

BEFORE THE METRO COUNCIL

AN ORDINANCE AMENDING THE FY 1994-95 )	ORDINANCE NO. 94-582A
BUDGET AND APPROPRIATIONS )	
SCHEDULE BY TRANSFERRING \$32,402 )	Introduced by Rena Cusma
FROM THE GENERAL FUND CONTINGENCY )	Executive Officer on behalf of
TO THE GENERAL FUND OFFICE OF THE )	Alexis Dow, Metro Auditor-
AUDITOR FOR THE PURPOSE OF ADDING )	elect
ONE SENIOR AUDITOR 4/1/95 AND )	
DEPARTMENT OFFICE SET-UP )	
REQUIREMENTS; AND DECLARING AN )	
EMERGENCY )	

WHEREAS, The Office of the Auditor is being initiated as of January 2, 1995, as specified in the 1992 Metro Charter, and

WHEREAS, The Auditor elect has reviewed the resources required to perform the duties of the Office of the Auditor, and

WHEREAS, The Metro Council has reviewed and considered the need to transfer appropriations within the FY 1994-95 Budget; and

WHEREAS, The need for a transfer of appropriation has been justified; and

WHEREAS, Adequate funds exist for other identified needs; now, therefore,

THE METRO COUNCIL ORDAINS AS FOLLOWS;

1. That the FY 1994-95 Budget and Schedule of Appropriations are hereby amended as shown in the column titled "Revision" of Exhibits A and B to this Ordinance for the purpose of transferring \$32,402 from the General Fund Contingency to the General Fund Office of the Auditor: \$17,940 to Personal Services, \$6,654 to Materials and Services and \$7,808 to Capital.

2. This Ordinance being necessary for the immediate preservation of the public health, safety and welfare, in order to meet obligations and comply with Oregon

Budget Law, an emergency is declared to exist, and this Ordinance takes effect upon passage.

ADOPTED by the Metro Council this 22nd day of December, 1994.

ATTEST:



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Judy Wyers, Presiding Officer

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Clerk of Council

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**Exhibit A  
Ordinance No. 94-582A**

FISCAL YEAR 1994-95		CURRENT BUDGET		REVISION		PROPOSED BUDGET	
ACCT #	DESCRIPTION	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>GENERAL FUND</b>							
<b>Office of the Auditor</b>							
<u>Personal Services</u>							
511110	ELECTED OFFICIALS						
	Auditor	0.50	30,432			0.50	30,432
511121	SALARIES-REGULAR EMPLOYEES (full time)						
	Sr. Auditor		0	0.25	12,000	0.25	12,000
511221	WAGES-REGULAR EMPLOYEES (full time)						
	Administrative Secretary	0.50	11,578			0.50	11,578
511235	WAGES-TEMPORARY EMPLOYEES (part time)						
	Temporary Administrative Support		0	0.10	1,400	0.10	1,400
511400	OVERTIME		333				333
512000	FRINGE		16,090		4,540		20,630
	<b>Total Personal Services</b>	<b>1.00</b>	<b>58,433</b>	<b>0.35</b>	<b>17,940</b>	<b>1.35</b>	<b>76,373</b>
<u>Materials &amp; Services</u>							
521100	Office Supplies		2,000		1,135		3,135
521110	Computer Software		2,000		2,969		4,969
521310	Subscriptions		300		200		500
521320	Dues		300		750		1,050
524190	Misc. Professional Services		5,000				5,000
526410	Telephone		800				800
526500	Travel		1,000				1,000
526510	Mileage Reimbursement		0		250		250
526800	Training, Tuition, Conferences		1,000		1,100		2,100
529800	Miscellaneous		1,600		250		1,850
	<b>Total Materials &amp; Services</b>		<b>14,000</b>		<b>6,654</b>		<b>20,654</b>
<u>Capital Outlay</u>							
571500	Purchases-Office Furniture & Equipment		12,319		7,808		20,127
	<b>Total Capital Outlay</b>		<b>12,319</b>		<b>7,808</b>		<b>20,127</b>
	<b>TOTAL EXPENDITURES</b>	<b>1.00</b>	<b>84,752</b>		<b>32,402</b>	<b>1.35</b>	<b>117,154</b>
<u>Contingency and Unappropriated Balance</u>							
599999	Contingency		515,575		(32,402)		483,173
	<b>Total Contingency and Unappropriated Balance</b>		<b>715,575</b>		<b>(32,402)</b>		<b>683,173</b>
	<b>TOTAL EXPENDITURES</b>	<b>13.50</b>	<b>6,664,018</b>	<b>0.35</b>	<b>(0)</b>	<b>13.85</b>	<b>6,664,018</b>

