

Management Consultants

2495 Natomas Park Drive
Sacramento, CA 95833-2936

Telephone 916 925 6000

Telefax 916 641 3188

January 28, 1992

Mr. Donald E. Carlson
Council Administrator
Metropolitan Service District
2000 S.W. First Avenue
Portland, Oregon 97201-5398

Dear Mr. Carlson:

KPMG Peat Marwick is pleased to submit the results of Phase I of the performance audit of (1) the business practices of the Metropolitan Exposition-Recreation Commission (MERC) and (2) the relationship between MERC and the Metropolitan Service District (Metro). This audit is being performed under a contract between Peat Marwick and the Metro Council.

The performance audit is being conducted in two phases. Phase I is a preliminary survey directed towards analysis of the economy and efficiency of the MERC business practices and the relationship between MERC and Metro, identification and analysis of implementation of Council policies and programs, identification of areas with potential for improvement, and development of a work plan for Phase II of the audit. This report covers the results of the Phase I preliminary survey. Phase II of the study will involve an in-depth audit of selected issue areas or concerns identified in Phase I of the study. Phase II will commence once Metro's Regional Facilities Committee approves the scope of work for the second phase of the audit.

The remainder of this report is organized into three major sections. They are:

- Background
- Scope and Methodology
- Observations

Each of these areas is discussed in the following sections of this report.



Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 2

BACKGROUND

This section describes (a) the establishment of MERC, in 1987, (b) the relationship between MERC and Metro, as set forth in the 1989 agreement between the City of Portland and Metro, and (c) MERC's business practices and activities.

Establishment of MERC

Metro Ordinance 87-225, approved October 22, 1987, established the Metropolitan Exposition-Recreation Commission (MERC), consisting of seven members appointed by the Metro Executive Officer. MERC is charged with the power and authority to renovate, equip, maintain, and operate metropolitan convention, trade and spectator buildings, and facilities for which MERC is responsible. Key elements in this charge to MERC are to:

- Operate and market the use of the Oregon Convention Center and other buildings and facilities for which MERC is responsible
- Acquire, by purchase, devise, gift, or grant, real and personal property found necessary to MERC's purpose
- Maintain and repair any real and personal property acquired
- Lease, rent, and otherwise authorize use its buildings, structures, and facilities; and fix fee and charges for the use of these facilities for categories of revenues as listed in the annual budget
- Employ, manage, and terminate personnel, under personnel rules adopted by MERC
- Enter into intergovernmental agreements for transfer of convention, trade or spectator buildings, and facilities

Another key element in the ordinance that established MERC was that accounting, legal, personnel, risk management, public affairs, and other services shall be provided by Metro, subject to compensation provided by MERC to Metro; and MERC may acquire these services by other means subject to budget approval by the Council.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 3

Transfer of Operation of Regional Convention, Trade, Spectator and Performing Facilities

On December 19, 1989, an agreement was reached between the City of Portland and Metro for transfer of the operation of the regional convention, trade, spectator, and performing facilities from the City of Portland to Metro. These facilities consist of the:

- Portland Memorial Coliseum Complex
- Civic Stadium
- Portland Center for the Civic Arts, which includes the following facilities:
 - Arlene Schnitzer Concert Hall
 - Intermediate Theater
 - Dolores Winningstad Theater
 - Civic Auditorium

Prior to this agreement, the City of Portland Exposition-Recreation Commission (ERC) had been responsible for the operation of these facilities.

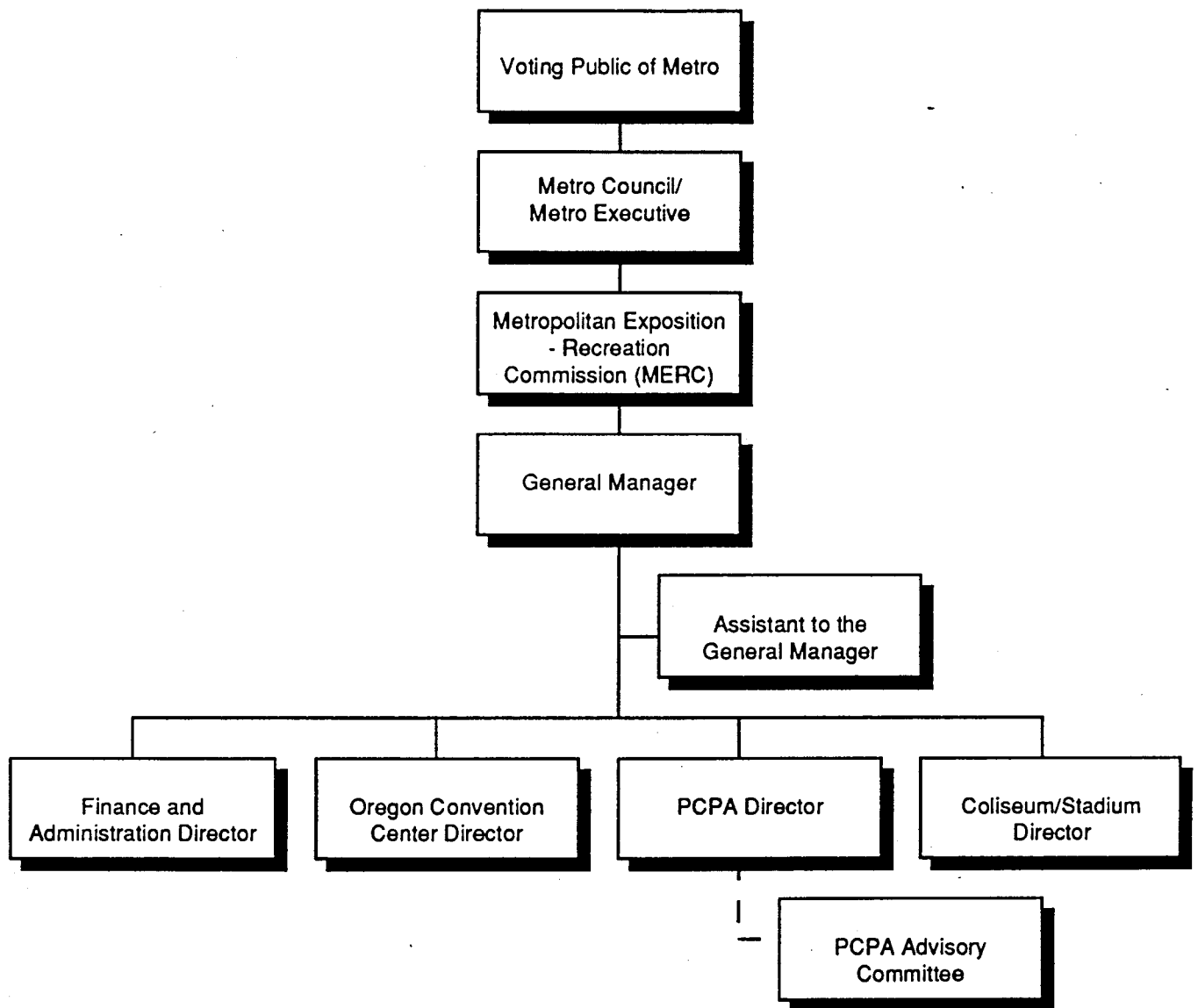
Under the agreement of December 19, 1989, and the underlying Memorandum of Understanding that had been reached between the City of Portland and Metro, the transfer of operation of the facilities was the first phase of the consolidation. The final step of the consolidation would require resolution of issues relating to the transfer of the real property and actual physical structures through an asset transfer, long-term lease, or other equivalent arrangement. This final step has not occurred as of the date of our performance audit preliminary survey.

Operation of the Regional Convention, Trade, Spectator and Performing Facilities by the Metropolitan Exposition-Recreation Commission (MERC)

The organization structure of MERC is shown on Exhibit A, on the next page. The day-to-day operation of MERC activities is under the direction and supervision of the General Manager. There are three directors who manage the (a) Oregon Convention Center, (b) Memorial Coliseum Complex and Civic Stadium, and (c) Portland Center for Performing Arts. In addition, there is a director for finance and administration.

