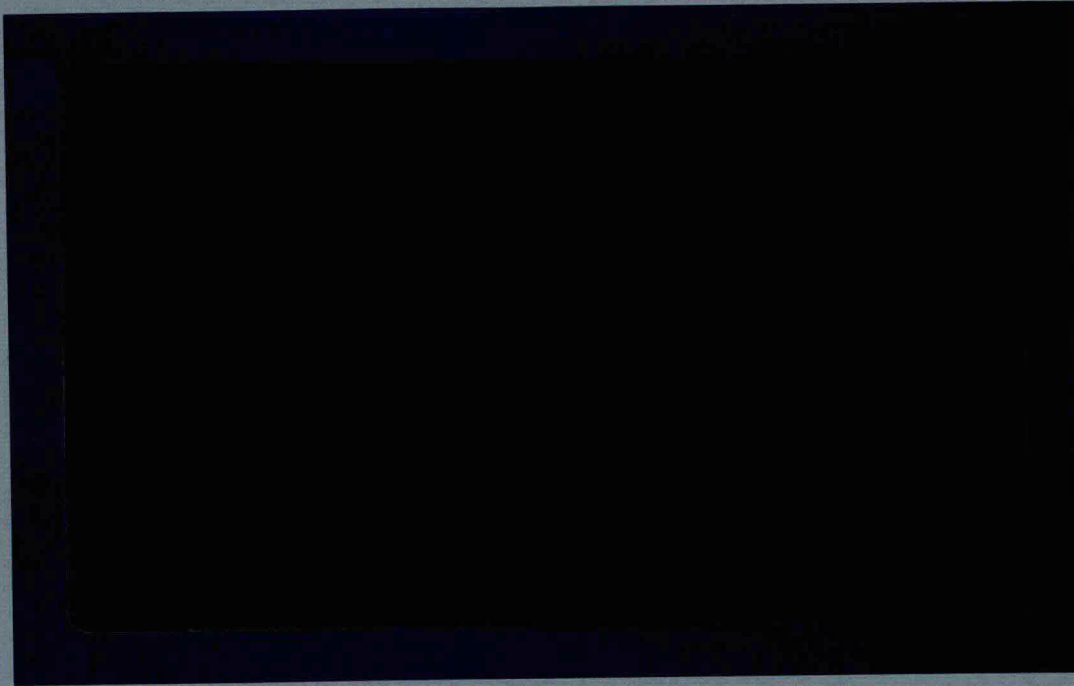
12. Purchasing. Purchasing is another area that is subject to potential fraud and inefficiencies if tight control procedures do not exist. Our brief review indicated that this function is also very decentralized.

A survey could be made of this area to obtain more information about the policies and control procedures to determine whether a detailed examination would be appropriate.

13. Cash Collection Procedures. The Zoo and Solid Waste programs generate and collect a significant amount of cash for admissions, concession operations, garbage collections fees, etc.

It appears that each department determines it's own policies and procedures for collecting and safeguarding cash receipts. Metro's external financial auditors have indicated some potential problems in this area, in their last two management letters.

This area may be adequately addressed by management in view of the financial auditors report, but it is the type of area where an independent performance audit function could take a quick look to assure appropriate follow-up action is taken.



Talbot & Korvola
CERTIFIED PUBLIC ACCOUNTANTS

METROPOLITAN SERVICES DISTRICT
GUIDE FOR PERFORMANCE AUDITING
JANUARY 1989

METROPOLITAN SERVICES DISTRICT
GUIDE FOR PERFORMANCE AUDITING

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Chapter I

INTRODUCTION

This guide provides the standards and procedural framework for performance audits carried out by Metro's audit staff, or by contractors performing audit services for Metro. It contains information and instructions necessary to perform audit activities in an efficient and effective manner.

Adherence to the policies and procedures contained in this guide will result in a product that conforms to audit standards; however, in many areas, the guidance provided is intentionally broad to allow the auditor to exercise professional judgement in specific applications. The final responsibility to accomplish the audit objectives in an efficient manner, consistent with generally accepted auditing standards, rests with the auditor in charge of each assignment.