**Exhibit B**  
**Ordinance No. 94-582A**  
**FY 1994-95 SCHEDULE OF APPROPRIATIONS**

	Current Appropriation	Revision	Current Appropriation
<b>GENERAL FUND</b>			
Council			
Personal Services	888,891	0	888,891
Materials & Services	102,243	0	102,243
Capital Outlay	13,800	0	13,800
<b>Subtotal</b>	<b>1,004,934</b>	<b>0</b>	<b>1,004,934</b>
Executive Management			
Personal Services	314,656	0	314,656
Materials & Services	40,002	0	40,002
Capital Outlay	1,600	0	1,600
<b>Subtotal</b>	<b>356,258</b>	<b>0</b>	<b>356,258</b>
Office of the Auditor			
Personal Services	58,433	17,940	76,373
Materials & Services	14,000	6,654	20,654
Capital Outlay	12,319	7,808	20,127
<b>Subtotal</b>	<b>84,752</b>	<b>32,402</b>	<b>117,154</b>
Special Appropriations			
Materials & Services	265,000	0	265,000
<b>Subtotal</b>	<b>265,000</b>	<b>0</b>	<b>265,000</b>
General Expenses			
Interfund Transfers	4,237,499	0	4,237,499
Contingency	515,575	(32,402)	483,173
<b>Subtotal</b>	<b>4,753,074</b>	<b>(32,402)</b>	<b>4,720,672</b>
Unappropriated Balance	200,000	0	200,000
<b>Total Fund Requirements</b>	<b>6,664,018</b>	<b>0</b>	<b>6,664,018</b>

**ALL OTHER APPROPRIATIONS REMAIN AS PREVIOUSLY ADOPTED**

BEFORE THE METRO COUNCIL

AN ORDINANCE AMENDING THE FY 1994-95 )	ORDINANCE NO. 94-582A
BUDGET AND APPROPRIATIONS )	
SCHEDULE BY TRANSFERRING )	Introduced by Rena Cusma
\$(46,112)32,402 FROM THE GENERAL FUND )	Executive Officer on behalf of
CONTINGENCY TO THE GENERAL FUND )	Alexis Dow, Metro Auditor-
OFFICE OF THE AUDITOR FOR THE )	elect
PURPOSE OF ADDING ONE SENIOR )	
AUDITOR <del>2/1/95</del> 4/1/94 AND DEPARTMENT )	
OFFICE SET-UP REQUIREMENTS; AND )	
DECLARING AN EMERGENCY )	

WHEREAS, The Office of the Auditor is being initiated as of January 2, 1995, as specified in the 1992 Metro Charter, and

WHEREAS, The Auditor elect has reviewed the resources required to perform the duties of the Office of the Auditor, and

WHEREAS, The Metro Council has reviewed and considered the need to transfer appropriations within the FY 1994-95 Budget; and

WHEREAS, The need for a transfer of appropriation has been justified; and

WHEREAS, Adequate funds exist for other identified needs; now, therefore,

THE METRO COUNCIL ORDAINS AS FOLLOWS;

1. That the FY 1994-95 Budget and Schedule of Appropriations are hereby amended as shown in the column titled "Revision" of Exhibits A and B to this Ordinance for the purpose of transferring \$(46,112)32,402 from the General Fund Contingency to the General Fund Office of the Auditor: \$(30,400)17,940 to Personal Services, \$(7,904)6,654 to Materials and Services and \$7,808 to Capital.

2. This Ordinance being necessary for the immediate preservation of the public health, safety and welfare, in order to meet obligations and comply with Oregon

Budget Law, an emergency is declared to exist, and this Ordinance takes effect upon passage.

ADOPTED by the Metro Council this \_\_\_\_\_ day of \_\_\_\_\_, 1994.

ATTEST:

\_\_\_\_\_  
Judy Wyers, Presiding Officer

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

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BEFORE THE METRO COUNCIL

AN ORDINANCE AMENDING THE FY 1994-95 )	ORDINANCE NO. 94-582
BUDGET AND APPROPRIATIONS )	
SCHEDULE BY TRANSFERRING \$46,112 )	Introduced by Rena Cusma
FROM THE GENERAL FUND CONTINGENCY )	Executive Officer on behalf of
TO THE GENERAL FUND OFFICE OF THE )	Alexis Dow, Metro Auditor-
AUDITOR FOR THE PURPOSE OF ADDING )	elect
ONE SENIOR AUDITOR 2/1/95 AND )	
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ADOPTED by the Metro Council this \_\_\_\_\_ day of \_\_\_\_\_, 1994.