EXHIBIT A

ORGANIZATION STRUCTURE OF MERC



Source: Based on MERC provided data.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 4

As shown on Exhibit B, on the following page, the total number of MERC staff (in terms of full-time equivalents) in the fiscal year 1991-92 adopted budget were 347.51, consisting of 165.00 full-time and 182.51 part-time employees. In addition to these staff members, MERC uses concessionaire personnel to operate food and parking concessions.

The MERC adopted budget for fiscal year 1991-92 reflected a total estimated revenue of \$23.39 million, and expenditures of \$24.48 million, for a budgeted deficit for the year of \$1.09 million. A summary of the budget is shown on Exhibit C, on the second following page.

SCOPE AND METHODOLOGY

The objectives of the preliminary survey conducted during Phase I of the performance audit of MERC's business practices and the relationship between MERC and Metro were to do the following:

- Analyze MERC's business activities
- Identify and analyze the implementation of MERC Commission and Metro Council policies and programs
- Identify areas with potential for improvement
- Develop a work plan for an in-depth audit under Phase II of the audit.

In accomplishing these objectives, the members of the project team performed the following activities:

- Collected and reviewed key documents regarding the MERC's activities. Documents reviewed included:
 - Metro ordinances and MERC resolutions relating to MERC activities
 - MERC's fiscal year 1991-92 adopted budget

EXHIBIT B

MERC FULL-TIME EQUIVALENT (FTE) STAFF

	Number of (FTE's) at MERC - FY 1991-92 Adopted Budget		
	F/T	P/T	Total
MERC Management Pool	13.00	0.00	13.00
Oregon Convention Center	62.00	20.61	82.61
Spectator Facilities			
Coliseum	55.75	58.88	114.63
Civic Stadium	8.25	13.78	22.03
Performing Arts Center	<u>26.00</u>	<u>89.24</u>	<u>115.24</u>
TOTAL SPECTATOR FACILITIES	<u>90.00</u>	<u>161.90</u>	<u>251.90</u>
GRAND TOTAL FTE's	<u>165.00</u>	<u>182.51</u>	<u>347.51</u>

EXHIBIT C

FY 1991-92 ADOPTED MERC BUDGET, BY FACILITY (AMOUNTS ARE IN THOUSANDS)

	Spectator Facilities				Grand Total
	Convention Center	Coliseum	Civic Stadium	PCPA ^a	
Revenue	\$6,945.5	\$10,731.0	\$1,725.0	\$3,991.0	\$23,392.5
Expenditures					
Personal Service	\$2,539.4	\$3,541.0	\$607.1	\$3,207.8	\$9,895.3
Materials and Service	3,473.7	5,563.4	1,164.5	941.4	11,143.0
Capital Outlay	102.0	132.4	11.2	136.2	381.8
Interfund Transfers	753.1				2,098.0
Contingencies	300.0				965.0
Total Expenditures	\$7,168.2	\$9,236.8	\$1,782.8	\$4,285.4	\$24,483.1
Net Revenues <Deficit>	<u><\$222.7></u>				<u><\$1,090.6></u>

a PCPA (Portland Center for Performing Arts) consists of the (1) Arlene Schnitzer Concert Hall, (2) Intermediate Theater, (3) Dolores Winningstad Theater, and (4) Civic Auditorium.
 Source: Metro fiscal year 1991-92 adopted budget.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 5

- Selected MERC contracts for concessionaire operations at MERC facilities, including activity reports on these operations
 - Samples of event settlement documentation and event financial analysis statements
 - Prior studies of MERC business practices and Metro/MERC support service arrangements
 - Integrated facility management system used to control booking of events at MERC operated facilities
 - Draft report by the Metro Public Policy Advisory Committee for Regional Convention, Trade, Performing Arts, and Spectator Facilities
 - Audited financial statements for fiscal year 1990-91, including management letter
 - Rate schedules for use of MERC-operated facilities, including supporting studies
- Conducted interviews with Metro Council members, Metro Council staff, Metropolitan Exposition-Recreation Commissioners, Metro Executive Officer, Chair of the Public Policy Advisory Committee, and selected Metro and MERC management officials and staff. (Attachment A presents a listing of the persons interviewed in Phase I of the audit).
 - Toured MERC operated facilities

The members of the project team then evaluated the results of the preliminary survey fieldwork and identified areas with potential benefits that are recommended for more detailed review. The results of these observations and analysis are presented in the following section.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 6

OBSERVATIONS

This section discusses 12 observations that were made during Phase I of the performance audit. Each of these observations and the potential benefits available through a more detailed review is described in this section. The observations are not necessarily listed in order of importance. It is important to note that these are only observations: detailed fieldwork is necessary to fully support, evaluate, and reach conclusions regarding the merit of these observations.

Observation 1 - Rate Schedules for use of MERC Operated Facilities

The Metro Exposition-Recreation Commission (the Commission) has the authority to fix fees and charges for the use of MERC-operated facilities. The rental fees, current as of our preliminary survey, for the use of the Oregon Convention Center facilities, were adopted by MERC Resolution 6, dated May 24, 1988. These rates were for the period ending December 31, 1991. The rates are based on differing rate schedules, depending on the nature of the event, as follows:

- Conventions
- Conventions with exhibits and trade shows
- Non-convention meetings
- Consumer trade shows
- Commercial entertainment

In our review of the rates for the other MERC operated facilities, we either found an indication that they had been adopted by the City of Portland Exposition-Recreation Commission, prior to the transfer of operation of the facilities to MERC, or we were unable to determine when, if ever, the rates had been approved by any oversight body.

The status of rates for these facilities is summarized below:

- Memorial Coliseum Complex
 - Rate schedule is dated January 1, 1987
- Civic Stadium
 - The rate schedule being used is undated

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 7

- **Portland Center for Performing Arts facilities**
 - Most recent approved rate schedule appears to have been adopted by the City of Portland Exposition-Recreation Commission for the period ending fiscal year 1990-91. The rate schedule for fiscal year 1991-92 does not indicate approval by the Commission

In summary, MERC has not specifically adopted or affirmed the rates being charged at the facilities that were acquired by MERC under the December 1989 consolidation agreement. Also, the MERC-approved rates for the Oregon Convention Center expired as of the end of 1991.

Our review of a prior rate study conducted for the Portland Center for Performing Arts shows that the study discussed the approach taken to analyze the rates charged at comparable facilities. The study also discussed the desirability of establishing and maintaining rates for three years in the future. The study commented that this provides the potential users of the facilities with information on what rates they can expect, in order that they can plan and budget accordingly. In our opinion, adopting rates for future periods also provides the facility operator with similar information on expected revenues in order to facilitate future financial planning.

Proposed Detailed Review Objectives and Potential Benefits

Based on the work performed in the preliminary survey, Phase II of the audit should include a confirmation review regarding the completeness and accuracy of information already obtained.

We believe that our study may show the need for the MERC Commission to adopt rates for all the MERC-operated facilities. We also believe that MERC may need to adopt a policy on the length of time into the future that should be covered by these rates. This is especially important for facilities such as the Oregon Convention Center which could be reserved for large events several years into the future. We recognize that there are trade-offs in adopting rates for future years because of the advantage of rate stability versus rate inflexibility; however, this is a policy issue that we believe should be addressed by the MERC Commission.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 8

Observation 2 - Consistency of Deposit Requirements for use of MERC Operated Facilities

The license agreements entered into by the user of a MERC operated facility and the MERC facility manager require the payment of a deposit. While the amount of the deposit is not specified in the agreement, the files reviewed in Phase I indicated the deposit was usually equal to the amount of the rental for the facility.

Our review of a limited sample of license agreements for the MERC operated facilities disclosed that the amount of deposit required varied for events at the same facility consistent with license agreements. However, in some cases, deposits were not required, or deposits were specified but not collected.

Proposed Detailed Review Objectives and Potential Benefits

The detailed work under this step would address the need for a consistent policy for charging deposits for events at MERC operated facilities. We would also plan to review a larger sample of event license agreements in order to expand our analysis of the deposits that had been required for these events.

We believe that the charging of differing deposit amounts for events could be viewed as discriminatory toward some event sponsors, and as giving favored treatment to other event sponsors.

