

BEFORE THE COUNCIL OF THE  
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF APPROVING ) RESOLUTION NO. 90-1214  
CONTRACT FOR PERFORMANCE )  
AUDIT SERVICES ) Introduced by the Finance Committee

WHEREAS, The contract for Performance Audit Services has been designated as an "A" type and is for a multi-year period thus requiring Council approval;

WHEREAS, The Council adopted Resolution No. 89-1187 on December 14, 1989 approving and authorizing the release of a Request for Proposals for Performance Audit Services;


WHEREAS, Five responses to the RFP were received and a selection committee was established to review the written proposals and interview selected proposers; and

WHEREAS, The selection committee recommends that KPMG Peat Marwick be retained to be the District's performance auditors for FY 1989-90 through FY 1991-92; now, therefore,

BE IT RESOLVED,

That the Council of the Metropolitan Service District approves the contract with KPMG Peat Marwick to provide performance services attached as Exhibit A to this Resolution.

ADOPTED by the Council of the Metropolitan Service District this  
8th day of February, 1990.

  
\_\_\_\_\_  
Tanya Collier, Presiding Officer

ATTEST:

\_\_\_\_\_  
Clerk of the Council



**METRO**

2000 S.W. First Avenue  
Portland, OR 97201-5398  
503/221-1646

# Memorandum

DATE: January 29, 1990  
TO: Finance Committee  
FROM: <sup>J.G.</sup> Councilor Gardner  
RE: Resolution No. 90-1214 For the Purpose of Approving a  
Contract for Performance Audit Services

The purpose of this memo is to provide information to the Finance Committee on Resolution No. 90-1214 which is on the Committee's February 1, 1990 agenda. The action requested is approval of a recommendation to the Council to adopt Resolution No. 90-1214.

Background information on this contract is as follows:

1. The Council had a Performance Audit Plan prepared in 1989 which recommended that the performance audit program be commenced by engaging an outside consulting firm for a multi-year period.
2. Council staff prepared a Request for Proposal for performance audit services with the assistance of a task force which included: Alan Percell, Washington County Auditor; Dick Tracy, City of Portland Auditor's Office; Sandra Suran, citizen; Dick Engstrom, Deputy Executive Officer; Councilors Collier, Gardner and Van Bergen; and Council staff members Carlson and Marlitt. The RFP indicated the term of the engagement was three fiscal years and the initial audit would concentrate on selected central support service functions of the District.
3. The Council approved the RFP for release for response by the adoption of Resolution No. 89-1167 on December 14, 1989. The Council received written responses to the RFP from five firms, including: Coopers and Lybrand; Deloitte and Touche; Ernst and Young; KPMG Peat Marwick; and Talbot, Korvola and Warwick.
4. The RFP Task Force was asked to serve as the Selection Committee for this RFP. Working members of the Selection Committee were: Jim Gardner, Chair; Don Carlson; Dick Engstrom; Jessica Marlitt; Alan Percell; and Sandra Suran. Councilor Van Bergen attended two Committee meetings, but did not participate in the rating and selection. Each Selection Committee member received copies of each written proposal. They were asked to rate the written proposals

based on the criteria included in the RFP. The Committee met on January 22, 1990, and discussed the results of the initial ratings. Based on the initial individual ratings, the Committee decided to interview three firms, including: Talbot, Korvola and Warwick; Deloitte and Touche; and KPMG Peat Marwick. Attachment 1 shows the initial ratings of the written proposals.

5. The Selection Committee held interviews on January 23, 1990, and asked each firm the questions indicated on Attachment 1. Based on the responses to these questions and Committee deliberations, the Committee concluded that KPMG Peat Marwick would be best suited to provide performance audit services to the District. The Committee was impressed with the depth of experience of the two principal persons assigned to this contract by Peat Marwick and the number and types of performance audits performed by the company. Attachment 2 shows several of the most relevant audits performed by Peat Marwick. Council staff was instructed to discuss the possibility of leveraging work on this performance audit with work that Peat Marwick does on the District's financial audit. Based on these discussions, Peat Marwick will perform follow-up work on the performance audit recommendations at the time they complete the FY 1990 financial audit, at no additional cost to the District. Council staff completed two reference checks which turned out to be satisfactory.

The terms of the contract include a three fiscal year period (FY 1989-90 through FY 1991-92) with an initial scope of work (selected support service functions--Financial Management, Data Processing, Personnel, Contract Administration and Construction Management) to cost \$39,904. Currently, there is \$40,000 included in the Council Department's FY 89-90 budget to pay for the first year's work. Subsequent work under this contract will be the subject of budget decisions made by the Council each fiscal year and contract amendments brought to the Council for approval of a new scope of work and budget.

JG:DEC:aeb  
Attachments

A:\FIN0129.MEM

**RESULTS FROM THE PERFORMANCE AUDIT  
SELECTION COMMITTEE WRITTEN EVALUATIONS  
JANUARY 22, 1990**

**SELECTION COMMITTEE:** Councilor Jim Gardner; Councilor George Van Bergen; Dick Engstrom, Deputy Executive Officer; Don Carlson, Council Administrator; Jessica Marlitt, Council Analyst; Alan Percell, Washington County Auditor; Sandra Suran, Citizen Representative

**WRITTEN EVALUATION RESULTS:** (2 Committee members did not complete the written forms)

	----- RFP SECTIONS -----			TOTAL SCORE - RANK
	1	2	3	
TALBOT, KORVOLA & WARWICK	1405	689.5	115.5	2210 - 1
DELOITTE & TOUCHE	1275	689.5	124.5	2089 - 2
PEAT MARWICK	1180	682.5	111	1973.5 - 3
COOPERS & LYBRAND	1205	624	108	1937 - 4
ERNST & YOUNG	1115	626.5	117	1858.5 - 5

The Selection Committee agreed to invite Talbot, Korvola & Warwick, Deloitte & Touche, and Peat Marwick to interview on Tuesday, January 23, 1990. Upon contacting the firms, they were given the following instructions for the interview:

- 1) 1st half-hour - Tell us why you should be selected for this engagement; included in this presentation should be how you will meet our needs for future audits;
- 2) 2nd half-hour - respond to specific questions.