ATTEST:

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Judy Wyers, Presiding Officer

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Clerk of Council

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**Exhibit A  
Ordinance No. 94-582**

FISCAL YEAR 1994-95		CURRENT BUDGET		REVISION		PROPOSED BUDGET	
ACCT #	DESCRIPTION	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
<b>GENERAL FUND</b>							
<b>Office of the Auditor</b>							
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511110	ELECTED OFFICIALS						
	Auditor	0.50	30,432			0.50	30,432
511121	SALARIES-REGULAR EMPLOYEES (full time)						
	Sr. Auditor		0	0.42	20,000	0.42	20,000
511221	WAGES-REGULAR EMPLOYEES (full time)						
	Administrative Secretary	0.50	11,578			0.50	11,578
511235	WAGES-TEMPORARY EMPLOYEES (part time)						
	Temporary Administrative Support		0	0.10	2,750	0.10	2,750
511400	OVERTIME		333				333
512000	FRINGE		16,090		7,650		23,740
	<b>Total Personal Services</b>	<b>1.00</b>	<b>58,433</b>	<b>0.52</b>	<b>30,400</b>	<b>1.52</b>	<b>88,833</b>
<u>Materials &amp; Services</u>							
521100	Office Supplies		2,000		1,385		3,385
521110	Computer Software		2,000		2,969		4,969
521310	Subscriptions		300		200		500
521320	Dues		300		1,000		1,300
524190	Misc. Professional Services		5,000				5,000
526410	Telephone		800				800
526500	Travel		1,000				1,000
526510	Mileage Reimbursement		0		500		500
526800	Training, Tuition, Conferences		1,000		1,350		2,350
529800	Miscellaneous		1,600		500		2,100
	<b>Total Materials &amp; Services</b>		<b>14,000</b>		<b>7,904</b>		<b>21,904</b>
<u>Capital Outlay</u>							
571500	Purchases-Office Furniture & Equipment		12,319		7,808		20,127
	<b>Total Capital Outlay</b>		<b>12,319</b>		<b>7,808</b>		<b>20,127</b>
	<b>TOTAL EXPENDITURES</b>	<b>1.00</b>	<b>84,752</b>		<b>46,112</b>	<b>1.52</b>	<b>130,864</b>
<u>Contingency and Unappropriated Balance</u>							
599999	Contingency		515,575		(46,112)		469,463
	<b>Total Contingency and Unappropriated Balance</b>		<b>715,575</b>		<b>(46,112)</b>		<b>669,463</b>
	<b>TOTAL EXPENDITURES</b>	<b>13.50</b>	<b>6,664,018</b>	<b>0.52</b>	<b>0</b>	<b>14.02</b>	<b>6,664,018</b>

**Exhibit B**  
**Ordinance No. 94-582**  
**FY 1994-95 SCHEDULE OF APPROPRIATIONS**

	Current Appropriation	Revision	Current Appropriation
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Materials & Services	14,000	7,904	21,904
Capital Outlay	12,319	7,808	20,127
<b>Subtotal</b>	<b>84,752</b>	<b>46,112</b>	<b>130,864</b>
Special Appropriations			
Materials & Services	265,000	0	265,000
<b>Subtotal</b>	<b>265,000</b>	<b>0</b>	<b>265,000</b>
General Expenses			
Interfund Transfers	4,237,499	0	4,237,499
Contingency	515,575	(46,112)	469,463
<b>Subtotal</b>	<b>4,753,074</b>	<b>(46,112)</b>	<b>4,706,962</b>
Unappropriated Balance	200,000	0	200,000
<b>Total Fund Requirements</b>	<b>6,664,018</b>	<b>0</b>	<b>6,664,018</b>

**ALL OTHER APPROPRIATIONS REMAIN AS PREVIOUSLY ADOPTED**

## STAFF REPORT

IN CONSIDERATION OF ORDINANCE NO. 94-582 AMENDING THE FY 1994-95 BUDGET AND APPROPRIATIONS SCHEDULE BY TRANSFERRING \$46,112 FROM THE GENERAL FUND CONTINGENCY TO THE GENERAL FUND OFFICE OF THE AUDITOR FOR THE PURPOSE OF ADDING ONE SENIOR AUDITOR STARTING FEBRUARY 1, 1995, AND DEPARTMENT OFFICE SET-UP REQUIREMENTS; AND DECLARING AN EMERGENCY.