Observation 3 - Management of Major Concessionaire Contracts

Three concessionaires operate at the MERC facilities, as follows:

- Food service at the Memorial Coliseum, the Civic Stadium, and the Oregon Convention Center is provided by Fine Host.

Mr. Donald E. Carlson
 Council Administration
 Metropolitan Service District
 January 28, 1992
 Page 9

During fiscal year 1991-92, MERC budgeted net revenues to MERC from the food service concessionaire at about \$2.2 million, as follows:

	<u>Oregon Convention Center</u>	<u>Memorial Coliseum</u>	<u>Civic Stadium</u>	<u>Totals</u>
Gross revenue	1,500,000	\$4,600,000	\$1,200,000	\$6,936,020
Expenses	<u>1,211,067</u>	<u>3,529,175</u>	<u>836,020</u>	<u>4,740,242</u>
NET REVENUE	<u>\$ 288,933</u>	<u>\$1,070,825</u>	<u>\$ 363,980</u>	<u>\$2,195,778</u>

- Parking at the Oregon Convention Center and the Memorial Coliseum is provided by City Center Parking, and was budgeted to generate about \$1.6 million in net revenues to MERC, as follows:

	<u>Oregon Convention Center</u>	<u>Memorial Coliseum</u>	<u>Totals</u>
Gross revenue	\$433,689	\$1,675,000	\$2,108,689
Expenses	<u>44,925</u>	<u>421,002</u>	<u>465,927</u>
NET REVENUE	<u>\$388,764</u>	<u>\$1,253,998</u>	<u>\$1,642,762</u>

The parking concessionaire arrangement at the Oregon Convention Center is for City Center Parking to provide the parking attendant. MERC collects the receipts directly, and the attendant's wages are reimbursed by MERC. At the Memorial Coliseum, the parking operation is handled by City Center Parking, and MERC receives a percentage of the parking receipts.

- The food concession at the Portland Center for the Performing Arts is handled through a concessionaire contract with Jake's Catering, and MERC receives a percentage of the concessionaire's proceeds. The net proceeds to MERC for fiscal year 1991-92 was budgeted at \$165,000.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 10

Proposed Detailed Review Objectives and Potential Benefits

Because of the large dollar amount of concessionaire revenue, we propose that a review be performed of the MERC oversight of the concessionaires' operations to assure that adequate controls are present to assure that MERC is receiving its proper share. This review would include analysis of the steps taken by MERC to verify the concessionaires' accounting of revenues, expenses, and net amounts due MERC.

Observation 4 - MERC's use of the "ConCentRICS" Integrated Facility Management System

MERC Resolution 39 approved the acquisition of the hardware, software, and peripheral equipment to operate an integrated facility management system. This integrated system, called ConCentRICS, was procured from Resource Information and Control Corporation, Inc., and operates on DEC hardware.

The system is designed for use in controlling the booking of events into the MERC operated facilities, and has the capability to generate the information used in providing the documentation for settlement of events between the event promoter and MERC. The event settlement process includes accounting for the rental of facilities; extra charges to the event sponsor (lighting, sound equipment, etc.); stagehands, ticket takers, usher, security, and similar personnel costs charged to the promoter; ticket sales and the related user fees; and other event-related charges.

Our review of the ConCentRICS system during the Phase I preliminary survey disclosed that the booking feature of the system had been installed in the Oregon Convention Center, and had been or was in the process of being installed in the other MERC operated facilities. The event settlement feature of the ConCentRICS system had not been implemented. As a result, event settlement accounting was still being performed manually, with hand prepared documentation being summarized on a computer spreadsheet.

Proposed Detailed Review Objectives and Potential Benefits

We believe that a review should be made of the reasons why the ConCentRICS system has not been fully implemented. We believe that the successful vendor's terms and conditions, the representations on the capability of the system, and the support to be provided by the vendor in installing and getting the system operational should be reviewed to determine that MERC received the services it was entitled to under the contract.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 11

We also believe that the status of implementing the event settlement module of the system should be evaluated. If the ConCentRICS system has the capability to account for event settlement, it could (a) have an impact on the present work load and staffing requirements at MERC, and (b) result in integrating the data entry of accounting transactions relating to event settlement directly into the Metro accounting system, without having the data manually entered.

Observation 5 - Duplicative Accounting Activities Performed by MERC and Metro

Under the provisions of Metro Ordinance 87-225 which established MERC, accounting, legal, personnel, risk management, public affairs, and other services were to be provided by Metro, subject to compensation being provided by MERC to Metro. During our preliminary review of the accounting activities at MERC, we observed that MERC continues to perform accounting activities that essentially are duplicative of the accounting for MERC operations that is performed by Metro.

As far back as 1980, a Touche Ross & Co. management study of the accounting for the activities of the then City of Portland Exposition-Recreation Commission, recommended that the manual accounting records maintained by the Commission be converted to place primary reliance on the City's automated Financial Management System. This study pointed out that conversion of the Commission's manual accounting system to the City's system had several advantages:

- Reduced bookkeeping work load on the Commission's accounting staff
- Strengthened financial controls
- Greater power and flexibility in financial reporting
- Increased interest earnings on the investment of the Commission's cash
- Consolidation of the Commission's annual independent audit into the City audit, resulting in a savings in audit fees

Our earlier review of Metro's finance and administration activities was performed shortly after the transfer of the operation of the regional convention, trade, spectator, and performing facilities from the City of Portland to Metro. At that time, it was apparent that the centralization of MERC's accounting activities was an ongoing issue that was not going to be quickly resolved.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 12

The March 25, 1991, report on the Benson & McLaughlin centralization/decentralization study for Metro, again addressed the MERC accounting issue. In that report, it was recommended that (a) MERC retain event settlement operations, and (b) major accounting and finance functions should remain in their current organizational settings. The report stated, however, that certain activities, such as accounts receivable, accounts payable, and payroll, should be standardized.

The Peat Marwick management letter that accompanied the fiscal year 1990-91 annual audit report again addressed the duplication of accounting between the MERC manual accounting system and the Metro accounting system, and recommended that, with the exception of certain event settlement functions, MERC begin to more fully utilize the Metro accounting system.

The fiscal year 1991-92 adopted budget authorized the following accounting-related positions for MERC:

- Finance and Administration Director
- Controller
- Accountant
- Acting Accountant
- Bookkeepers (2)
- Accounting Clerk (Payables)

Our Phase I preliminary review disclosed that while some of the earlier recommendations to centralize the accounting function had been implemented, such as centralization of most cash accounts, and a consolidation of the annual financial audit, MERC continues to retain a manual accounting system that duplicates the Metro automated system. Further, because of the delays that occur in recording transactions in MERC's accounting records and then transmitting the same transaction data to Metro for recording in Metro's accounting records, there are ongoing discrepancies between the two sets of records. Also, there have been ongoing and time consuming discussions between MERC and Metro accounting staff on resolving these apparent discrepancies. Further, MERC recently contracted for an accountant/consultant with a charge to automate MERC's accounting system.

Our discussions with MERC facility managers disclosed that these managers were not receiving timely financial reports that showed actual expenditures compared with budget. Our further review of this issue disclosed that, despite MERC maintaining manual

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 13

accounting records, the financial reports are provided by Metro to MERC. They are then reformatted by MERC and distributed to the facility managers. Also, because of the delays in transmitting data between MERC and Metro, the Metro reports are considered inaccurate by MERC.

The net effect of this situation is that the facility managers are not receiving timely financial information. Our review of accounting data at Metro disclosed that there has been an ongoing and time consuming effort to address perceived inaccuracies in the handling of accounting transactions and in making changes in previously recorded transactions. Also, MERC staff have commented that the Metro accounting system cannot handle the unique MERC transactions. A review of this issue disclosed that (a) Metro had established the accounts to record MERC transactions, and (b) MERC had not made any additional accounting needs known to Metro accounting staff.

Proposed Detailed Review Objectives and Potential Benefits

We believe that now, two years after the transfer of operation of the regional convention, trade, spectator, and performing facilities from the City of Portland to Metro, it is time to resolve why two accounting systems are being used to account for MERC's activities. We believe that MERC has a need to maintain event-related data for use in event settlement; however, as mentioned previously, more could be done to automate this process under the ConCentRICS system and to integrate the data entry of accounting transactions relating to event settlement directly into the Metro accounting system. We further believe that there is no reason for MERC to maintain accounting records that duplicate the same data being maintained by Metro.

