

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AMENDING A	)	Resolution No. 94-2021
CONTRACT WITH TALBOT, KORVOLA &	)	
WARWICK FOR FY 94-95 PERFORMANCE	)	Introduced by the
AUDIT SERVICES	)	Finance Committee

WHEREAS, The Metro Council has entered into a Personal Services Contract with Talbot, Korvola & Warwick for Performance Audit Services (Metro Contract No. 902742); and

WHEREAS, The term of the Contract is from September 25, 1992 through June 30, 1995 with periodic amendments being required to determine a new Scope of Work and additional contract costs; and

WHEREAS, Resolution No. 94-1955, adopted by the Council on May 12, 1994, states that "the Council will review the Cost Allocation Plan with FY 94-95 Performance Audit funds to provide departments the most cost effective and appropriate method for allocating costs"; and

WHEREAS, The Finance Committee recommends that the Council's Performance Audit for FY 1994-95 focus on the Cost Allocation Plan; now, therefore,

BE IT RESOLVED,

1. That the Metro Council acting as the Contract Review Board exempts Contract Amendment No. 3 from the competitive procurement procedures of Section 2.04.053.

2. That the Metro Council approves Amendment No. 3 attached hereto to the contract with Talbot, Korvola & Warwick for performance audit services.

ADOPTED by the Metro Council this 25th day of August, 1994.

  
Ed Washington, Deputy Presiding Officer

AMENDMENT NO. 3

ADDITIONAL SCOPE OF WORK AND CONTRACT AMOUNT

That Contract between Metropolitan Service District, hereinafter referred to as "Metro," and Talbot, Korvola & Warwick hereinafter referred to as "CONTRACTOR," dated November 13, 1992, for Performance Audit Services, Contract No. 902742 is hereby amended to 1) add the Scope of Work for FY 94-95 as described in Exhibit A attached hereto; and 2) increase the maximum amount that Metro shall pay to the CONTRACTOR for services provided to ONE HUNDRED THIRTY THOUSAND AND NO/100TH (\$130,000) dollars.

All other terms of the Contract remain in full force and effect.

DATED this \_\_\_\_\_ day of \_\_\_\_\_, 1994.

CONTRACTOR

METRO

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

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

## **METRO COST ALLOCATION PLAN SCOPE OF WORK**

Metro Resolution No. 94-1955 has established the use of FY1994-95 performance audit funds to review the Cost Allocation Plan to provide departments with the most cost effective and appropriate method for allocating costs. This exhibit describes the contractor's work plan, deliverables and budget for conducting a review of Metro's Provisional Indirect Cost Rate Proposal - the Cost Allocation Plan. The plan is prepared in accordance with Office of Management and Budget's Circular A-87.

The Cost Allocation Plan was designed to allocate indirect costs of Metro's support services functions - General Counsel, Public and Government Relations, Personnel, and the Departments of Finance and Management Information and General Services. Indirect costs that are allocated through the Plan have a "benefit or use" relationship to the respective funded departments. Two specific plans have been established - one to meet federal requirements and one for internal use. Both plans contain similar cost data with one major exception - the internal plan includes certain costs disallowed by the federal government. Our analysis will consist of a review of each plan.

The review will be conducted in two separate phases: a preliminary information gathering phase (Phase I) and in-depth review phase (Phase II). Phase I will identify requirements of the current Cost Allocation Plan and establish a basis for evaluation. Under Phase II, the contractor will conduct an in-depth review of the components of the Plan. Specifically the review will:

1. Assess Metro's allocation basis and application of costs within each operating department.
2. Determine the accuracy of the current Plan's methodology.
3. Determine what, if any, modifications to the current plan should be made to allocate costs in a simpler, more efficient manner.
4. Explore the feasibility and identify the effects of a direct cost plan.
5. Provide third party assurance to Metro Council and management that the current Cost Allocation Plan works as designed.
6. Identify where formalized policies need to be established.