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Date: November 14, 1994

Presented by: Alexis Dow

### FACTUAL BACKGROUND AND ANALYSIS

This action requests adjustments to the General Fund Contingency to transfer \$46,112 to the Office of the Auditor for the purpose of:

1. hiring a professional auditor to fill a newly created position,
2. providing the furniture, equipment and training necessary to support that position, and
3. providing other department set-up requirements not included in the budget previously approved.

The Metro Auditor functions as an executive, providing strategic direction and high level guidance in the auditing of Metro performance. The proposed Senior Auditor will be the leading technical/hands-on person on the staff. The position corresponds to similar positions in counterpart entities such as the City of Portland and Multnomah County.

Under the general direction of the Metro Auditor, the incumbent will supervise and participate in planning, preparing and conducting performance audits in accordance with auditing principles. The incumbent is expected to evaluate efficiency and effectiveness of Metro operations and activities; compliance with legal and administrative requirements; the adequacy of internal controls; and the risk of loss and waste or abuse of Metro resources. The incumbent may exercise functional and technical supervision over assigned professional, technical or clerical staff.

Initial projects will include assisting in the development of key policies and procedures and the department overall workplan, in addition to addressing specifics of the workplan.

High level skills are required to assure success since Metro is a large scale, complex organization. The market salary for such a skill set is approximately \$48,000 per annum. With the fringe calculated at 37% and some training, the 1994-95 Personal

Services related to this position will be \$27,400, assuming a February 1, 1995, start date. Temporary Administrative Support is proposed for \$3,000 including fringe benefits for a total of \$30,400 in Personal Services.

One-time set-up Capital expenditures (office furniture and computer) for the Senior Auditor position will be \$6,208 and one time Materials and Services expenditures will be \$1,759.

Certain department set-up items have been identified as needs which were not contemplated in the budget previously approved. Also some ongoing Materials and Services related to the Senior Auditor position need to be provided.

one 5-drawer lateral file	1,000
two 4-shelf bookcases	600
Subtotal Capital	<u>\$1,600</u>
one secretary desk chair	\$ 400
standard software packages	1,500
intruder Lock Out software (3)	195
hardware upgrades	500
tuition, training and conference	1,000
software training @ \$175	350
office supplies	500
dues	1,000
subscriptions	200
parking & mileage reimbursement @ Federal rate	<u>500</u>
Subtotal Materials & Services	<u>\$6,145</u>

#### EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Ordinance No. 94-582.



**METRO**

ATTACHMENT 1

(Fin. Comm. Rep. /94-582A)

Date: December 12, 1994

To: Finance Committee

From: Donald E. Carlson, Council Administrator

Re: Ordinance No. 94-582 Additional Funding for the Office of the Auditor

Ordinance No. 94-582 requests \$46,112 from the General Fund Contingency to add a staff person to the Auditor's Office and provide additional funding not contemplated in the original budget. The requested position is for a Senior Management Analyst level person to work on audit projects. The anticipated start date is February 1, 1995. The staff report states that 1) the position corresponds to similar positions in the City of Portland and Multnomah County; 2) the proposed Senior Auditor will be the leading "technical/hands-on" staff person; and 3) the initial work to be undertaken by this position is "assisting in the development of key policies and procedures and the department overall work plan, in addition to addressing specifics of the workplan."

This request raises several policy questions and issues regarding the start up of the Auditor's Office. They are as follows:

**1. Permanent Paid Staff versus Contract Services.** This request is to start the development of the program through the utilization of paid permanent staff. Another option is to utilize the services of a competent contractor to do performance audits. While the approach to follow is largely the domain of the new elected Auditor, the Council does have a role to play through its budget and appropriation authority. A discussion of the merits of either approach is attached as Exhibit A which are excerpts from the Performance Audit Plan prepared for the Council by Talbot Korvola and Warwick in December 1988. The in-house capability may provide more flexibility as far as work assignments but can be a limitation as far as the range of expertise. Exhibit B attached provides information on the performance audit programs for the City of Portland, Multnomah and Washington counties and Metro. All four jurisdictions have elected auditors to provide the performance audit function. As shown in Exhibit B Portland and Multnomah County are examples agencies which utilize mostly in-house staff and Washington County utilizes a mixture of in-house and contractual services. Metro's past experience (since 1989) has been to utilize contractual services for its performance audits. An alternative for Committee

consideration is to appropriate sufficient funds for the Auditor to commence a performance audit of a selected subject through the use of the current contract with Talbot Korvola and Warwick. That contract runs through 6/30/95 and could be assigned to the Auditor for implementation following completion of the current work assignment. The current Scope of Work is a review of the Cost Allocation Plan at a cost of approximately \$30,000.