The Finance Committee recently discussed with MERC the management letter that accompanied the fiscal year 1990-91 annual audit report. As previously noted, the management letter recommended that, with the exception of certain event settlement functions, MERC began to more fully utilize the Metro accounting system. A task force is currently being formed to implement this recommendation. Thus, it is important that the performance audit team coordinate their efforts with this task force.

The work that will be performed under Phase II would be to determine, in detail, the activities of the MERC accounting-related staff, and to evaluate the impact on staffing at MERC and at Metro, if the accounting function were centralized at Metro. Included in this analysis would be an assessment of the MERC accounting staff

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 14

requirements to handle event settlement-related activity, if the capability of the ConCentRICS system were in place.

Observation 6 - Metro Personnel Support of MERC Operations

Presently Metro provides all major personnel support to MERC. Metro has outstationed personnel support staff at MERC. The recent Benson & McLaughlin centralization/ decentralization study for Metro commented that MERC had its own recruitment, selection, and classification program, and that personnel records were being separately maintained at MERC for MERC staff. The study concluded that one executive human resource department should be established.

Our limited analysis of the personnel function during Phase I indicated that MERC uses different employee hiring procedures, allocates employee benefits differently, and tracks retirement differently.

Proposed Detailed Review Objectives and Potential Benefits

We propose that as part of the Phase II detailed review, further analysis be performed of the effectiveness and efficiency of the personnel services arrangement between MERC and Metro. This analysis could be included, along with the review of the duplication of the accounting function, as part of the study of the support services provided by Metro to MERC.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 15

Observation 7 - There is no Long-range Plan for Major Repair and Renovation of MERC Operated Facilities

The fiscal year adopted 1991-92 budget authorizes a total of \$481,750 in capital outlays for the MERC facilities:

	<u>Purchases of furniture and vehicles</u>	<u>Construction Buildings and Equipment</u>	<u>Total</u>
Oregon Convention Center	\$ 5,000	\$ 97,000	\$102,000
Memorial Coliseum	47,400	85,000	132,400
Civic Stadium	10,000	1,200	11,200
Performing Arts Center	<u>19,650</u>	<u>116,500</u>	<u>136,150</u>
TOTALS	<u>\$82,050</u>	<u>\$299,700</u>	<u>\$381,750</u>

The budget does not provide for accumulating reserves for future major repairs and renovation of the MERC facilities. For example, replacing the artificial turf at the Civic Stadium, re-roofing of the various facilities, and replacing and upgrading electrical equipment are normal major outlays that will have to be carried out at the MERC operated facilities at some point in the future. In the absence of accumulating a reserve fund for these expenditures, MERC will be faced with having to develop a financing arrangement at the time the work is to be performed.

The Public Policy Advisory Committee for Regional Convention, Trade, Performing Arts, and Spectator Facilities also commented on the need for capital improvement funds. The Committee report stated that more than \$14 million was needed over the next ten years for capital improvements at MERC facilities. The report concluded that continued deferral of capital improvements will result in significant deterioration of the MERC operated facilities.

Currently, the operations of the facilities pay for the operating and capital needs of the facilities. However, the operating revenues are insufficient to meet these needs on a long-term basis.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 16

Proposed Detailed Review Objectives and Potential Benefits

While the funding of capital improvements at the MERC facilities is a policy issue for the MERC Commission and Metro Council, we suggest that a review of the validity of the estimated needs for capital outlays for the MERC operated facilities would provide the MERC Commission and the Metro Council with an independent evaluation of the funding needs for these facilities.

Observation 8 - Need to Verify that Labor Rates Charged by MERC to Facility Users Recover All Direct and Indirect Costs

Labor costs associated with an event at the MERC operated facilities are charged back to the promoter or sponsor of the event. Examples of the types of labor charged to the promoter or sponsor include:

- Ticket services (ticket sellers)
- Admissions labor (gate attendants, ushers)
- Security and Medical staff
- Stagehand labor
- Miscellaneous labor (checkroom attendants, elevator operators, scoreboard operators, field crews)

The rates for these various classes of personnel have been established by MERC, and, except for stagehands, are intended to recover direct labor costs, fringes, and administrative overhead costs. The labor rates for stagehands are based on current union scale, health and welfare benefits, and a 25 percent charge for overhead. We understand that this overhead charge is for the cost of processing payroll and related administrative costs.

The current labor rates for the MERC operated facilities were adopted by MERC Resolution 133 on June 19, 1991, and were put in effect as of July 1, 1991.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 17

Proposed Detailed Review Objectives and Potential Benefits

Since the intent of the labor rates is to recover direct, fringe, and overhead costs, we propose that an analysis be performed of the basis of the current rates to (a) determine that the rates do recover all direct costs, and (b) determine the basis for the computation of overhead costs, including the 25 percent overhead charged for stagehands.

The objective of this analysis would be to validate that the rates accurately reflect the actual cost factors, and that MERC is recovering its overhead costs related to these rates.

Observation 9 - Verification of Charges to Users of MERC Operated Facilities

While many of the users of the MERC facilities pay established rental rates, some of the rental rates charged to users of MERC facilities are based on negotiated long term agreements. For example, MERC has long-term contracts with the following tenants:

- | | |
|-----------------------------|-------------------------------|
| ■ Portland Trailblazers | ■ Portland Beavers |
| ■ Portland Winter Hawks | ■ Oregon Shakespeare Festival |
| ■ Portland State University | ■ Ringling Bros. Circus |
| ■ Oregon Symphony | ■ Portland Opera |
| ■ Oregon Ballet Theater | ■ Disney on Ice |

During our Phase I preliminary survey, we reviewed the rental contracts with the Oregon Shakespeare Festival and the Portland Beavers. Under the terms of the agreement with the Oregon Shakespeare Festival, facility rental is based on a flat rate; however, under the agreement with the Portland Beavers, rental is based on a fixed rate or a percentage of gross ticket sales, whichever is greater.

Proposed Detailed Review Objectives and Potential Benefits

We propose that a review be performed of other MERC tenant contracts to determine the basis for rental rates. If the rates are based on a percentage of gate revenue or ticket sales, as opposed to a flat rental, we propose that we determine how MERC verifies that the proper rental amount has been determined. If the only rental contract that provides for a varying amount of rental, based on gate revenue or ticket sales, is the Portland Beavers contract, we suggest that this issue not be reviewed further.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 18

Observation 10 - Evaluation of MERC's Market Planning Activity

In the Touche Ross & Co. management study that was performed in 1980, the report recommended that the City of Portland's Exposition-Recreation Commission develop an annual marketing plan that would be integrated into the budget, and which could be used as a yardstick for measuring management's success in meeting the plan. The report also recommended that this plan could be used as a basis for evaluating performance of the general manager and the managers of the facilities.

The preliminary survey performed under Phase I did not address this area in sufficient depth to access the linkage, if any, between (a) an annual marketing plan, (b) the budget, and (c) appraisal of management performance. Our review of the fiscal year 1991-92 budget did not indicate a clear bridge between these interrelated processes. For example, the MERC budget described key actions for fiscal year 1991-92 in general terms, such as:

- Continue marketing and promotion of the Oregon Convention Center
- Aggressively market the Memorial Coliseum Complex
- Research ways to improve future use and funding of the Portland Center for the Performing Arts

Proposed Detailed Review Objectives and Potential Benefits

We suggest that during Phase II, we perform a review of the steps taken to adopt the recommendations for closer integration of an annual marketing plan to the budget, and use an assessment of the accomplishment of the marketing plan as a part of the appraisal of management performance. We feel that this linkage is an important tool for oversight bodies such as the MERC Commission and the Metro Council to evaluate the basis for the MERC budget, and to assess MERC management's performance.

Other Issues

In our Phase I work, we noted two other issues that we believe should be brought to the attention of the Metro Council; however, we do not believe further work in Phase II is required. These issues are discussed below.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 19

Observation 11 - Use of Multiple Ticket Agencies

Two ticket agencies, Ticketmaster and Fastixx, have been authorized by MERC to handle tickets for events at MERC operated facilities. Our review of the ticket agency agreement disclosed that the agencies are authorized to retain up to \$100,000 in advance ticket sales for an event, before remitting the sales proceeds to MERC. This arrangement allows the ticket agency the advantage of being able to earn money on the "float", rather than allowing MERC to invest these proceeds.