Selection Committee members discussed the following questions for the interview:

- o For Talbot, Korvola & Warwick (small, local firm, without the extensive technical staff offered by the large accounting firms), how will they handle Metro's other performance audit areas in the future?
- o What approaches will the firms take for future audits? How does each firm view the use of technical expertise in conducting performance audits?
- o What do the firms project for specific "deliverables" and how will they be prepared and completed?
- o How will the firms define their "client relationship" and how will they work within Metro's bifurcated system?

b:\pafinal.lst

## MANAGEMENT RESPONSIBILITY

Mr. Robert T. O'Neill will be the Peat Marwick representative responsible for managing the Metropolitan Service District performance audit for the duration of the engagement. Mr. O'Neill is a principal in the Peat Marwick Sacramento office, and he is responsible for that office's Government Resource Management Consulting practice. A more complete description of Mr. O'Neill's experience and responsibilities is included in his resume in Appendix A to this proposal. Mr. O'Neill is authorized to contractually bind the firm.

## PROJECTS SIMILAR SIZE AND SCOPE

Peat Marwick has performed a number of performance audits of similar sizes and scope to those listed in Metro's Performance Audit Plan. Examples of these audits are listed below.

### Performance Audit of the Lane County District Attorney's Office

The performance audit of the Lane County District Attorney's Office focused on identifying potential opportunities for the Office to improve upon the efficiency of Office operations and its capability to effectively provide legal services to the citizens of Lane County. The audit also identified potential cost saving measures for District Attorney's Office. Further, the performance audit served as a constructive model in designing a performance audit function for the Office of the County Administrator in Lane County.

This performance audit focused on the following key issues: reporting needs, policies and procedures, administrative support, staff utilization, and automated office systems and processes. The final report presented the audit findings, conclusions and recommendations in each of the areas reviewed.

The audit found that partly because of its limited automated capabilities, the Office's information needs were not always met. To meet management information needs, the Office needed to generate timely reports and reliable statistics. In addition, the Office needed to improve training efforts and clarify office functions through the development of formal policies and desk procedures which support the Office's activities. The audit also identified specific alternatives to improve office operations and better utilize available resources.

Most importantly, the audit identified a high potential for automating office operations in Metro Attorney's Office. Activities such as tracking and scheduling cases, preparing routine form letters and correspondence, and establishing court dockets were recommended for automation. Finally, the audit identified systems alternatives available to the Office and presented recommended steps for system selection and implementation.

**Reference:** Mr. David Suchart  
Performance Auditor  
Office of the County Administrator  
Lane County Public Service Building  
125 East 8th Avenue  
Eugene, Oregon 97401  
(503) 687-4207

**Performance Audit of the Accounting and Purchase System of the City of Milpitas**

Peat Marwick performed a review of the existing accounting and purchasing systems of the City of Milpitas, California. The project included a review of each of the major applications utilized by the City's Finance and Purchasing Departments to support its on-going accounting, purchasing and reporting requirements. The primary objectives of the project were to: evaluate whether the information currently being maintained meets the City's requirements; determine if the information maintained is in conformance with generally accepted accounting principles and accepted accounting practices; and develop recommendations for improving the City's financial and purchasing systems.

**Reference:** Olivia Williams  
Financial Analyst  
City of Milpitas  
455 East Calaveras Boulevard  
Milpitas, California 95035  
(408) 942-2345

**Development of the Accounting and Purchasing System Requirements for the City of Milpitas**

Peat Marwick is currently performing a study to define the accounting and purchasing system requirements for the City of Milpitas, California. His responsibilities include identifying and documenting the functional and system requirements for the City's accounting and purchasing operations. The result of this project will be the documentation of the City's current and future system requirements (hardware and software) to meet its accounting and purchasing needs.

**Reference:** Olivia Williams  
Financial Analyst  
City of Milpitas  
455 East Calaveras Boulevard  
Milpitas, California 95035  
(408) 942-2345

**Development of the Accounting and Purchasing System Requirements for the City of Milpitas**

Participated on a project to review the existing accounting and purchasing systems of the City of Milpitas, California. The project included a review of each of the major applications utilized by the City's Finance and Purchasing Departments to support its on-going accounting, purchasing and reporting requirements. The primary objectives of the project were to: evaluate whether the information currently being maintained meets the City's requirements; determine if the information maintained is in conformance with generally accepted accounting principles and accepted accounting practices; and develop recommendations for improving the City's financial and purchasing systems.

Reference: Olivia Williams  
Financial Analyst  
City of Milpitas  
455 East Calavaras Boulevard  
Milpitas, California 95035  
(408) 942-2345

**Performance Audit of Staffing of the City of San Diego Capital Improvement Program**

The objective of this on-going audit is to document the current staffing levels of the Capital Improvement Program, define staffing requirements and to provide recommendations in terms of staff adjustments and refinements in roles and responsibilities. Project managers in the program feel that their work load is too high and that the staffing levels and lack of adequate support staff adversely affect their ability to deliver on their responsibilities.

The audit involves the use of a structured productivity analysis tool to review the work distribution of activities performed by staff and management position. Peat Marwick will work with program staff to develop the data base to perform the analysis.