### **WORK PLAN**

The work plan for the completion of the review of Metro's Cost Allocation Plan is set forth below. It is based on the assumption that the Council's Finance Committee will perform oversight of this review. If a different oversight arrangement is adopted by the Council, the contractor will modify the work program accordingly.

The level of effort, distributed by professional staff level, for the tasks set forth in the contractor's work plan are shown in the budget section of this scope of work. The contractor agrees to complete the work within 90 days of the execution of this contract.

We anticipate working extensively with applicable financial planning personnel and Council staff to assure project objectives are met.

## **PHASE I - Preliminary Information**

### **Task 1 - Conduct Start-up Activities**

This task will include:

- a). Conducting entrance conferences with key elected officials and management staff to introduce review team, refine scope and study objective and discuss project coordination.
- b). Collecting and reviewing key documents regarding the Cost Allocation Plan.

### **Task 2 - Establish a Basis for Evaluation**

This task includes conducting interviews with applicable Financial Planning personnel to gather additional information and to establish a basis for plan evaluation.

## **PHASE II - Detailed Review**

### **Task 3 - Perform an In-Depth Study**

This task includes a thorough evaluation of each component of the Plan and an assessment of the basis and distribution of indirect costs for each operating department. The degree to which the plan is meeting its stated purpose will result in an overall assessment for Metro.

### **Task 4 - Preparation of Results**

This task will include:

- a). Preparation of the draft report which summarizes the following:
  - scope of work performed
  - methodology for conducting the study
  - major findings in each area reviewed
  - conclusions of the study
  - recommendations
- b). reviewing the draft report with Council and financial planning personnel to:
  - provide an opportunity for additional explanation or clarification regarding the results of the study

- c). reviewing the draft report with Council Finance Committee to:
  - presents the results of the study
  - clarify any questions raised by the Committee
- d). finalizing the report:
  - make any necessary changes in the draft report based upon the review and comments
  - present the final written report to the Metro Council

## **DELIVERABLES**

Based on the Scope of Work, contractor will provide the following deliverables:

- a). Task 4 - Draft Report of findings, conclusions and recommendations developed in Phase II - Detailed Review
- b). Task 4 - At least 30 copies of the Final Report

## **METRO BOND REQUIREMENTS**

Specific Bond requirements exist concerning the Cost Allocation Plan. Metro Ordinance No. 91-439, Section 501(c) requires "On or before January 1 of every third year, commencing with the first January 1 which is not less than 30 months following the date upon which the first Series of Bonds is issued hereunder, the Issuer shall retain a Qualified Consultant to review its method of determining the Department Assessments and provide the Issuer, not later than March 1 of such year, a written report with respect thereto. In determining the Department Assessments, the Issuer shall give due consideration to any recommendations made by the Qualified Consultant and shall implement such recommendations unless the governing body of the Issuer, by resolution duly adopted, finds and determines that such recommendations are unreasonable, impractical or contrary to the requirements of law or established governmental policies of the Issuer."

As a supplement to the above scope of work, the contractor will expand the analysis to meet all specified requirements and provide a written report.

## **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 the Finance Committee as mutually agreed to by the contractor and contract manager.

## BUDGET

The proposed costs to accomplish this scope of work (\*) are as follows:

Professional	Hours	Rate	Total
Principal/Partner Jack Talbot	75	\$100	\$7,500
Manager Brad Rafish	195	\$ 70	13,650
Consultant Wendy Levy	292	\$ 45	13,140
<b>TOTAL</b>	<b>562</b>		<b>\$34,290</b>

### EXPENSES

Report production	205
	505

<b>Total Project Costs</b>	<b>\$35,000</b>
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\*Includes bond requirement supplemental

The rates shown are for FY1994-95 work. Contractor agrees that Mr. Jack Talbot and Mr. Brad Rafish will serve as the principal and manager respectively for the term of this contract unless Metro agrees to change the person(s) so designated.