**2. Approval of a Position Prior to the Development of a Work Plan.** Most requests for the creation of a new position include a detailed description of the work to be accomplished by the position. This request provides very little justification as to what the person will be doing or what will be accomplished. As indicated above the initial work will include assistance with the development of key policies and procedures and the overall work plan. It appears to this writer that the work described for this position falls within the responsibility and purview of the Auditor. An alternative approach is to defer a decision on the request pending the completion of an overall work plan for the Office. In regard to the development of policies and procedures, attached as Exhibit C are the "Guidelines for Performance Auditing" prepared for Metro by Talbot Korvola and Warwick in 1989. These Guidelines are based on the Government Auditing Standards and all appropriate AICPA standards and have been used by the Council in the conduct of its performance audit program. The Guidelines could be used as a starting point for the development of the auditor's policies and procedures.

**3. Specific Line Item Requests.** The request indicates non-Personal Service funds related to the position (\$1,759 in Materials & Services and \$6208 in Capital Outlay) but does not clearly detail the line items which make up these amounts. Exhibit D attached is a memo clarifying the details of the request for the new position. While the amounts requested for the position appear to be appropriate, Council Staff has questions concerning the need for the following:

1. \$3,000 for Temporary Administrative Support. Does a new office need this service during its first six months in existence. While it may be appropriate down the time track it does not appear crucial at this point.

2. \$1,000 for Dues. There is no indication of what dues are necessary for this Office.

3. \$500 for Mileage Reimbursement. The Office of the Auditor will have the use of the Metro auto fleet and for those occasions where a personal car is used there is \$1,000 budgeted in the Travel line item. There is a question also as to the amount of travel which will be undertaken by the Office during the initial six months.

4. \$1,350 additional for Training , Tuition and Conferences. Other than \$350 for software training there is no indication of the training needs of the Office.

**Summary.**

The background for the review of this request continues to be the need to preserve General Fund Contingency for use as Beginning Fund Balance for FY 1995-96. Approval of this request will reduce the Contingency to \$469,463 and there is the potential of an additional \$125,000 expense for the Construction Tax election in May 1995. If that tax is not approved by the voters, there will be additional pressure on the General Fund and its resources (Excise Tax) so that the Planning programs can be maintained at their current level. Starting the position on April 1, 1995 and eliminating the line item requests listed above would reduce the request by approximately \$16,415.

cc: Alexis Dow  
Dick Engstrom  
Jennifer Sims

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.



**METRO**

EXHIBIT B  
(Ord. 94-582/Memo)

**To: Donald E. Carlson, Council Administrator**

**From: John Houser, Senior Council Analyst**

**Date: December 7, 1994**

**Re: Background Data on Auditor Functions in Other Local Jurisdictions**

You requested that I obtain selected budget, staffing and operational data on the auditing function in Washington and Multnomah Counties and the City of Portland. The attached table includes the following data provided by each of these jurisdictions: 1) the auditor's budget and staffing levels, 2) the number of audits performed each year, 3) the extent to which each jurisdiction uses outside contractors for auditing work, and 4) the total budget and number of FTE in each jurisdiction. It should be noted that, in Multnomah County, the number of audits includes both audits and major "management" reports. In addition, Multnomah County has only initiated the use of outside audit contractors this year. A total of \$75,000 was budgeted, but the county anticipates only spending about \$35,000-40,000.

TABLE 1

## AUDITOR FUNCTIONS IN LOCAL JURISDICTIONS

	<i>Metro*</i>	<i>Washington County</i>	<i>Multnomah County</i>	<i>City of Portland</i>
Performance Auditor Budget (FY 94-	\$159,144	\$206,156	\$562,757	\$836,000
Auditor FTE	2	2**	7	9
No. Of Audits Annually	1 to 2	2	4 to 6	10
Contracts	Yes	Yes	Yes	Yes
Contract Budget	\$30,000	\$60,400	\$75,000	\$67,000
No. of Contract Audits Annually	1 to 2	1 or 2	1	1 or 2
Total Budget	\$205,012,223	\$231,483,065	\$564,308,786	\$903,000,000.
Total FTE	767	1,225	3,716	4,985

\* Annualized, FY 94-95 Budget is for six months

\*\* Professional staff only, support services provided by a central staff.