Reference: Mr. John Gavares  
Manager Productivity Improvement Program  
City of San Diego  
San Diego, California  
(619) 236-6544

**Performance Audit of Maintenance Contracting Activities of the San Francisco Bay Area Rapid Transit District (BART)**

Peat Marwick was engaged by the San Francisco Bay Area Rapid Transit District (BART) to audit the internal controls over the procurement practices of the Power and Way Section of BART maintenance operations. The Power and Way Section is responsible for maintenance and repair of the BART stations and adjacent right of way. The review identified serious weaknesses in the

segregation of duties for the initialization of requisition, selection of vendors, award of contracts, receipt of material, and approval of payment to vendors.

The review resulted in specific recommendations to the Department manager for improvements in the internal controls over the procurement function. We also worked with the manager in issuing policies and procedures to improve the procurement system. Near the conclusion of our study, the individual who was performing the procurement activities for the Power and Way Section was arrested for receiving kick backs from vendors.

Reference: Mr. Sherwood Wakeman  
General Counsel  
San Francisco Bay Area Rapid Transit District  
P.O. Box 12688  
Oakland, California 94604-2688  
(415) 464-6000

**Performance Audit of the Real Estate Acquisition Activities of the San Francisco Bay Area Rapid Transit District**

Peat Marwick was engaged by the San Francisco Bay Area Rapid Transit District (BART) to conduct an audit of the real estate activities of the District. Contracts for the appraisal of properties, management of acquired properties, and monitoring of real estate activities were reviewed to determine if established policies over contracting practices were followed and to identify areas where improvements were needed.

The review disclosed weaknesses in the selection of contractors, lack of documentation showing that contracted services were received, and instances where contract provisions were not enforced. These weaknesses were presented to BART management, with recommendations for improvements in contracting practices in the real estate operation.

Reference: Mr. Sherwood Wakeman  
General Counsel  
San Francisco Bay Area Rapid Transit District  
P.O. Box 12688  
Oakland, California 94604-2688  
(415) 464-6000

**Performance Audit of Negotiation and Administration of the Contract for the Acquisition of an Integrated Control System for the San Francisco Bay Area Rapid Transit District**

Peat Marwick was engaged by the San Francisco Bay Area Rapid Transit District (BART) to conduct a performance audit of the controls over the contract awarded to a software programming contractor. A labor hour form of contract was used to procure the programming services to develop an upgraded system for the computer system used to control the operations of the BART



trains. The review evaluated the controls over the billing for hourly charges from the contractor. Internal controls over the system used to track contractor hours were identified and tested.

While the controls over labor charges were found to be adequate, the review identified significant concerns in the negotiation of the contractor hourly rates such as: the classification of contractor billing rates for employees did not correspond to the contractor's costs for the employees; the employee labor rates were overstated due to the employee's actually working more hours than the number of hours used in developing the rates; and the contractor's costs used in developing the labor rates were based on future years and were greater than the contractor's actual costs. The results of the review of the negotiation of the contract cost disclosed that the contractor's costs were about \$2.5 million less than the billing to BART.

The results of our analysis are currently being discussed by BART and the software contractor.

Reference: Mr. Sherwood Wakeman  
General Counsel  
San Francisco Bay Area Rapid Transit District  
P.O. Box 12688  
Oakland, California 94604-2688  
(415) 464-6000

#### Sacramento Local Agency Formation Commission (LAFCo)

Performed a study for the Sacramento Local Agency Formation Commission (LAFCo) to assist the LAFCo in developing a new set of policies, standards and procedures for use in reviewing proposals that come before the Commission. As part of the study, the project team conducted extensive interviews with representatives of a cross-section of business, government and community groups to help identify the strengths and weaknesses of LAFCo's current operations. In addition, the project team worked with a 25-member project advisory committee to help shape the new set of policies, standards, and practices for LAFCo.

Reference: Mr. John O'Farrell  
Executive Officer  
Sacramento Local Agency Formation Commission  
700 "H" Street, Room 7650  
Sacramento, California 95814  
(916) 440-6458

### Tuolumne County

Currently conducting a performance audit of the organization, staffing and operations of the Tuolumne County Auditor/Controller's office for the Tuolumne County Grand Jury. The study includes a review of the efficiency, effectiveness and performance of the Auditor/Controller's Office in conducting its business operations. The study will result in recommendations to improve and/or streamline the work performed in the Auditor/Controller's Office.

Reference: Ms. Nancy R. Rosasco, Foreperson  
Tuolumne County Grand Jury  
Tuolumne County Administration Center  
Two South Green Street  
Sonora, California 95370  
(209) 533-5679

### Performance Audit of the Council of Fresno County Governments (COFCG)

Peat Marwick recently completed the triennial performance audits for the COFCG and four transit operators in Fresno County. The COFCG is a joint powers agency whose members include the County of Fresno and 15 incorporated cities within the County. Our performance audit included an examination of the operations, organization and functional responsibilities of the COFCG as it fosters intergovernmental coordination, undertakes comprehensive regional planning with an emphasis on transportation, provides for citizen involvement in the planning process, and provides technical assistance to its member agencies.

The performance audit of the COFCG and the four transit operators was conducted in accordance with the Transit Performance Audit Guidebook, published by Caltrans, and included an examination of the transit operator performance indicators. It also included a review to determine the transit operators' compliance with previous performance audit recommendations as well as a high-level operational review of their management and organization, maintenance, service planning, marketing and public relations, and financial planning and control functions.