Our discussion with MERC management on this issue disclosed that MERC is currently conducting negotiations with the ticketing agencies to revise the terms of the current agreement. We were told that the agencies' right to retain advance ticket sales is one of the issues under discussion. Based on the negotiations currently underway, we do not believe that further review of this area is needed at this time.

Observation 12 - Review of MERC's Budget

As part of our preliminary survey of MERC's business practices and relationship with Metro, we analyzed the budget review process used to develop the MERC budget. Under the terms of the agreement reached between the City of Portland and Metro for transfer of the operation of the regional convention, trade, spectator, and performing facilities from the City of Portland to Metro, the MERC budget is part of the Metro budget. During the budget development process, the MERC budget is approved by the Commissioners. The portion of the budget relating to the MERC operated facilities still owned by the City of Portland is subject to approval by the City. The overall MERC budget is then subject to the review and approval of the Metro Council.

This budgeting process was characterized by some MERC staff as confusing and as creating uncertainty on the lines of authority for final approval of the MERC budget.

Since the budget process is set forth in the consolidation agreement, we do not believe that it would be practical to propose a change at this time. However, at such time as final action is taken to transfer the ownership of the MERC operated facilities to MERC, the need for the City of Portland to have a part in the budget process would no longer be necessary.

Mr. Donald E. Carlson
Council Administration
Metropolitan Service District
January 28, 1992
Page 20

* * * * *

The project schedule and milestones for Phase II of this project are shown in Attachment B to this letter. Peat Marwick has appreciated the opportunity to conduct Phase I of the performance audit of the business practices of MERC and the relationship between MERC and Metro. We look forward to building on the work that has been performed and, with the Council's concurrence, fully developing the issues recommended for Phase II of the study.

Very truly yours,

KPMG PEAT MARWICK



Robert T. O'Neill, Principal

ATTACHMENT A

**LISTING OF INTERVIEWS CONDUCTED
DURING PHASE 1 OF THE PERFORMANCE AUDIT OF
MERC'S BUSINESS PRACTICES
AND RELATIONSHIP WITH METRO**

Metropolitan Exposition-Recreation Commission

Blosser, Jeffrey	Manager, Oregon Convention Center
Buffetta, Dominic	Director, Finance and Administration
Fehrenkamp, Lee	General Manager
Fennell, Tim	Manager, Memorial Coliseum and Civic Stadium
Freeman, Robert	Director, Portland Center for the Performing Arts
Kraft, Norm	Accountant
Middleton, Ben	Commissioner
Runstein, Ted	Chair, MERC Commission
Zych, Andrea	Controller

Metropolitan Service District

Carlson, Don	Council Administrator
Collier, Tanya	Presiding Officer, Metro Council
Cooper, Dan	General Counsel
Cox, Don	Chief Accountant
Cusma, Rena	Executive Officer
Engstrom, Richard	Deputy Executive Officer
Knowles, David	Councilor
Meyer, Nancy	Assistant Personnel Manager
Short, Casey	Council Analyst
Sims, Jennifer	Director, Finance

Other persons contacted

Carlsen, Cliff	Chair, Public Policy Advisory Committee for Regional Convention, Trade, Performing Arts, and Spectator Facilities
Hutchison, Walter	Accounting consultant to MERC

ATTACHMENT B

PROJECT SCHEDULE AND MILESTONES

**PHASE II OF THE PERFORMANCE AUDIT
OF MERC'S BUSINESS PRACTICES AND
RELATIONSHIP WITH METRO**

<u>Milestone</u>	<u>Date</u>
Submit Phase II Work Plan	January 28, 1992
Initiate Phase II Fieldwork	January 30, 1992
Complete Phase II Fieldwork	March 13, 1992
Submit Draft Report	March 27, 1992
Finalize Phase II Report	April 17, 1992

REPORT ON
PERFORMANCE AUDITING PLAN
FOR THE
METROPOLITAN SERVICE DISTRICT COUNCIL

DECEMBER 1988

TABLE OF CONTENTS

	<u>Page</u>
- EXECUTIVE SUMMARY	1
- INTRODUCTION	2
- BACKGROUND.	2
- WORK PERFORMED.	3
- PERFORMANCE AUDITING.	3
- ORGANIZING A PERFORMANCE AUDIT CAPABILITY . . .	5
Auditing Standards	5
Professional Staff	6
Audit Oversight	7
Prioritizing Reviews	8
Administrative Guidelines.	9
Funding	9
- INFORMATION SYSTEMS	10
- IMPEDIMENTS TO SUCCESSFUL PERFORMANCE AUDITING. .	11
- SPECIFIC PERFORMANCE AUDITS	12

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.

METROPOLITAN SERVICES DISTRICT
GUIDE FOR PERFORMANCE AUDITING
JANUARY 1989

METROPOLITAN SERVICES DISTRICT
GUIDE FOR PERFORMANCE AUDITING

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction, Mission, Organization	1
II. Audit Standards	2
III. Criteria For Selecting Performance Audits	5
IV. Annual Audit Plan	7
V. Audit Instructions.	8
A. Planning Specific Assignments.	8
B. Audit Program	10
C. Audit Working Papers	12
VI. Audit Reports	14
VII. Follow-up on Audit Report Recommendations	18

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 judgment 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, judgments, 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

No. _____

Title:

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

I. INTRODUCTION

The Metropolitan Service District Council contracted with KPMG Peat Marwick to conduct a performance audit of the Metropolitan Service District's (Metro's) Finance and Administration Department. The performance audit was conducted in accordance with "Government Auditing Standards," issued by the Comptroller General of the United States, which became effective in January 1989.

The performance audit was conducted in two phases. Phase I involved a preliminary survey of the organization, management, operation and performance of Metro's Finance and Administration Department. Phase I identified issue areas or concerns that warranted in-depth review in Phase II of the audit. Peat Marwick presented a report to the Council's Finance Committee regarding Phase I on March 19, 1990. At that time, the Committee approved the issue areas for the Phase II, in-depth audit. This report presents the results of the in-depth audit we conducted during the second phase of work.

This section of the report presents background information regarding the Finance and Administration Department. It also describes our scope and methodologies for conducting the performance audit, as well as specific limitations in conducting the audit.

BACKGROUND

The Finance and Administration Department is responsible for Metro's financial management and administrative service functions. The Department has an adopted budget of \$1,962,000 for fiscal year 1989-90 and a staff of 25.45 full-time equivalent positions. The Department is currently comprised of two major divisions: Financial Services and Construction Management.

The Financial Services Division has four sections. These include:

- **Accounting Section** - Responsible for the recording and processing of all cash receipts and accounts receivable, processing all cash disbursements and accounts payable, processing all payroll items, and preparing payroll reports. The section also is responsible for processing and controlling purchase commitments, preparing financial reports, maintaining accounting records, assisting in year-end audit report preparation, and providing effective internal accounting controls for Metro's assets;
- **Data Processing Section** - Responsible for providing information processing tools and services to Metro departments. These services include short- and long-range planning, review of department requests for hardware and software, operation and maintenance of equipment and software. In addition, the Section provides programming services, responds to user requests, and assists with new system acquisition, installation, conversion and operation;

- **Finance Section** - Responsible for coordinating the preparation of the annual budget, monitoring financial status of departments in relation to the budget, and preparing necessary budget amendments. This Section manages Metro's programs for insurance and risk, long-range financial planning and credit. It also is responsible for investing excess cash in accordance with Metro's policies; and
- **Support Service Section** - Provides central services such as printing, telephone, deliveries, fleet and building management.

The Construction Management Division is responsible for providing coordination of construction for Metro departments to assure that construction projects are performed in compliance with job specifications, completion schedules, and Metro Code requirements. It has the authority to take the necessary steps to bring contracts into compliance and it coordinates construction projects with designated department staff and outside project management firms. The Division also provides the central administration for contracts executed by Metro and monitors contracts for compliance with Metro's disadvantaged business enterprise/women-owned business enterprise ordinance.