EXHIBIT C

(Ord. 94-582/Memo)

COUNCIL DEPARTMENT  
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METROPOLITAN SERVICES DISTRICT

GUIDE FOR PERFORMANCE AUDITING

JANUARY 1989

METROPOLITAN SERVICES DISTRICT  
GUIDE FOR PERFORMANCE AUDITING

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## Chapter I

### INTRODUCTION

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

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

### MISSION

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

### ORGANIZATION

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

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

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

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

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.

**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.

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.

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: \_\_\_\_\_

## 8. 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.

audit by the auditor(s) involved. Each included in the current file will consist of a narrative summary, followed by supporting schedules and exhibits, if appropriate. The auditor will use professional judgement and initiative in determining the manner of presentation. In all cases, workpapers should be complete and accurate, clear and understandable, legible and neat, and contain only those data and materials directly pertinent to the audit and related reports.

4. Findings With Deficiencies/Discrepancies. When reportable conditions are identified, they should be summarized in narrative form for ease in organizing the audit report. The auditor should think "report writing" when organizing and preparing reportable findings for workpaper summarization. Each finding should contain four distinct elements: condition, criteria, cause, and impact.

- a. Condition. This element of the finding is a statement that concisely presents the facts to show what is actually transpiring for the activity being reviewed.
- b. Criteria. Identification of the standard to which the condition is being evaluated. Criteria identification is important to insure that the reader understands the basis of the evaluation.
- c. Cause. This element should explain how or why the discrepant condition came about. Causal factors are the circumstances that stimulate or permit deficient conditions. The identification of the cause of the condition is the key to determining the proper corrective actions to be recommended. If the cause cannot be economically determined, the "finding" should be reevaluated to ascertain if a reportable finding exists.
- d. Impact. This is the demonstrated or potential effect that the condition found has on resources and/or effectiveness. Without an impact, there is no substantial finding.

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

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

AUDIT REPORTS

1. Writing Audit Reports

The performance audit reports are issued to:

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

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

2. Report Format

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

a. Introduction

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

(1) Background

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

(2) Scope

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

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

b. Findings and Conclusions

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

(1) Summary

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

(2) Findings

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

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

(3) Opinion or Conclusion

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

c. Recommendations

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

d. Officials' Comment

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

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

3. Referencing Audit Reports

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

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

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

4. Processing Audit Reports

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

The processing procedures that will apply are as follows:

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

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

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

FOLLOW-UP ON AUDIT REPORT RECOMMENDATIONS

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

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

Follow-up work will consist of two elements:

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

Procedures that will apply under each element follows:

1. Initial Follow-up

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

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

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

- 
- Later Follow-up

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

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



**FOLLOW-UP REPORT ON AUDIT RECOMMENDATIONS**

Title:

No. \_\_\_\_\_

Date:

Auditor:

Required Response Date:

Recommendation

Response (summarize and list action to be taken) :

Date:

From:

Action Taken to Implement Recommendations (show specific action taken)

Summary of Savings or Other Benefits

Recommend Closing File



**METRO**

EXHIBIT D  
(Ord.94-582/Memo)

DATE: December 9, 1994  
TO: Don Carlson, Council Administrator  
FROM: Robert S. Ricks, Senior Financial Planning Analyst  
RE: *RSR* Ordinance No 94-582

You asked for additional clarification in reconciling the staff report with Exhibit A in the Ordinance. The staff report states that: "One-time set-up Capital expenditures (office furniture and computer for the Senior Auditor position will be \$6,208 and one time Materials and Services expenditures will be \$1,759". The detail is:

Capital		
Laptop Computer	2,600	
Office Set-up Package C	2,180	
Office Set-up Package D (Capital Portion)	1,160	
Delivery & Installation	268	
Subtotal		6,208
M&S		
Office Set-up Package D (M&S Portion)	485	
Software Standard Package	750	
Software Additional Specialized	500	
2 Sets Patch Cords	24	
Subtotal		1,759

The detail for the rest of the department set-up items not covered in the original budget is shown in the staff report on page 2. These subtotals were: Capital, \$1,600 and M&S, \$6,145. When added to the above subtotals they match the subtotals shown in Exhibit A of the Ordinance.

If you would like further discussion of the mechanics of how the exhibits are constructed, please give a call. I defer to the Auditor for justification of the size of any specific number.