Reference: Mr. Bill Briam  
Executive Director  
Council of Fresno County Governments  
2100 Tuolumne Street, Suite 619  
Fresno, California 93712  
(209) 233-4148

## **Performance Audit of Sonoma County Department of Public Health Environmental Health Services Division**

The performance audit of the Sonoma County Department of Public Health that was conducted for the Sonoma County Grand Jury focused on the organization, operations and performance of the County's Environmental Health Services Division. Specifically, the performance audit included a review of the following:

- Appropriateness of the organization and coordination of the permitting process, including the procedures for establishing and administering policies within the Division and other County agencies;
- Consistency of application of policies between the Division and other County agencies, such as Public Works and Planning;
- Adequacy of information available to the public regarding the Division's permitting processes and the means used to communicate such information to the public;
- Appropriateness of existing staffing, including the type and number of positions authorized; and
- Opportunities which exist to improve the permitting process through organizational re-alignment or physical relocation of the Division.

In addition, other areas of interest to the Grand Jury were studied, including:

- Adequacy of existing plans and efforts to develop and implement a County hazardous waste material policy and management system;
- Efficiency and effectiveness of the Division's enforcement actions and overall water quality control efforts;
- Research and documentation efforts to develop policies and legislative solutions to address area-wide environmental problems;
- Utility of the Division's current management by objective process and the use of special teams to carry out the Division's policies; and
- Appropriateness of the Division's current fee structure and its recordkeeping.

During the performance audit, members of the audit team met frequently with the Division management and representatives of the Grand Jury to brief them on the status of the audit and receive feedback and additional insights and information regarding identified problems or concerns. In addition, audit team members met with each of the members of the Board of Supervisors to discuss specific concerns of their constituents.

The performance audit identified 11 issue areas in which 47 specific recommendations were made to enhance the Division's efficiency and effectiveness. The recommendations enhanced several administrative and operational activities resulting in better utilization of personnel and equipment. The recommendations also introduced areas of revenue earning potential and cost savings.

**Reference:** Ms. Katherine Hunter, Former Chairperson  
Sonoma County Grand Jury  
Hall of Justice  
2555 Tuolumne Avenue  
Santa Rosa, California 95404

### **Performance Audit of the Sonoma County District Attorney's Office**

The Sonoma County Grand Jury contracted with our firm to conduct a performance audit of Metro Attorney's Office. This included a review of the Criminal, Family Support and Public Administrator functions of Metro Attorney's Office. The scope of this audit included:

- Management and staffing issues:
  - Leadership and training provided to staff;
  - Criteria for internal promotions;
  - Staff morale in Metro Attorney's Office;
  - Utilization of staffing resources;
  - Method of assigning cases to staff attorneys; and
  - Span of management control and organizational structure.
  
- Operations and procedural issues:
  - Administrative procedures for child abuse and neglect cases;
  - Guidelines and criteria used to determine plea bargaining;
  - Management of the Office's duties related to the administration of estates; and
  - Provision of legal services to other city and county agencies.

To conduct this audit, the project team conducted preliminary staff interviews and administered a questionnaire to collect data on the management and operations of Metro Attorney's Office. The information gathered during the interviews and the questionnaire data was compiled to develop recommendations for improving the operational efficiency and program effectiveness of the Office.

**Reference:** Mr. Ray Duggan  
Sonoma County Grand Jury  
Hall of Justice  
600 Administration Drive  
Santa Rosa, California 95401  
(707) 527-2703

**Sacramento County District Attorney's Office**

This project included a review of the Domestic Relations Division in Metro Attorney's Office. The objective of this project was to implement an integrated Domestic Relations Child Support System in compliance with federal fiscal application standards consisting of case management, accounting and billing components. Specifically, this project included;

- Determination of the accounting and system interface requirements;
- Development of a conceptual system design;
- Evaluation of system alternatives and determination of costs; and
- Development of implementation plan.

Finally, this project included a cost benefit analysis to determine the most cost effective and efficient Domestic Relations Child Support System for the Office.

**Reference:** Mr. Frederick Schroeder  
Assistant Chief Deputy District Attorney  
901 "G" Street  
Sacramento, California 95814  
(916) 440-6023



# GRANT/CONTRACT SUMMARY

METROPOLITAN SERVICE DISTRICT

GRANT/CONTRACT NO. 901163 (CN) BUDGET CODE NO. 010 01 524110  
 FUND: \_\_\_\_\_ DEPARTMENT: Council (IF MORE THAN ONE) \_\_\_\_\_  
 SOURCE CODE (IF REVENUE) \_\_\_\_\_

## INSTRUCTIONS

1. OBTAIN GRANT/CONTRACT NUMBER FROM CONTRACTS MANAGER. CONTRACT NUMBER SHOULD APPEAR ON THE SUMMARY FORM AND ALL COPIES OF THE CONTRACT.
2. COMPLETE SUMMARY FORM.
3. IF CONTRACT IS —
  - A. SOLE SOURCE, ATTACH MEMO DETAILING JUSTIFICATION.
  - B. UNDER \$2,500, ATTACH MEMO DETAILING NEED FOR CONTRACT AND CONTRACTOR'S CAPABILITIES, BIDS, ETC.
  - C. OVER \$2,500, ATTACH QUOTES, EVAL. FORM, NOTIFICATION OF REJECTION, ETC.
  - D. OVER \$50,000, ATTACH AGENDA MANAGEMENT SUMMARY FROM COUNCIL PACKET, BIDS, RFP, ETC.
4. PROVIDE PACKET TO CONTRACTS MANAGER FOR PROCESSING

1. PURPOSE OF GRANT/CONTRACT Provide Performance Audit Services

2. TYPE OF EXPENSE  PERSONAL SERVICES  LABOR AND MATERIALS  PROCUREMENT  
 PASS THROUGH AGREEMENT  INTER-GOVERNMENTAL AGREEMENT  CONSTRUCTION  
 OTHER