The personnel function was formerly part of the Finance and Administration Department, but during fiscal year 1989-90, the personnel function was shifted out of the Department and now reports to the Metro Executive Officer.

The Finance and Administration Department is presently involved in the negotiations regarding the consolidation of regional convention, trade, spectator and performing arts facilities owned and operated by the City of Portland. In December 1989, the City of Portland, Metro, and the City of Portland Exposition - Recreation Commission (ERC) signed an agreement to transfer the operations and management of ERC facilities to the Metro ERC. Effective January 4, 1990, Metro assumed certain personnel related responsibilities under this agreement. Commencing on July 1, 1990, Metro will assume additional responsibilities, including specific financial and budgetary authority. In support of the consolidation agreement, the staff at Metro and at the Metro ERC are presently working to identify the specific type and level of support services that Metro will provide to the Metro ERC.

SCOPE AND METHODOLOGY

As previously mentioned, the performance audit was divided into two phases. The objectives of the preliminary survey conducted during Phase I of the performance audit of the Finance and Administration Department were to do the following:

- Review the major duties, responsibilities and functions of the Department;

- Review the economy, efficiency and effectiveness of the Department's operations;
- Identify areas offering potential benefits that should be the subject of an in-depth audit in Phase II of the study; and
- Develop a work plan for conducting the in-depth audit of selected areas in Phase II.

To accomplish these objectives, the members of the project team performed the following activities:

- Collected and reviewed key documents regarding the Department's organization, management structure, staffing and activities;
- Conducted interviews with management and staff in the Finance and Administration Department, other Metro departments, the Metro ERC, the City of Portland, the Metro Council, and other concerned individuals/officials;
- Identified and reviewed major manual and automated systems and processes in use by the Finance and Administration Department; and
- Observed and reviewed the Department's current procedures and practices.

Phase II of the performance audit involved the in-depth review of issues or concerns identified in Phase I. The objectives of Phase II were to:

- Conduct additional detailed analysis within specific issue areas to gain further understanding of the major issues;
- Develop audit findings, as appropriate, within each issue area;
- Develop recommendations for support service improvements within the Finance and Administrative Department; and
- Prepare the final performance audit report.

To meet the objectives of Phase II, the members of the project team collected and reviewed additional documents and information available from the Department, performed additional interviews with management and staff, and performed additional analysis of the Department's procedures, practices and performance.

STUDY LIMITATIONS

The performance audit included a review of the Finance and Administration Department's activities, excluding the Support Services Section. In addition, it included a review of the Personnel office which was shifted out of the Department during fiscal year 1989-90, and which now reports to the Executive Officer.

During the performance audit of the Department, Peat Marwick collected and received a wide variety of information, some of which was compiled by the Department's staff. While the information provided by Metro's staff was reviewed for reasonableness and accuracy, it was not audited back to source documents.

III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

This section of the report presents a summary of the conclusions and recommendations that Peat Marwick has made in its performance audit of Metro's Finance and Administration Department.

CONCLUSIONS

The Finance and Administration Department is responsible for providing financial management and administrative service functions to Metro. In recent years, the responsibilities and work load of the Department have increased significantly due in part to the following:

- Growth in the size of Metro's operations and the concomitant growth necessitated in financial management and administrative service activities and work load;
- Development and implementation of an automated accounting and financial management information system in the Department; and
- Consolidation of Metro and the City of Portland Exposition - Recreation Commission which will be fully in place by July 1, 1990.

While these major changes have occurred, the Finance and Administration Department's staffing has not kept pace with the increased responsibilities and work load. As a result, the Department has not been able to perform the full-range of financial, administrative, supervisory and control activities that are required to ensure adequate financial management, services and control at Metro.

To alleviate work load problems and provide sufficient staff to carry out the Department's responsibilities, Metro has requested additional staffing for the Finance and Administration Department for fiscal year 1990-91. The performance audit provides analysis of the specific staffing requests made by Metro and the Metro ERC to enhance their support services capabilities. While the majority of the staffing requests are warranted, the performance audit identified some staffing requests that were not well-supported by work load measurements, or which appeared to have been duplicated by Metro and the Metro ERC.

The performance audit also identified opportunities to improve the operation and performance of Metro in various functional areas, including contracting, procurement, construction management, management information systems, cash management and risk management.

RECOMMENDATIONS

Peat Marwick believes that the implementation of our recommendations will improve the organization, operation, and performance of the Finance and Administration Department. Specifically, we make the following recommendations:

Staffing Adjustments Need to be Made in the Finance and Administration Department

1. Each Metro Department should develop work load measures which are specifically applicable to the tasks performed within that Department.
2. Metro should add between 3.5 and 4.5 full-time equivalent staff to perform personnel functions for Metro and the Metro ERC.
3. Metro should add between four and five full-time equivalent staff positions to the accounting section.
4. Metro should add between two and three full-time equivalent staff positions to the Data Processing Division.

Need to Continue to Monitor the Impact of the Metro / Metro ERC Consolidation

5. The Metro ERC should strive to adopt a 24-pay period year.
6. Metro should make payments to Metro ERC vendors based upon a payment authorization procedure similar to that used by the City of Portland for the ERC.
7. The Metro ERC should, for the immediate future, retain its existing bank accounts.
8. Metro's financial audit should be expended to include the Metro ERC operations.
9. The Metro ERC's fixed asset inventory should be entered and maintained on Metro's automated financial and accounting system.
10. Metro and Metro ERC records should be stored by the agency or department with responsibility for the action which generated the transaction.
11. Both Metro and the Metro ERC should provide additional detail justifying budget requests.
12. Metro should continue to study centralization options for personnel and other functions.
13. Metro and the Metro ERC should jointly agree to the nature and quantity of support which Metro construction management staff will provide to Metro ERC.

The Opportunity Exists to Shorten the Contracting Process

14. Modify the review process for proposed "A" contracts.

15. Review Metro Code contracting requirements.

Metro Should Consider a Centralized Procurement Function

16. Perform an evaluation of the cost/benefit of a centralized procurement operations.

Need to Consolidate Procurement of Administrative Supplies

17. Use competitively awarded blanket purchase orders to procure administrative supplies.
18. When cost effective, use existing State of Oregon and Multnomah County contracts and stores to purchase administrative supplies.

Need to Assure Adequate Metro Oversight of Construction Projects

19. Provide construction management oversight for solid waste projects.

Need to Reconsider Existing Risk Management Strategies

20. Metro should proceed with plans to contract for an actuarial study.
21. Metro should hire, or contract for the services of a risk management or loss avoidance expert with experience in public facilities and solid waste disposal.

Need to Plan and Prioritize Data Processing Goals

22. Data Processing Division and user department staff should regularly meet to communicate needs, available technology, and current activities and plans.
23. User Departments should be assigned a Data Processing Department contact person.
24. Data Processing should work with the Accounting Section and user departments to itemize report changes, data collection changes and system modifications which should be made to the automated finance and accounting computer system.
25. Provide additional training to users of the automated finance and accounting system.
26. Develop a comprehensive data processing plan covering both Metro and Metro ERC, and update the plan annually.

Need for Oversight Monitoring of Cash Collection Activities

27. Provide oversight reviews of Metro's internal controls over cash collection activities.
28. Continue to perform reviews of Metro ERC cash collection activities.
29. Review the Metro ERC's internal controls over cash collections activities.

The Metropolitan Service District (Metro) contracted with KPMG Peat Marwick to conduct a performance audit of Metro's solid waste function. The purpose of the audit was to review the economy and efficiency of Metro's solid waste activities, analyze the implementation of Metro Council policies and programs, and identify opportunities for improvement.

Metro has significant solid waste responsibilities and conducts extensive solid waste program activities in the Portland Tri-County area. Metro is responsible for solid waste management, as well as the planning, development and operation of solid waste facilities and transfer stations. Among the major facilities over which Metro has responsibility are the St. Johns Landfill, the Metro South Station, Metro Central Transfer Station, the Metro/Riedel composter facility, which is nearing completion. Also, Metro is a major user of the Columbia Ridge Landfill. Metro is responsible for carrying out various waste reduction, hazardous waste management, and other solid waste programs. Metro also has certain solid waste rate setting and rate review responsibilities.