RSR:rsr  
I:\BUDGET\FY93-94\BUDORD\94-582\EXPLAN.DOC

cc: Alexis Dow, Auditor

Date: December 12, 1994

To: Finance Committee

From: Alexis Dow, Auditor-elect

Re: Ordinance No. 94-582 Additional Funding for the Office of the Auditor

The purpose of this memo is to provide a brief overview of the anticipated start-up activities related to the new office of the elected auditor. Under the terms of the Charter, the duties of the auditor are: (a) make continuous investigations of the operations of Metro including financial and performance auditing and review of financial transactions, personnel, equipment, facilities, and all other aspects of those operations, and (b) make reports to the Metro Council and executive officer of the results of any investigation with any recommendations for remedial action. Activities related to Metro's financial audit and performance audits have been initiated.

With respect to Metro's financial audit, the current contract with the outside auditor expires in March 1995. I am working with Jennifer Sims, Director of Finance and Information Systems, on the RFP to contract for financial audit services for the ensuing three years. It is my expectation that the Office of the Auditor will administer this RFP and contract.

To initiate and implement the performance audit function, several steps are required. It is necessary to:

- obtain information as to operations of the organization,
- establish working relationships with Council members, the Executive Officer and top management,
- establish a conduit for citizen input and involvement,
- identify areas for performance audits and prioritize areas based on input from the Council, Executive Officer, management and the public,
- plan, execute and report on performance audits,
- be responsible for other internal audits to ensure that internal controls over cash, income generation and other assets and resources of Metro are in place and functioning.

This process has begun. An introduction to Metro's operations and management is occurring. Through the budget process, by attending the Executive Officer-Elect transition meetings, and by meeting top management and their staff, much knowledge has already been obtained. Several potential areas for performance auditing have been identified and are listed on Attachment A.

To provide the elected auditor adequate resources to accomplish Charter objectives, the Charter mandates that the elected auditor have a reasonable

budget. According to the Council Staff Report, Exhibit A, item 2.b., "One person, acting alone, is seldom able to function effectively." The request to fund a senior auditor is essential to provide the critical mass to get the new elected auditor function up and running.

\*\*\*\*\*

Some additional funds are also requested to provide other department setup requirements not included in the budget previously approved. These include a desk chair, bookcases, a file, some mileage reimbursement, dues, subscriptions, additional computer hardware and software, supplies, and tuition, training, and conferences. The Council Staff Report identifies four areas requiring clarification.

**Temporary Administrative Support-** This is necessary to provide for coverage during vacation and sick leave and to provide support in case of temporary excessive workload related to a special project.

**Dues-** Dues for professional organizations are critical to stay abreast of current developments in financial and general management, performance and internal auditing, financial auditing and reporting, and government accounting. Many of the below listed organizations assess their dues in the spring and early summer requiring payment during the current fiscal year.

American Institute of CPAs	\$115
Oregon Society of CPAs	100
American Woman's Society of CPAs	185
Financial Executives Institute	575
Institute of Internal Auditors	110
Municipal Finance Officers Association	100
National Association of Local Government Auditors	75

**Mileage reimbursement-** Use of Metro's fleet is anticipated. However there will be times when it makes more sense to use a personal vehicle rather than a fleet vehicle. This is current practice at Metro.

**Training, tuition and conferences-** CPAs are required to take a set number of continuing education courses to maintain their license. In addition, it is important to attend governmental accounting and auditing updates and to participate in educational programs sponsored by the National Association of Local Government Auditors and other organizations emphasizing governmental and performance audits.

POTENTIAL AREAS FOR PERFORMANCE AUDITS

Cost allocation plan

Hotel/motel tax - appropriate amount and timing

POVA contract

Cash management controls

MERC consolidation agreement

Relationship of new exhibits and attendance

Solid waste engineering staff

Duplication of effort between jurisdictions (i.e. waste reduction programs)

Grants management

Financial system

Contracts

Concession

Parking

Glendoveer

Surplus property

Treasury function

Affirmative action

Waste reduction (verify recycling rates)

Suspected wrong doings, as requested

This list is not all inclusive and is intended to provide an example of possibilities.



**METRO**

ATTACHMENT 3  
 (Fin. Comm. Rpt./94-582A)

DATE: December 16, 1994  
 TO: Alexis Dow, Auditor-Elect  
 Don Carlson, Council Administrator  
 FROM: Bob Ricks, Senior Administrative Services Analyst  
 RE: Changes to Ordinance 94-582

These are the changes I understand were agreed upon in the December 13, 1994, Finance Committee meeting regarding Ordinance No. 94-582 (now 94-582A).