OR

TYPE OF REVENUE  GRANT  CONTRACT  OTHER

3. TYPE OF ACTION  CHANGE IN COST  CHANGE IN WORK SCOPE  
 CHANGE IN TIMING  NEW CONTRACT

4. PARTIES KPME Peat Marwick

5. EFFECTIVE DATE February 8, 1990 TERMINATION DATE June 30, 1992  
 (THIS IS A CHANGE FROM \_\_\_\_\_)

6. EXTENT OF TOTAL COMMITMENT: ORIGINAL/NEW \$ 39,904  
 PREV. AMEND \_\_\_\_\_  
 THIS AMEND \_\_\_\_\_  
 TOTAL \$ 39,904

## 7. BUDGET INFORMATION

A. AMOUNT OF GRANT/CONTRACT TO BE SPENT IN FISCAL YEAR 1989 - 90 \$ 39,904  
 B. BUDGET LINE ITEM NAME Auditing Services AMOUNT APPROPRIATED FOR CONTRACT \$ 40,000  
 C. ESTIMATED TOTAL LINE ITEM APPROPRIATION REMAINING AS OF February, 1990 \$ 40,000

## 8. SUMMARY OF BIDS OR QUOTES (PLEASE INDICATE IF A MINORITY BUSINESS ENTERPRISE)

<u>KPMG Peat Marwick</u>	\$ <u>39,904</u>	<input type="checkbox"/> MBE
SUBMITTED BY	AMOUNT	
<u>Talbot, Korvola and Warwick</u>	\$ <u>37,586</u>	<input type="checkbox"/> MBE
SUBMITTED BY	AMOUNT	
<u>Deloitt &amp; Touche</u>	\$ <u>40,000</u>	<input type="checkbox"/> MBE
SUBMITTED BY	AMOUNT	

9. NUMBER AND LOCATION OF ORIGINALS \_\_\_\_\_

4. APPROVED BY STATE/FEDERAL AGENCIES?  YES  NO  NOT APPLICABLE
5. IS THIS A DOT/UMTA/FHWA ASSISTED CONTRACT  YES  NO
11. IS CONTRACT OR SUBCONTRACT WITH A MINORITY BUSINESS?  YES  NO  
IF YES, WHICH JURISDICTION HAS AWARDED CERTIFICATION \_\_\_\_\_
12. WILL INSURANCE CERTIFICATE BE REQUIRED?  YES  NO
13. WERE BID AND PERFORMANCE BONDS SUBMITTED?  YES  NOT APPLICABLE
- TYPE OF BOND \_\_\_\_\_ AMOUNT \$ \_\_\_\_\_
- TYPE OF BOND \_\_\_\_\_ AMOUNT \$ \_\_\_\_\_
14. LIST OF KNOWN SUBCONTRACTORS (IF APPLICABLE)
- |            |               |                              |
|------------|---------------|------------------------------|
| NAME _____ | SERVICE _____ | <input type="checkbox"/> MBE |
| NAME _____ | SERVICE _____ | <input type="checkbox"/> MBE |
| NAME _____ | SERVICE _____ | <input type="checkbox"/> MBE |
| NAME _____ | SERVICE _____ | <input type="checkbox"/> MBE |
15. IF THE CONTRACT IS OVER \$10,000
- A. IS THE CONTRACTOR DOMICILED IN OR REGISTERED TO DO BUSINESS IN THE STATE OF OREGON?  
 YES  NO
- B. IF NO, HAS AN APPLICATION FOR FINAL PAYMENT RELEASE BEEN FORWARDED TO THE CONTRACTOR?  
 YES DATE \_\_\_\_\_ INITIAL \_\_\_\_\_
16. COMMENTS:

## GRANT/CONTRACT APPROVAL

<p>INTERNAL REVIEW</p> <p><u>Donald S. Carlson</u> <u>1/29/90</u></p> <p>DEPARTMENT HEAD</p>	<p>CONTRACT REVIEW BOARD (IF REQUIRED) DATE _____</p> <p>1. _____ COUNCILOR</p> <p>2. _____ COUNCILOR</p> <p>3. _____ COUNCILOR</p>	<p>COUNCIL REVIEW (IF REQUIRED)</p> <p>February 8, 1990</p> <p>DATE</p>
<p>FISCAL REVIEW</p> <p><u>Blaine B. Brown</u></p> <p>BUDGET REVIEW <u>1/29/90</u></p>		

LEGAL COUNSEL REVIEW AS NEEDED:

- A. DEVIATION TO CONTRACT FORM \_\_\_\_\_
- B. CONTRACTS OVER \$10,000 \_\_\_\_\_
- C. CONTRACTS BETWEEN GOVERNMENT AGENCIES \_\_\_\_\_

FINANCE COMMITTEE REPORT

RESOLUTION NO. 90-1214 APPROVING A CONTRACT WITH KPMG  
PEAT MARWICK FOR PERFORMANCE AUDIT SERVICES

Date: February 2, 1990

Presented by: Councilor Gardner

COMMITTEE RECOMMENDATION: At the February 1, 1990 meeting the Committee voted unanimously to recommend the Council adopt Resolution No. 90-1214. Voting yes were Councilors Collier, Devlin, Gardner, Wyers and Van Bergen.

COMMITTEE DISCUSSION/ISSUES: Councilor Gardner presented the resolution. He stated the purpose of the contract is to obtain performance audit services for the District. The term of the contract is for three fiscal years (FY 1989-90 through FY 1991-92); the initial amount of the contract is \$39,904; and the initial scope of work is to do a performance audit of several support service functions of the District including Financial Management, Data Processing, Personnel, Contract Administration and Construction Management. He briefly reviewed the background of this project, including the selection process (see Attachment 1 to this Committee Report).

Mr, Robert O'Neill, Peat Marwick Project Manager, discussed his firm's approach to the project and indicated the FY 1989-90 scope of work would be completed in four months.