MISSION

The purpose of performance auditing is to conduct independent appraisals of all facets of Metro operations, to assist agency management in attaining its goals by furnishing information, analysis, appraisals, and recommendations to assure programs are performed in a cost-effective manner.

ORGANIZATION

Metro's performance audit function is directed by the Council's Internal Affairs Committee which is responsible for:

- o General oversight
- o Recommending audit funding levels
- o Selection of internal staff and/or external contractor
- o Final approval of areas to audit
- o Follow-up on report recommendations

A staff person will be designated as audit coordinator who will assist the Internal Affairs Committee in:

- o Preparing requests for proposals
- o Selecting the best qualified firm for contract award
- o Monitoring the contract to assure quality and timeliness of work
- o Updating risk analysis data
- o Coordinating selection of areas for specific performance reviews

Chapter II

AUDIT STANDARDS

Each auditor employed by Metro or by a contractor working for Metro will comply with the standards that follow.

Auditing standards are criteria or measures of performance to guide auditors in their work. In 1948, the American Institute of Certified Public Accountants (AICPA) became the first professional body to approve and adopt standards for auditing. In 1972, the Comptroller General of the United States published a statement of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." This publication was revised in 1981 and again in 1988. The Comptroller General statement generally incorporated the AICPA standards but expanded the standards to satisfy the broader requirements and interests of users of Governmental audit reports.

Metro has adopted the 1988 revision of the U.S. General Accounting Office standards titled Government Auditing Standards and all appropriate AICPA standards as its basis for performance auditing work. A complete copy of the revised standards are included as an attachment to this Audit Guide.

The pertinent standards that relate to Metro's performance auditing function include:

A - Definition of Performance Audits

Performance audits include economy and efficiency and program audits.

1. Economy and efficiency audits include determining (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.
2. Program audits include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with laws and regulations applicable to the program.

B. - General Standards

1. The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

2. In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
3. Due professional care should be used in conducting the audit and in preparing related reports.
4. Audit organizations conducting government audits should have an appropriate internal quality control system in place and participate in an external quality control review program.

C. - Field Work Standards for Performance Audits

1. Work is to be adequately planned.
2. Staff are to be properly supervised.
3. An assessment is to be made of compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives.
4. An assessment should be made of applicable internal controls when necessary to satisfy the audit objectives.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' judgements and conclusions regarding the organization, program, activity, or function under audit. A record of the auditors' work is to be retained in the form of working papers. Working papers may include tapes, films, and discs.

D. - Reporting Standards For Performance Audits

1. Written audit reports are to be prepared communicating the results of each audit.
2. Reports are to be issued promptly so as to make the information available for timely use by management and legislative officials, and by other interested parties.
3. The report should include a statement of the audit objectives and a description of the audit scope and methodology.
4. The report should be complete, accurate, objective, and convincing, and be as clear and concise as the subject matter permits.

5. Written audit reports are to be submitted by the audit organization to the appropriate officials of the organization audited, and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions, ethical considerations, or other arrangements prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

Chapter III

CRITERIA FOR SELECTING PERFORMANCE AUDITS

Metro will establish a performance audit program that includes a balance of program, efficiency and effectiveness reviews. The following risk analysis criteria will be used to identify potential audit areas and will form the basis for the annual performance auditing plan.

1. Suspected or potential fraud, waste, or abuse
2. Potential for cost savings
3. Potential for increased revenues
4. High risks of Metro liability
5. Size of program in terms of FTE and dollars
6. Number and size of outside contracts
7. Public interest in the operation (Includes "hot buttons")
8. Financing from Federal or State grants
9. Financing from internally developed rates.

Initially, there will be a backlog of meaningful projects. The risk analysis criteria should be used to rationalize the process and provide an indication of relative importance. Projects which need attention will tend to move forward and "identify themselves" as the criteria are subjectively applied.

As the performance audit function becomes a standard management tool of METRO it will be appropriate to add point scores and weighting to the decision criteria. This will occur because (a) the benefit differential to be achieved from specific projects will become less and (b) METRO personnel will have more information and a better grasp of how criteria are applied. Weighting should change each year.

No matter what risk analysis process is used for selecting performance audit areas, the recommendations should always be justified by referring to the basic selection criteria.