Senior Auditor	\$20,000	3/5	\$12,000	(\$8,000)
Fringe - Senior Auditor	7,400	3/5	4,440	(2,960)
Temp. Admin. Support	2,750		1,400	(1,350)
Fringe - Temp. Admin. Sup.	302		152	<u>(150)</u>
Personal Services				(\$12,460)
Office Supplies				(250)
Dues				(250)
Mileage				(250)
Training/Tuition/Conferences				(250)
Miscellaneous				<u>(250)</u>
Materials & Services				<u>(\$2,150)</u>
<b>TOTAL CHANGE</b>				<u><b>(\$13,710)</b></u>

The Materials & Services are somewhat arbitrarily placed and can be shifted to any line item during the year without paperwork.

FINANCE COMMITTEE REPORT

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ORDINANCE NO. 94-582A AMENDING THE FY 1994-95 BUDGET AND APPROPRIATION SCHEDULE FOR THE PURPOSE OF ADDING A SENIOR AUDITOR AND DEPARTMENT OFFICE SET-UP REQUIREMENTS TO THE OFFICE OF THE AUDITOR, AND DECLARING AN EMERGENCY

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Date: December 15, 1994

Presented By: Councilor Buchanan

**COMMITTEE RECOMMENDATION:** At its December 13, 1994 meeting the Committee voted 5 to 1 to recommend Council adoption of Ordinance No. 94-582 as amended. Committee members voting in favor were Councilors Buchanan, Devlin, McLain, Monroe and Washington. Councilor Kvistad voted against the motion and Councilors Gardner and Van Bergen were absent.

**COMMITTEE DISCUSSION/ISSUES:** Metro Auditor-Elect Alexis Dow presented the Staff Report. She stated the request is to transfer \$46,112 from the General Fund Contingency to the Office of the Auditors budget and appropriation schedule to fund the costs of a Senior Auditor position. The request includes set-up costs for the position plus some additional funds for expenditures not included in the Office budget when it was originally adopted in June of 1994. She stated that this position would be the principal technical staff for the Office working on the development of work plans and audits. She pointed out that there are similar positions in the City of Portland and Multnomah County Auditor offices. In response to a question from the Committee, Ms. Dow stated that her role would be a an audit manager similar to those persons who manage financial audits.

Don Carlson, Council Administrator, presented information raising several policy questions regarding the request and the start up of the Auditor's Office. Attachment 1 to this report contains the full information presented to the Committee. Mr. Carlson stated the first issue is whether or not the Auditor should use paid permanent staff to start the performance audit function or use contractual services such as the Council has been using to do performance audits. The second issue was should the position be approved prior to the development of a work plan which specifies the work to be accomplished. The third issue regarded several specific line items in the request and the lack of justification for them. Mr. Carlson pointed out that the backdrop for confronting these issues is the need to preserve the General Fund Contingency for carry over to next fiscal year as Beginning Fund Balance. He reminded the Committee that the newly enacted Construction Tax is not a reality and without an additional revenue source for Metro Planning functions, pressure on the General Fund will be very great if the Council wishes to fund the Charter mandated Planning functions at the current level. Mr. Carlson stated that the request could be reduced by \$16,415 by delaying the start of the position to April 1, 1995 and eliminating \$5,500 of the identified line item requests.

Ms. Dow presented a memo which provided an explanation of the line item requests (See Attachment 2 to this Committee Report.) After a considerable discussion with Ms. Dow, the Committee amended the ordinance to delay the start of the position to April 1, 1994 and reduce the request for Temporary Administrative Support by \$1,500 and reduce the total amount requested for Materials and Services by \$1,250. The total amount reduced from the request was \$13,710. (See Attachment 3 prepared by the Finance Department subsequent to the meeting.)



M E M O R A N D U M

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METRO

DATE: December 27, 1994  
TO: Executive Officer Rena Cusma  
FROM: Paulette Allen, Clerk of the Council *PA*  
RE: TRANSMITTAL OF ORDINANCE NOS. 94-575 AND 94-582A

Attached for your consideration are true copies of the ordinances referenced above adopted by the Metro Council on December 22, 1994.

If you wish to veto any of the ordinances referenced above, I must receive a signed and dated written veto message from you no later than 5:00 p.m., Thursday, December 29, 1994. The veto message(s) if submitted, will become part of the permanent record. If no veto message is received by the time and date stated above, this ordinance will be considered finally adopted.

Received by: *J. Hogue*  
Date: 12/27/94