In response to a Committee question, Council staff indicated that any findings made during the audit process could be transmitted to the Finance Committee To be considered during the FY 1990-91 budget process, and that the scope of work provided for regular status reports to the Finance Committee.

JG:DEC:aeb  
Attach.

A:\FIN0202.RPT



( EXHIBIT A (

(Resolution No. 90-1214)

Contract No. 901163 (CN)

PERSONAL SERVICES AGREEMENT

THIS AGREEMENT dated this 8th day of February 1990, is between the METROPOLITAN SERVICE DISTRICT, a municipal corporation, hereinafter referred to as "METRO," whose address is 2000 S.W. First Avenue, Portland, OR 97201-5398, and KPMG Peat Marwick, hereinafter referred to as "CONTRACTOR," whose address is 2495 South Natomas Park Drive, Sacramento for the period of February 8, 1990, through June 30, 1992, and for any extensions thereafter pursuant to written agreement of both parties.  
California 95833

W I T N E S S E T H :

WHEREAS, This Agreement is exclusively for Personal Services;  
NOW, THEREFORE, IT IS MUTUALLY AGREED AS FOLLOWS:

CONTRACTOR AGREES:

1. To perform the services and deliver to METRO the materials described in the Scope of Work attached hereto;
2. To provide all services and materials in a competent and professional manner in accordance with the Scope of Work;
3. All applicable provisions of ORS chapters 187 and 279, and all other terms and conditions necessary to be inserted into public contracts in the State of Oregon, are hereby incorporated as if such provision were a part of this Agreement, including but not limited to ORS 279.310 to 279.320.

Specifically, it is a condition of this contract that Contractor and all employees working under this this Agreement are subject employers that will comply with ORS 656.017 as required by 1989 Oregon Laws Chapter 684.

4. To maintain records relating to the Scope of work on a generally recognized accounting basis and to make said records available to METRO at mutually convenient times;

5. To indemnify and hold METRO, its agents and employees harmless from any and all claims, demands, damages, actions, losses and expenses, including attorney's fees, arising out of or in any way connected with its performance of this Agreement, with any patent infringement arising out of the use of CONTRACTOR'S designs or other materials by METRO and for any claims or disputes involving subcontractors;

6. To comply with any other "Contract Provisions" attached hereto as so labeled; and

7. CONTRACTOR shall be an independent contractor for all purposes, shall be entitled to no compensation other than the compensation provided for in the Agreement. CONTRACTOR hereby certifies that it is the direct responsibility employer as provided in ORS 656.407 or a contributing employer as provided in ORS 656.411.

In the event CONTRACTOR is to perform the services described in this Agreement without the assistance of others, CONTRACTOR hereby agrees to file a joint declaration with METRO to the effect that CONTRACTOR services are those of an independent contractor as provided under Chapter 364 Oregon Laws, 1979.

METRO AGREES:

1. To pay CONTRACTOR for services performed and materials delivered in the maximum sum of Thirty-Nine Thousand Nine AND NO /100THS Hundred Four (\$39,904.00) DOLLARS and in the manner and at the time designated in the Scope of Work; and

2. To provide full information regarding its requirements for the Scope of Work.

BOTH PARTIES AGREE:

1. That METRO may terminate this Agreement upon giving CONTRACTOR five (5) days written notice without waiving any claims or remedies it may have against CONTRACTOR;

2. That, in the event of termination, METRO shall pay CONTRACTOR for services performed and materials delivered prior to the date of termination; but shall not be liable for indirect or consequential damages;

3. That, in the event of any litigation concerning this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and court costs, including fees and costs on appeal to an appellate court;

4. That this Agreement is binding on each party, its successors, assigns, and legal representatives and may not, under any condition, be assigned or transferred by either party; and

5. That this Agreement may be amended only by the written agreement of both parties.

CONTRACTOR NAME

METROPOLITAN SERVICE DISTRICT

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: February 8, 1990

APPROVED AS TO FORM:

By: \_\_\_\_\_

Date: \_\_\_\_\_

AMH:jp  
CONTRACT.FOR  
10/19/89

EXHIBIT A

(Resolution No. 90-1214)

Contract No. 901163 (CN)

PERSONAL SERVICES AGREEMENT

THIS AGREEMENT dated this 8th day of February 1990, is between the METROPOLITAN SERVICE DISTRICT, a municipal corporation, hereinafter referred to as "METRO," whose address is 2000 S.W. First Avenue, Portland, OR 97201-5398, and KPMG Peat Marwick, hereinafter referred to as "CONTRACTOR," whose address is 2495 South Natomas Park Drive, Sacramento for the period of February 8, 1990, through June 30, 1992, and for any extensions thereafter pursuant to written agreement of both parties.  
California 95833

W I T N E S S E T H :

WHEREAS, This Agreement is exclusively for Personal Services;  
NOW, THEREFORE, IT IS MUTUALLY AGREED AS FOLLOWS:

CONTRACTOR AGREES:

1. To perform the services and deliver to METRO the materials described in the Scope of Work attached hereto;
2. To provide all services and materials in a competent and professional manner in accordance with the Scope of Work;
3. All applicable provisions of ORS chapters 187 and 279, and all other terms and conditions necessary to be inserted into public contracts in the State of Oregon, are hereby incorporated as if such provision were a part of this Agreement, including but not limited to ORS 279.310 to 279.320.

Specifically, it is a condition of this contract that Contractor and all employers working under this this Agreement are subject employers that will comply with ORS 656.017 as required by 1989 Oregon Laws Chapter 684.