## STAFF REPORT

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### DRAFT RESOLUTION NO. 94-2021, AMENDING A CONTRACT WITH TALBOT, KORVOLA & WARWICK FOR FY 94-95 PERFORMANCE AUDIT SERVICES

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Date: August 3, 1994

Presented by: Don Carlson

#### BACKGROUND

The Council entered into a three-year contract in 1992 with Talbot, Korvola & Warwick for performance audit services. Fiscal year 1994-95 is the third and final year of the contract, and the elected auditor assumes the responsibility for the performance audit program in January 1995. Prior performance audits performed under the current contract have addressed Metro's contracting process, the waste reduction program, and the public affairs function, at a total cost of \$95,000.

The Council adopted Resolution No. 94-1955 on May 12, 1994, "for the purpose of reiterating Council policy regarding support services cost allocation." This resolution was initiated, in part, in response to actions of the MERC Commission in adopting MERC Resolutions No. 94-15 and 94-20, which were intended to establish guidelines for MERC's acceptance of support costs. Both resolutions were returned to MERC in accordance with Metro Code provisions and did not become effective, but Councilors assured MERC representatives that a review of the Cost Allocation Plan would be done in FY 1994-95.

#### PROPOSED ACTION

Among the matters "resolved" in Resolution 94-1955 was the Council's pledge to review the Cost Allocation Plan in FY 1994-95 using the funds budgeted for the performance audit program. As stated in the scope of work for this audit, the review of the Cost Allocation Plan has three components:

- Metro's internal uses. This component includes examination of the methodology currently used to establish the Cost Allocation Plan, discussion of alternatives to the current system, recommendations for improvement to the current system, and an assessment of its equity .
- Compliance with federal government guidelines. The Planning Department receives significant funding assistance from the federal government for certain of its programs. In order to qualify for this assistance, Metro must conform with the federal government's rules regarding the allocation of support costs. The performance audit will assess Metro's compliance with these rules and recommend changes if needed.

- Compliance with bond requirements. As noted in the Scope of Work, Ordinance No. 91-439 requires Metro to retain a qualified consultant to review the Cost Allocation Plan by January 1, 1995. This audit will meet that requirement.

#### SUMMARY

The Council has directed that a performance audit of the Cost Allocation Plan be done this fiscal year, and the \$35,000 cost of the audit is available in the Adopted Budget (\$30,000 in the Council Department budget and \$5,000 in the Finance & Management Information Department budget). This audit will be the last done by Talbot, Korvola & Warwick under its contract with the Council, as the elected Auditor assumes responsibility for the performance audit function in January and there are only funds to pay for a single audit of the scope proposed. It is appropriate to begin this audit as soon as possible, in order to have it completed in time to incorporate any recommended changes to the Cost Allocation Plan for use in the 1995-96 budget process, and to conform with outside requirements.

## FINANCE COMMITTEE REPORT

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RESOLUTION NO. 94-2021, AMENDING A CONTRACT WITH TALBOT, KORVOLA & WARWICK FOR FY 94-95 PERFORMANCE AUDIT SERVICES

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Date: August 15, 1994

Presented by: Councilor Gardner

**COMMITTEE RECOMMENDATION:** At its August 10, 1994 meeting the Finance Committee voted 5-0 to recommend Council adoption of Resolution No. 94-2021. Voting in favor were Councilors Monroe, Gardner, Kvistad, McLain, and Washington. Councilors Buchanan, Devlin, and Van Bergen were absent.

**COMMITTEE DISCUSSION/ISSUES:** Council Analyst Casey Short presented the staff report. He summarized that the proposal is to have the Council's contracted performance auditors review Metro's cost allocation plan, with three purposes as noted in the written staff report: comply with the Council's commitment to review the cost allocation plan this fiscal year, as resolved in Resolution No. 94-1955; comply with federal government guidelines for grant recipients; and comply with bond requirements to have a qualified independent consultant review the cost allocation plan prior to January 1, 1995.

There was no substantive committee discussion.