Metro's solid waste program activities are conducted by the Solid Waste Department, the Planning and Development Department, and the Public Affairs Department. The fiscal year 1990-91 adopted budget program summary states that the Solid Waste Department is responsible for regional solid waste management planning and disposal. The Planning and Development Department is responsible for developing the Regional Solid Waste Management Plan, conducting long-term planning of solid waste facilities, managing household hazardous wastes, and performing program evaluation activities. The Public Affairs Department is responsible for the administration of the Recycling Information Center, waste reduction promotion and waste reduction education.

Metro's total budgeted expenditures for solid waste activities in fiscal year 1990-91 are \$103.3 million. Metro has budgeted a total staff of 74.25 full-time equivalent (FTE) positions to carry out its solid waste activities in fiscal year 1990-91.

The review of Metro's solid waste functions disclosed that the Planning and Development Department devotes approximately 0.72 FTE positions to solid waste program development, while the Solid Waste Department dedicates 2.29 FTE positions to the same function. These staff conduct program efforts related to yard debris, curbside recycling and local government coordination related to recycling and waste reduction programs. The audit indicated that these activities should be performed either in the Planning and Development Department or the Solid Waste Department, but not in both.

Metro is currently winding down some of the major facility planning and siting activities that the Planning and Development Department and the Solid Waste Department have been performing in recent years. This includes planning related to Metro Central, the Metro/Riedel Composter, and the facility need determination process for Washington County. Due to the decrease in planning work load, our audit indicated that the Planning and Development Department could eliminate or redirect 0.5 to 1.5 FTE positions. Similarly, we believe the Solid Waste Department could eliminate or redirect 0.5 FTE positions.

Metro will need approximately one to two years to complete the siting and procurement work for the Washington County transfer facilities. The audit indicated that when this work is complete Metro should be able to reduce or redirect approximately 4.4 FTE positions in the Solid Waste Department.

Metro's Planning and Development Department is working to complete the Regional Solid Waste Management Plan. Once this plan is completed, the Department should be able to reduce or redirect the activities of 1.0 to 2.0 FTEs of the 2.66 FTEs it currently devotes to policy development, program development and staff support to regional policy and technical committees.

Metro has taken several steps to create rate incentives to reduce the volume of solid waste going into the Columbia Ridge Landfill. These incentives have included rate incentives for separating yard debris from other materials being disposed, and rate incentives encouraging the transport of yard debris to private composters. However, the audit indicated that Metro has not established a methodology for measuring the effect, especially cost-effectiveness of these policies. By developing a methodology to evaluate such policies, Metro would be in a better position to identify the impact of its strategies and make any necessary adjustments.

Metro has initiated and successfully carried out various efforts to improve recycling in the Portland Tri-County area. However, Metro has not focused much effort on reducing waste generation by residential and business disposers. The audit showed that Metro may want to initiate such programs on a pilot project basis to evaluate their effectiveness, as well as the impact of potential waste reduction rate incentives.

The Metro Council established a five-member Rate Review Committee in 1981 to gather information and provide recommendations for the establishment of solid waste rates. The audit indicated that since the Committee has been in existence for approximately 10 years, a number of questions have arisen regarding the purpose, authority, composition and responsibility of the Committee. It appears to be an appropriate time for Metro to reexamine and clarify the roles and responsibilities of the Rate Review Committee.

The performance audit report presents a total of 23 recommendations aimed at improving the economy efficiency, and effectiveness of Metro's solid waste function. The analysis supporting these recommendations are presented in Chapters II and III, while Chapter IV provides a summary of all of the recommendations presented in the performance audit report.

IV. RECOMMENDATIONS

This chapter of the report presents a summary of the recommendations from the performance audit of Metro's solid waste function. Specifically, this chapter summarizes the recommendations provided in the audit findings that were presented in Chapters II and III. Each of the recommendations are grouped according to major issue area.

RELATIONSHIP BETWEEN SOLID WASTE DEPARTMENT AND PLANNING AND DEVELOPMENT DEPARTMENT

1. Metro's Planning and Development Department should propose a written mission and goal statement for approval by the Executive Officer and the Council;
2. Prior to acceptance of a capital facility or major non-capital program as part of the Metro region's Solid Waste Management Plan, the Planning and Development Department should obtain and evaluate cost estimates for each option, and should provide the cost estimates to those groups which participate in choosing system components;
3. Metro should consider redirecting up to one-half (0.5) full-time-equivalent staff position to the Planning and Development Department's staff level allow the Department to prepare long-term financial plans related to Metro solid waste facilities;
4. The Solid Waste Department should modify its goals so that responsiveness to local community needs and concerns is explicitly recognized as a goal in design, acquisition, and ongoing management of Metro solid waste facilities;
5. When either the Planning and Development Department or the Solid Waste Department adopts a practice or guideline as a clear distinguishing boundary of its responsibilities, that boundary should be formally adopted as part of the Department's mission or goals, and explicitly approved by the Executive Officer and the Council;
6. The planning, development and ongoing implementation of programs which do not involve Metro's planning for or operation of capital projects should be performed in a single organizational unit, either the Planning and Development Department's Solid Waste Planning Division, or the Solid Waste Department's Waste Reduction Division;

BARRIERS TO ORGANIZATIONAL EFFECTIVENESS IN THE PLANNING AND DEVELOPMENT AND SOLID WASTE DEPARTMENTS

7. Under current organizational policies, solid waste planning which is related to the need for, and siting of, capital projects should continue to be performed in the Planning and Development Department, separately from the facilities' operation by the Solid Waste Department;
8. Metro should ensure that the individuals or sections responsible for program or policy evaluation are not the same individuals or sections which are responsible for implementing the program or policy;
9. Metro should eliminate or redirect the efforts of one-half to one-and-one-half (0.5 to 1.5) full-time-equivalent positions from its current Planning and Development Department staff levels in recognition of the reduced need for facility planning and siting;
10. Metro should eliminate or redirect the efforts of up to one-half (0.5) full-time-equivalent positions from current Solid Waste Department staff levels in recognition of the reduced need for facility planning and siting;
11. When siting and procurement of the Washington County Transfer facilities is complete (approximately one to two years), Metro should be able to reduce or redirect the number of Solid Waste Department staff currently dedicated to work related to facility acquisition;
12. As the Regional Solid Waste Management Plan is completed, Metro should reduce or redirect between 1.0 and 2.0 full-time-equivalent Planning and Development Department staff positions;

SOLID WASTE RATE SETTING POLICIES

13. Metro should develop methodologies to evaluate the impact of rate incentives aimed at reducing solid waste;
14. Metro needs to establish a data base of the generators of solid waste, by industry;
15. Metro needs to establish a prioritization of solid waste reduction initiatives, based on their impact on reducing waste versus the cost of the initiative;

16. Metro needs to develop policy guidelines on the impact of increased costs resulting from operation of two transfer stations in Washington County;
17. Metro should expand efforts to reduce solid waste generation;
18. Metro should finance solid waste source reduction incentives through the solid waste rate-base, rather than through general revenues;

ROLE OF THE RATE REVIEW COMMITTEE

19. Representatives of Metro staff, Council staff, and the Rate Review Committee should be appointed to an ad hoc task force to clarify and clearly articulate the role of the Rate Review Committee;
20. Metro should change the composition of the Rate Review Committee;
21. The Rate Review Committee Should Report to the Council;
22. The Rate Review Committee should be provided with adequate time to review proposed solid waste rates;
23. The Rate Review Committee should be charged with responsibility for the review of proposed direct and indirect expenses used to determine the solid waste rates;

Peat Marwick believes that the implementation of these recommendations will improve the economy, efficiency and effectiveness of Metro's solid waste function.



METRO

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

Memorandum

DATE: March 17, 1992

TO: Hardy Myers, Chair
Metro Charter Committee

FROM: Jim Gardner, ^{JG}Presiding Officer

RE: Metro's Performance Audit Program

In response to your request to Don Carlson, Council Administrator, this memo provides information on the Metro Council's performance audit program. It is divided into three parts. The first provides background information on the development of the program, the second gives some detail on the program's results, and the third gives some comparative cost figures for the elected Auditors in the region.