4. To maintain records relating to the Scope of work on a generally recognized accounting basis and to make said records available to METRO at mutually convenient times;

5. To indemnify and hold METRO, its agents and employees harmless from any and all claims, demands, damages, actions, losses and expenses, including attorney's fees, arising out of or in any way connected with its performance of this Agreement, with any patent infringement arising out of the use of CONTRACTOR'S designs or other materials by METRO and for any claims or disputes involving subcontractors;

6. To comply with any other "Contract Provisions" attached hereto as so labeled; and

7. CONTRACTOR shall be an independent contractor for all purposes, shall be entitled to no compensation other than the compensation provided for in the Agreement. CONTRACTOR hereby certifies that it is the direct responsibility employer as provided in ORS 656.407 or a contributing employer as provided in ORS 656.411.

In the event CONTRACTOR is to perform the services described in this Agreement without the assistance of others, CONTRACTOR hereby agrees to file a joint declaration with METRO to the effect that CONTRACTOR services are those of an independent contractor as provided under Chapter 864 Oregon Laws, 1979.

METRO AGREES:

1. To pay CONTRACTOR for services performed and materials delivered in the maximum sum of Thirty-Nine Thousand Nine AND NO /100THS Hundred Four (\$39,904.00) DOLLARS and in the manner and at the time designated in the Scope of Work; and

2. To provide full information regarding its requirements for the Scope of Work.

BOTH PARTIES AGREE:

1. That METRO may terminate this Agreement upon giving CONTRACTOR five (5) days written notice without waiving any claims or remedies it may have against CONTRACTOR;

2. That, in the event of termination, METRO shall pay CONTRACTOR for services performed and materials delivered prior to the date of termination; but shall not be liable for indirect or consequential damages;

3. That, in the event of any litigation concerning this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and court costs, including fees and costs on appeal to an appellate court;

4. That this Agreement is binding on each party, its successors, assigns, and legal representatives and may not, under any condition, be assigned or transferred by either party; and

5. That this Agreement may be amended only by the written agreement of both parties.

CONTRACTOR NAME

METROPOLITAN SERVICE DISTRICT

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: February 8, 1990

APPROVED AS TO FORM:

By: \_\_\_\_\_

Date: \_\_\_\_\_

AMH:jp  
CONTRACT.FOR  
10/19/89



FISCAL YEAR 1989-90 SCOPE OF WORK

This section describes the contractor's work plan, deliverables and budget for conducting a performance audit of certain support service functions of the Metropolitan Service District's (Metro's) Finance and Administration Department, including: Financial Management (Budget and Accounting); Data Processing Personnel; Contract Administration; and Construction Management.

The performance audit will be in two separate phases -- A survey phase (Phase I) and an in-depth review phase (Phase II). Phase I will analyze the economy and efficiency of each function, identify areas with potential for improvement, and lead to the development of a work plan for the in-depth audit of selected areas under Phase II. The contractor will provide recommendations for immediate improvements in areas developed under Phase I of the project.

Under Phase II, the contractor will develop the attributes of a performance audit finding -- condition, cause, criteria and effect for the areas identified under Phase I. The contractor will also develop meaningful recommendations to improve the economy and efficiency of the functions reviewed.

WORK PLAN

The work plan for the completion of the performance audit of Metro's Finance and Administration Department support service functions is set forth below.

The work plan is based on the assumption that the Council's Finance Committee will perform oversight of the performance audit function. If a different oversight arrangement is adopted by the Council, the contractor will modify the work plan accordingly.

The level of effort, distributed by professional staff level, for the tasks set forth in our work plan are shown in the budget section of this scope of work.

The contractor agrees to complete the work plan within 120 days of execution of this contract.

PHASE I - SURVEY

Task 1 - Conduct Start-up Activities

- o Conduct Start-up Activities
  - Conduct an entrance conference with the Metro Council's Finance Committee and staff, the Executive Officer, and Director of Finance and Administration to:
    - Introduce the performance audit team;
    - Refine the scope and study objectives; and
    - Discuss project coordination procedures.
- o Collect and Review Key Documents

- Collect and review key documents regarding the Finance and Administration Department and the Department's organization, management structure and staff utilization. These documents typically include:
  - Mission and goals;
  - Organization charts;
  - Management information system reports; and
  - Budgetary documents.
  
- Collect and review key documents relating to the support service functions of the Finance and Administration Department selected for the audit. Examples of documents that would be review include:
  - Budget and Accounting and Data Processing:
    - o Status reports on implementation of the new Central Financial Management System;
    - o Status reports on development of a policy and procedures manual documenting internal accounting controls; and
    - o Status of update of data processing plan, including development of a disaster recovery plan.
  
  - Personnel:
    - o Status of integration of personnel from the recently acquired City of Portland Exposition-Recreation Commission facilities; and
    - o Status of the computerization of benefits administration, recruitment and payroll interfaces
  
  - Construction Management Division (contract administration and construction management):
    - o Contracting procedures;
    - o Status reports on the construction of projects such as the Oregon Convention Center, Africa Exhibit Phase III, and Metro East Station; and
    - o Departmental policies on oversight of construction policies such as project inspection, control over change orders, adjudication of disputes, monitoring of accomplishment of affirmative action goals, etc.

Task 2 - Conduct Interviews with Council Staff and Departmental Management and Staff

- o Conduct Interviews with Involved Officials and Agencies:
  - Council Administrator and staff
  - Finance and Administration Director;
  - Directors and Metro Units supported by Finance and Administration, e.g., Convention Center, Zoo, MERC facilities; and;
  - Departmental Supervisors.

The objectives of these interviews are to:

- Review and confirm the audit team's understanding of Metro -- its current policies, goals, practices and concerns;
  - Provide the opportunity to describe areas of concern which should be addressed in the performance audit; and
  - Provide the audit team with the necessary feedback regarding the most appropriate areas to be reviewed and evaluated in the performance audit.
- o Conduct Interviews with Selected Finance and Administration Department Management and Staff to identify:
    - Coordination and division of responsibility between Finance and Administration and supported Metro organizations:
      - Regulatory requirements;
      - Reporting relationships;
      - Responsibilities of management and staff;
      - Work load and work flow;
      - Use of automated and manual processing systems;
      - Distribution of work; and
      - Internal controls.