The results of the annual risk analysis will be circulated to Council members, the Executive Officer and through the Executive officer, to Department Managers as appropriate, for their suggestions and comments. The Internal Affairs Committee will consider all input in arriving at a final decision for specific performance reviews.

An initial risk analysis assessment was performed as a part of the process to establish a performance auditing plan for Metro. That assessment identified 13 potential audit areas as follows:

1. Contracting
2. General Fund/Cost Allocation
3. Metro Policies and Procedures
4. Solid Waste Revenues
5. Survey of Solid Waste Program
6. Zoo Revenues
7. Planning Fund
8. Public Relations
9. Survey of Zoo Operations
10. Data Processing
11. Planning
12. Purchasing
13. Cash Collection Procedures

The risk analysis data suggests that the first four areas should receive top priority. All four represent major program reviews. Metro should consider that each major review will encompass from 800 to 1200 hours to achieve, with the difference in hours depending on the scope and results achieved in each review. The audit team will generally be composed of the following categories of audit professionals:

	<u>Range of Hours</u>	
Audit Director	80	120
Audit Manager	160	240
Audit Seniors	240	360
Audit Juniors	<u>320</u>	<u>480</u>
Total	800	1200

By comparison, an initial survey, such as that suggested for the solid waste program, will generally require from 300 to 400 hours as follows:

Audit Director	30	40
Audit Manager	75	100
Audit Seniors	120	160
Audit Juniors	<u>75</u>	<u>100</u>
Total	300	400

A survey is used to develop sufficient information to identify those specific areas where more detailed performance audit is likely to be profitable.

Chapter IV

ANNUAL AUDIT PLAN

After the initial decision is made to select the areas for performance audits, a plan will be developed to provide more specific details with respect to each planned review, which will include:

- o Specific objective
- o Outline of the audit program
- o Estimated hours by labor category
- o Staffing plans
- o Planned beginning date and target date for completion
- o Total estimated cost

This annual plan will be formally approved by the Metro Council prior to beginning new work each fiscal year.

If the work is to be performed by contract, the annual plan data will be used as the basis to establish a Task Order for each specific review. The Task Order will become, in essence, a subcontract and will provide for more control of the overall contract.

Quarterly reports will be made to the full Metro Council to provide current information on the status of each performance review.

Chapter V

AUDIT INSTRUCTIONS

A. Planning Specific Assignments

When a decision is made to make a survey or review a specific area, a "Project Assignment" form will be prepared which is the official basis for performing the work.

These forms contain very brief information with respect to the project, staff assigned, estimate of days to complete, and target report date. It is important to provide clear and concise information on the objectives to be achieved since this becomes the basis for the audit program and report product.

After the project is authorized, the Audit Coordinator will send a letter to the organization or organizations which will be reviewed to explain the purpose (objectives) of the review, who will be in charge, estimated time to complete, etc. An entrance conference will be scheduled to discuss the project in more detail. It is extremely important that top management be made aware of the purpose of the audit to assure that their staff cooperate fully with the staff performing the review.

PROJECT ASSIGNMENT

Project Number:

Project Description:

Overall Objective:

Requested by or Basis for Review:

Staff Assignments:

Lead Auditor:

Auditor-In-Charge

Assistants:

Staff-Day Estimate:

Estimated Report Date:

Approved: _____

B. Audit Program

An audit program is a detailed plan of action of an audit examination. It should include pertinent information on the activity to be audited and the general audit approach. Audit programs will be prepared for general survey reviews and for detailed reviews of specific activities.

Survey programs will ordinarily be less detailed than review programs and will contain broad objectives and guidelines for attaining those objectives. Review programs should be more precise since areas warranting detailed examination will have been identified, generally, on the basis of survey work.

1. Standards For Program Preparation

The following standards are applicable to the preparation of audit programs:

- a. Objectives must be stated as specifically as possible.
- b. Objectives must be attainable on the basis of the work provided for in the program.

2. Explanation And Reasons For Work Steps

Clear explanations for each work step is mandatory in all audit programs for the following reasons:

- a. The staff member carrying out the work must know why it is being done. With this information, the auditor can be expected to do a much better job than if asked to perform blindly.
- b. The practice minimizes the inclusion of unnecessary work steps. (Sometimes the inability to cite a good reason for doing something leads the program writer to conclude that the work step is really not necessary.)
- c. It makes possible a more intelligent review of the program for advance approval and post review of the work performed.