BACKGROUND

The performance audit program is an outgrowth of the effort started in 1987 to clearly separate the legislative and executive functions of the District. At that time the Council took action to establish a more formal, professional approach to its dual jobs of policy making and program oversight. Such actions included reorganizing the Council into a standing committee system with specific defined responsibilities assigned to each committee; adopting specific rules and procedures for considering ordinances and resolutions and the conduct of Council business; and increasing Council staff to provide professional analytical and clerical capability. In addition, the Council appropriated funds in FY 1988-89 to investigate and prepare a plan to create a performance audit program.

The plan was developed for the Council by the CPA firm of Talbot & Korvola, which was selected through the regular procurement process. That process included issuance of a Request for Proposals, review of the proposals submitted, and interviews with the five firms submitting proposals (Talbot & Korvola, Coopers & Lybrand, KPMG Peat Marwick, Harbinger Northwest, and Hill & Associates).

The Council approved Talbot & Korvola's plan through adoption of Resolution No. 89-1030 in January 1989. The plan includes two documents: a performance auditing plan, entitled "Report on Performance Auditing Plan for the Metropolitan Service District Council"; and a program guide, entitled "Metropolitan Services District Guide for Performance Auditing, January 1989" (both are attached as Exhibits A and B respectively). The plan included five primary recommendations, as listed in the Executive Summary. Those recommendations were that the Metro Council:

1. Adopt the U.S. General Accounting Office's Government Auditing Standards as its 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.

Following its adoption of the plan, the Council issued an RFP in 1989 for a three-year contract for professional performance audit services. Five firms responded with proposals: Deloitte & Touche; KPMG Peat Marwick; Talbot & Korvola; Coopers & Lybrand; and Ernst & Young. The Council awarded the contract to KPMG Peat Marwick, approving a scope of work to conduct one performance audit annually. Based on a decision to start this program slowly by doing only one audit each year, the amounts expended for the contract were \$38,500 in FY 1989-90 and \$43,500 in FY 1990-91. During the current year the Council has budgeted \$62,000 for the contract and has included \$60,000 in the FY 1992-93 Proposed Budget. In addition to the contract amounts each budget has included small amounts of Council staff time and miscellaneous expenses necessary for the management of the program.

The result of all this activity, the development of a plan and the hiring and managing of a professional consulting firm has been the establishment of a formal program which has produced positive results and has helped the agency perform its functions more efficiently and effectively. Both the plan development and the program as implemented have been accomplished with the assistance of private sector firms with demonstrated competence and experience.

PROGRAM RESULTS

KPMG Peat Marwick has completed two performance audits and is now in the final phase of its third. The first two dealt with the operations of the Finance and Administration Department (1989-90) and with the Solid Waste Function (1990-91). The current year's audit is on the business practices of the Metropolitan Exposition-Recreation Commission (MERC).

Finance & Administration Audit (1990)

The 1990 audit of the Finance & Administration Department contained 29 specific recommendations in nine subject areas. (Attached as Exhibit C is a copy of the Introduction and the Summary of Conclusions and Recommendations from this audit.) Several of the recommendations were used by the Council during the budget process to set an appropriate staffing level in the personnel, accounting and data processing divisions to accommodate additional work loads brought about by the addition of the MERC functions. Some of the recommendations were used by the Council and Executive Officer to further define the emerging relationship with the MERC and finally several of the recommendations were used by the Council to ensure that other central administrative service activities were performing certain important functions. Because of the involvement and cooperation of the Executive Officer in this program most of the recommendations have been implemented by the various organizational units involved.

The consolidation of the MERC as part of Metro was in progress when the 1989-90 audit was commissioned, and its implementation was a principal concern in determining the subject of that audit. As a result, eleven of the 29 recommendations were directed toward the operations of the MERC. Metro has continued to monitor the impact of the consolidation. Primarily as a result of that ongoing review, the Council chose to initiate the current audit of MERC's business practices to provide further guidance for the effective consolidation of common Metro/MERC activities.

Solid Waste Function Audit (1991)

The 1991 audit of Metro's Solid Waste Function contains 23 specific recommendations in four areas (see the Executive Summary and Recommendations attached as Exhibit D). Those four program areas can be further simplified into two: the solid waste planning function and rate setting.

Most of the recommendations concerning planning resulted in the adoption of coordinated work programs eliminating duplication of effort between the two departments, the elimination of two positions in the FY 91-92 budget request and laid the groundwork for the recent proposal of the Executive Officer to eliminate additional solid waste planning positions and consolidate remaining planning activities in the Solid Waste Department resulting in further administrative savings.

Changes recommended for the rate setting and rate review procedures have mostly been implemented or are in the process of implementation. The Council's Solid Waste Committee has continued to take a strong interest in rate issues, and uses the audit recommendations to help give them direction.

MERC Business Practices (pending)

The audit of MERC's business practices will be presented to Council in April. It is expected to include recommendations for further administrative savings to the MERC system through completion of the consolidation of the MERC accounting system into the Metro central system. The recommendations will be available to the Metro Council when it considers and takes action on the MERC and Metro budgets.

COMPARISON WITH LOCAL GOVERNMENTS

There are three elected local government auditors in the region. Their budgets and FTE are listed below:

<u>Jurisdiction</u>	<u>FTE</u>	<u>91-92 Budget</u>
Multnomah County	6.0	\$ 351,682
Washington County	2.0	221,151 *
City of Portland **	10.0	754,000

* Washington County Auditor Alan Percell said his requested budget was \$189,422. The higher amount listed above reflects a carry-over of funds from the prior year to complete an audit in progress.

** The FTE and budget figures for the City of Portland are for the Audits Division only. (Unlike the two counties' Auditors, Portland's Auditor fulfills the functions of elections officer, city recorder, and assessments official.) The budget includes \$140,000 for the City's annual financial audit, which the Charter requires the Auditor to administer through contract. The FTE does not include any of the elected Auditor's time nor any administrative support from her central office, which Audits Director Richard Tracy estimated at 10-20% of the Auditor's time, and another 10-20% of an FTE for additional administrative support.

CONCLUSION

We believe Metro Council has an effective program of performance auditing. While the program has a very short history, it has resulted in products that have directly led to positive, cost-effective changes in the programs investigated. This has in turn helped improve the Districts operations. The program is limited in that it only produces one audit annually, but that restriction on quantity reflects a conscious Council decision to limit the program's cost; more money would produce more audits, but more audits would cost more money.

Hardy Myers
March 17, 1992
Page 5

There are several arguments in support of retaining Council control over the performance audit function. The first is cost. Even the smallest of the three similar functions conducted by the local governments cited above costs three times the Metro Council's program. The Council retains the policy option to expand its current program, either to increase to the number of audits performed each year or possibly to hire an in-house auditor(s) to do the audit(s). It appears, however, with a very limited General Fund to support a number of important district activities including urban growth management and greenspaces planning, expansion of this program at this time would not be prudent. Utilizing professional expertise from the private sector has proved to be very useful and cost effective. I might also point out that there appear to be a growing number of firms in the private sector that have acquired the expertise to compete for this kind of business.

A second and more compelling reason concerns Metro's structure. Metro is the only jurisdiction in the region with a pure separation of powers government; with an administrator directly elected by and responsible to the voters and a Council similarly directly elected to fulfill the legislative function. A critical piece of that legislative function is to oversee the operations of the Executive Officer and her administration. Control of the ability to review and audit selected programs is at the heart of the Council's ability to exercise its legislative oversight function. Some have suggested that the Charter include an elected auditor to do performance auditing. In my opinion this would weaken the role of the Council in this government. It would remove or at least inhibit the Council from performing one of its crucial tasks, that being the oversight of the performance of the executive branch of government to assure that adopted Council policies and programs are carried out in an efficient and effective manner.

Councilors and the Council as a whole should be held accountable for the audit activity. They should do it in a serious and professional manner. In my opinion they have. Introducing a third elected branch into this government would not necessarily improve on this function and improve the operation of the District. It could actually lead to confusion of roles and responsibilities and lessen accountability to the voters.

I hope this information is useful to you in your deliberations. If you need additional information or have any questions, please let me know.

cc: Charter Committee
Metro Council
Rena Cusma