Task 3 - Assess Potential for Economy and Efficiency Improvements

- o Evaluate results of interviews and analysis of policies and procedures followed by support service function reviewed under Task 1 and 2:

The key task of Phase I is the determination of the audit focus for issues to be addressed in Phase II. Following the meeting with review of key documents and interviews with management and staff (discussed in Tasks 1 and 2), the focus of the performance audit will be established. The audit will be focused on those

areas that offer the greatest benefit to Metro management, the Council and the public. The audit team will perform some preliminary fact-finding and analysis that is required to augment the other available information.

Task 4 - Review Phase I Observation with Council Finance Committee and Staff and Finance and Administration Department Officials

- o Discuss observations and areas of concern developed in Phase I;
- o Evaluate Council staff and Departmental comments and consider impact on areas of concern; and
- o Prepare in writing observations developed above and recommendations for areas identified and developed as findings with potential for immediate improvement.

Task 5 - Prepare Work Plan for Phase II

- o Summarize in writing the results of the performance audit conducted under Phase I;
- o Prepare a work plan in writing on the issues recommended for development in greater depth under Phase II. The work plan will include the following:
  - Status of information gathered under Phase I;
  - Elements of a finding -- condition, cause, criteria, effect-needing further development; and
  - Consideration of the views of responsible management officials.
- o Review the proposed work plan for Phase II with the Metro Council Finance Committee:
  - Adjust the work plan as necessary to reflect the results of the Finance Committee Review.

PHASE II - DETAILED REVIEW

Task 6 - Perform In-depth Study

- o Develop the findings on the functional areas identified under Phase I:
  - Focus on developing the finding attributes not fully developed under Phase I;
  - Develop practical and cost-effective recommendations for support service improvements such as:

- Needed changes to existing policies and procedures;
- Needed policies and procedures where none exist;
- Realignment of organizational and responsibilities to improve economy and efficiency and to improve delivery of services; and
- Adjustments to current funding levels.

Task 7 - Prepare the Audit Report

o Prepare and Review Draft Report:

- Prepare the draft report. The draft report will summarize the following:
  - Scope of work performed;
  - Methodology for conducting study;
  - Major findings in each of the areas reviewed;
  - Conclusions of study identifying strengths and weaknesses within organization and management structure; and
  - Recommendations to improve performance.
- Review the draft report with the Council staff and the Finance and Administration Director and key Department staff. The purpose of the meeting is to:
  - Present the results of the study;
  - Provide an opportunity for additional explanation and clarification regarding the results of the study;
  - Validate the results of the study; and
  - Discuss the appropriateness and feasibility of Peat & Marwick's recommendations.
- Review the draft report with the Metro Council Finance Committee. The purpose of the review is to:
  - Present the results of the study; and
  - Clarify any questions raised by the Committee.

Finalize the report:

- o Make any necessary changes in the draft report based upon the review and comments by the Finance and Administration Director and the Finance Committee; and
- o Present the final written report to the Metro Council.

Additional Services:

Contractor currently provides financial audit services for the District under separate contract (Contract #88-5-580AD). Contractor agrees to provide a review of the District's compliance with the 1989-90 performance audit recommendations during the "Letter to Management" phase of the 1989-90 audit. Such review shall be at no additional cost to the District under the terms of this contract or the financial audit contract (Contract #88-3-580AD).

Metro Contract Manager:

The Council Administrator shall serve as contract manager for this contract. The contractor agrees to provide periodic status reports to the contract manager and Finance Committee as mutually agreed to by the contractor and contract manager.

DELIVERABLES

Based on the scope of work for fiscal years 1989-90, contractor will provide at least 25 copies of the following deliverables:

- o Task 4 - Report, including recommendations, on issues developed under Phase I;
- o Task 5 - Recommended work plan for issues to be developed under Phase II; and
- o Task 7 - Overall report, or reports, on findings, conclusions, and recommendations developed in Phase II, the detailed audit.

Depending on the results of the work performed, additional deliverables may be provided as a result of the fiscal year 1989-90 performance audit.

BUDGET

The proposed costs to accomplish the fiscal year 1989-90 scope of work are as follows:

	<u>Hours</u>	<u>Hourly Rate</u>	<u>Professional Fees</u>
Principal/Partner Robert T. O'Neill Joseph F. Hoffman	42	\$140	\$ 5,880
Senior Manager Harold J. D'Ambrogia Susan Clement	100	120	12,000
Consultant/Audit Senior Jeff Meyers Byran Timm	200	65	13,000
Staff Auditors	80	40	3,200
Total Hours & Fees	<u>422</u>		<u>34,080</u>
Expenses:			
Travel and Per Diem			5,024
Report Preparation and Production			<u>800</u>
Total expenses			<u>5,824</u>
Total project costs			<u>\$39,904</u>

The rates shown are for the fiscal year 1989-90 work. The rates for the two next two fiscal years - 1990-91 and 1991-92 - will be subject to general adjustment in contractor's billing rates for professional staff.

Contractor will submit proposed rates for fiscal year 1990-91 and 1991-92 at the time next year's scope of work is approved by the Council. The contractor is committed to a good faith effort to negotiate fair and reasonable rates with Metro for these future fiscal years. The contractor does not anticipate that rates will not increase by more than 5 percent each year.

Contractor agrees that Mr. Robert T. O'Neill and Mr. Harold J. D'Ambrogia will serve as principal and senior manager respectively for the term of this contract unless Metro agrees to change the person(s) so designated.

DEC:pa  
#C:\PFASCOPE