3. Basic Requirement

All audit assignments, both surveys and reviews, should be controlled by audit programs. These documents represent the plans for work to be done during audits based on approved objectives and available information of the activities, operations, and procedures of the activity or organization being audited.

4. Organization And Contents Of Audit Programs

Each audit program should generally contain four basic parts, an introduction, a statement of objectives, special instructions (including comments on possible problem areas), and detailed work steps.

a. Introduction

The introduction should contain background information on the agency or activity which is useful to the audit staff in understanding and carrying out the program. It should be as brief as possible but should generally include both financial and program information, especially as such information relates to the overall objectives of the program being audited.

b. Statement of Objectives

The objectives of an assignment are the specific goals or end results which are intended to be achieved. They are not work steps as such. The specific objectives should be stated clearly with reference to (1) the issues to which the audit will be directed, and (2) any improvements expected as a result from the audit efforts.

For both survey and review assignments, this section should briefly summarize the general audit approach, planned reporting pattern, and other substantive points on management and milestones for the assignment. A proposed report outline or table of contents should be appended to the audit program if possible.

c. Special Instructions

This section should contain any special instructions regarding:

- (1) The procedures to be followed in handling significant or unusual developments which may arise during the audit;
- (2) Identification of areas that are susceptible to theft, fraud, waste, and misuse;
- (3) Office policy having a unique bearing on the assignment;
- (4) The method to be followed in indexing and filing working papers;
- (5) Other important matters not covered elsewhere in the audit program.

d. Detailed Work Steps

These are the specific directions for carrying out the assignment. Separate work steps are needed to meet the objectives for each audit segment.

Some flexibility is necessary in carrying out the detailed work steps because conditions can change and necessitate the redirecting of the audit work and require changes in the audit program.

e. Staff and Time Estimates

Plans for review work should include estimates (in terms of staff hours and calendar days) of the time required to do the work. Although these are preliminary estimates, they provide a basis for the supervisor to review the progress of specific segments of the work. They are also useful in determining how many staff members should be assigned to do the work in a timely manner.

C. Audit Working Papers

1. Background. The primary purpose of the performance audit is to provide management with independent and informed opinions of the adequacy, effectiveness, and efficiency of the various organizations, activities, and functions under review. This is accomplished through the audit report. The person responsible for the audit must be assured that what is reported to management is fully supported in well-documented, accurate, and professionally-prepared workpaper files. Audit workpapers are the primary evidence of the performance of an audit and provide historical data for use in future audits of a specific entity. This section sets forth standards for the preparation of workpapers and workpaper files.
2. Purpose of Workpapers. Workpapers serve as a record of work performed, audit findings, and recommendations. They provide documentation and support for all audit reports and are also used during:
 - a. Exit briefings with operating and management personnel at the conclusion of each audit;
 - b. Other management-related discussions with responsible personnel;
 - c. Investigations following disclosures of fraud, falsification of records, irregular conduct, or other significant matters;
 - d. Internal supervisory and operational reviews of audit work accomplished.
3. Workpaper Files. Workpaper files fall into two general classes: permanent and current.
 - a. Permanent Files. Permanent files are established for each audit entity. Material maintained in the permanent file such as organizational charts, functional statements, forms, etc., should be of a continuing or recurring nature that will be useful during review or future audits.

- b. Current Files. A current file is prepared for each audit by the auditor(s) involved. Each workpaper included in the current file will consist of a narrative summary, followed by supporting schedules and exhibits, if appropriate. The auditor will use professional judgement and initiative in determining the manner of presentation. In all cases, workpapers should be complete and accurate, clear and understandable, legible and neat, and contain only those data and materials directly pertinent to the audit and related reports.
4. Findings With Deficiencies/Discrepancies. When reportable conditions are identified, they should be summarized in narrative form for ease in organizing the audit report. The auditor should think "report writing" when organizing and preparing reportable findings for workpaper summarization. Each finding should contain four distinct elements: condition, criteria, cause, and impact.
 - a. Condition. This element of the finding is a statement that concisely presents the facts to show what is actually transpiring for the activity being reviewed.
 - b. Criteria. Identification of the standard to which the condition is being evaluated. Criteria identification is important to insure that the reader understands the basis of the evaluation.
 - c. Cause. This element should explain how or why the discrepant condition came about. Causal factors are the circumstances that stimulate or permit deficient conditions. The identification of the cause of the condition is the key to determining the proper corrective actions to be recommended. If the cause cannot be economically determined, the "finding" should be reevaluated to ascertain if a reportable finding exists.
 - d. Impact. This is the demonstrated or potential effect that the condition found has on resources and/or effectiveness. Without an impact, there is no substantial finding.

When combined, these four elements provide the reviewer with enough information to evaluate the validity and materiality of a finding in a concise format suitable for later reporting purposes.

5. Evidence. Evidence is the specific information obtained by observing interviewing, and examining records. A basic examination and evaluation standard requires that the evidence obtained be sufficient to provide an appropriate factual basis for the auditors' opinions, judgements, conclusions, and recommendations. Evidence should meet the basic tests of sufficiency, competence, and relevance. Audit workpapers should show the details of the evidence relied upon and should disclose the procedures used to obtain it.

AUDIT REPORTS

1. Writing Audit Reports

The performance audit reports are issued to:

- o Provide information to management, and/or
- o Stimulate constructive action.

Audit reports will normally be directed to the Metro Council and will usually include a letter or a memo for the Council to send the report on to the concerned organization. As such, it is very important that the reports be clearly written and easily understandable. They must be based on solid factual evidence which convinces the reader that the information is useful, and the recommendations will provide for improved management.

2. Report Format

Each review will result in a formal audit report which will generally include the following sections:

a. Introduction

This information is to set the stage for the reader to explain why the review was performed and to offer some perspective to lead into the main message.

(1) Background

This section should include information which shows the nature and size of the particular function reviewed, responsible organization, dollar volume or other data to show significance, and any other pertinent factual data.

(2) Scope

This will identify work performed, i.e., records reviewed, officials interviewed, locations visited, etc. In some instances, it will be appropriate to also show work not performed where a review is limited.

In performance audits, the scope should include a standard statement that the "review was performed in accordance with the U.S. General Accounting Office's Government Auditing Standards and included such tests of accounting records and other auditing procedures as were considered necessary under the circumstances."

b. Findings and Conclusions

This is the main body of the report which includes all the necessary factual data to support the criteria, cause, and impact of the specific area or points reviewed.

(1) Summary

The first and most important part of this section is a highlight paragraph which summarizes the main point of the finding. The basic intent is to give the reader a quick report on the message of the finding as the reader may not read any further. The main recommendation will also be included in brief form.

(2) Findings

A separate side caption will be used for each separate finding. The purpose is to provide ease in reading the report by having an eye-catching comment that conveys the main message of the finding. Generally, the side captions should be in positive terms showing what action is needed to correct a deficiency (presuming an adverse finding) or to show the results of a review (which could also include a positive comment if everything appears in order). If a deficiency found in the review is already being corrected, this should also be indicated.

Each finding should include sufficient factual data to support the results of the review. The auditor needs to exercise judgement in determining how much factual data is needed to convince the reader of the main point without including too much detail or irrelevant data which will lose a reader.

(3) Opinion or Conclusion

In most cases, it is important to state the auditor's conclusion or opinion based on the results of the review. It is important to make sure there is sufficient factual data included in the body of the finding to support the opinion or conclusion. The factual data in the finding section should flow in such a manner as to lead the reader into automatically agreeing with the opinion or conclusion stated.

c. Recommendations

The recommendations should flow logically from the factual data in the report to support the cause part of the finding. The recommendations should be constructive and brief so there is no question as to what is needed to correct a situation. It is extremely important to be specific as to what organization or which official needs to act and when.

d. Officials' Comment

This section should be added to all reports after exit conferences have been held with officials of the responsible organizations. A statement should be included which identifies persons contacted and whether or not they agreed or disagreed with the findings and recommendations included in the audit report. If management is in agreement, the report can be very positive and should acknowledge that corrective action is currently being planned or has already been carried out.

If responsible management disagrees with conclusions and recommendations in a report concerning a major issue, either in terms of dollars or program importance, management comments should be obtained in writing and attached to the final report. This will assure that the reader of the report will have all pertinent data to review.

3. Referencing Audit Reports

The purpose of referencing is to provide additional assurance that reports are factual, consistent with policy guidelines for report writing, and that the conclusions and recommendations logically follow the factual data presented in the report.

All factual data included in an audit report must be supported by evidence included in the working papers. When a draft report is in the final stages (usually prior to discussion with the staff from the organizations involved), the report should be referenced by an auditor who has not worked on that assignment. All factual data should be tracked to the working papers to assure the data is accurate. Normally, a report should be referenced to workpaper summaries which have been reviewed and signed off by the audit supervisor. It is particularly important to double check dollar amounts.

It is not possible to establish precise procedures for referencing. The auditor performing reference work must use common sense and judgement to achieve the main objective of insuring that the audit report is supportable.

4. Processing Audit Reports

When audit work is completed and a draft report prepared, it is important to obtain management review and comments and issue the report in a timely manner.

The processing procedures that will apply are as follows:

- a. The Audit Coordinator will provide a draft report to the responsible organization and arrange an exit conference within four weeks with the Executive Officer or other

official designated by the Executive Officer. It is important that all factual data is verified and agreed upon and that comments are received from responsible officials regarding opinions, conclusions, and recommendations contained in the audit report.

- b. The report will be revised, if necessary, to include comments of responsible officials and the report will be issued to the Metro Council.
- c. If the Council agrees with the report and recommendations, they will issue the report to the responsible Metro organization.
- d. The responsible Metro organization will respond to the Council within 30 days with a specific plan for implementing the recommendations. The plan will identify the responsible official and include an implementation plan and timetable.
- e. The Audit Coordinator will establish follow-up procedures to evaluate actions proposed to carry out recommendations and actions taken by responsible staff to carry out the plan. The staff will keep the Council apprised and will request follow-up, if necessary, from the Internal Affairs Committee if timely or appropriate action is not taken.
- f. The audit staff will provide a final letter to the Council when all actions are completed by responsible Metro management officials.
- g. The Council will establish appropriate policy and procedures with respect to the dissemination of reports to the public.

Chapter VII

FOLLOW-UP ON AUDIT REPORT RECOMMENDATIONS

One essential part of a successful audit program is to follow up on report recommendations to assure top management that appropriate action is being taken on a timely basis.

The Internal Affairs Committee is responsible for assuring that adequate internal procedures are established to follow up on recommendations and that staffing is available to perform the work.

Follow-up work will consist of two elements:

1. Assurance that line management responds in a timely manner with an appropriate plan to implement each recommendation.
2. Assurance that the necessary action has been taken by line management to implement any changes required to carry out the recommendations.

Procedures that will apply under each element follows:

1. Initial Follow-up

When an audit report is issued, management should respond within 30 days showing what action has been or will be taken in response to each audit report recommendation.

- a. A special form entitled "Follow-up Report on Audit Recommendations" (copy attached) will be initiated when a report is issued for each recommendation or grouping of recommendations that fit together.

The audit staff is responsible for assuring that the action proposed by line management is appropriate.

Later Follow-up

- a. The Audit staff will determine when a follow-up review is necessary (timing) to assure that action has been taken.
- b. The Audit staff is responsible for follow-up work in the same manner as for initial assignments. That includes preparing a new Project Authorization, developing a short program, notifying line management, supervising the work, and drafting a report, if appropriate.
- c. Follow-up work will usually result in a report of the actions taken. If line management has implemented or otherwise satisfied all recommendations, a short letter report will suffice. If, however, no action has been taken, or the action is not appropriate, timely, etc., a more formal follow-up report may be necessary.

- d. When satisfied that adequate follow-up work is completed, the Audit Staff will complete the Follow-up Report and the final approved form will be included in the project file and will constitute final completion of that project.

FOLLOW-UP REPORT ON AUDIT RECOMMENDATIONS

Title:

No. _____

Date:

Auditor:

Required Response Date:

Recommendation

Response (summarize and list action to be taken)

Date:

From:

Action Taken to Implement Recommendations (show specific action taken)

Summary of Savings or Other Benefits

Recommend Closing File