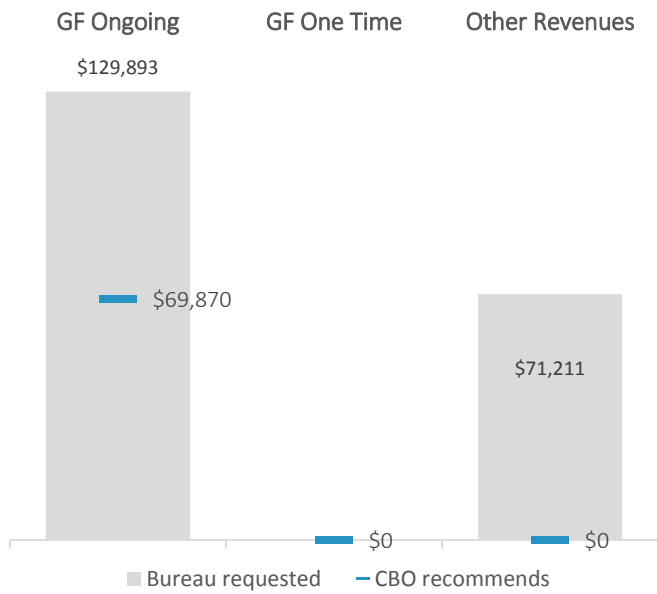


Office of the Auditor

The Auditor’s Office has proposed an amendment to the City Charter that would establish a degree of independence from the City. There have been no outstanding shifts in responsibilities or level of service with the exception of an increasing workload for Independent Police Review.

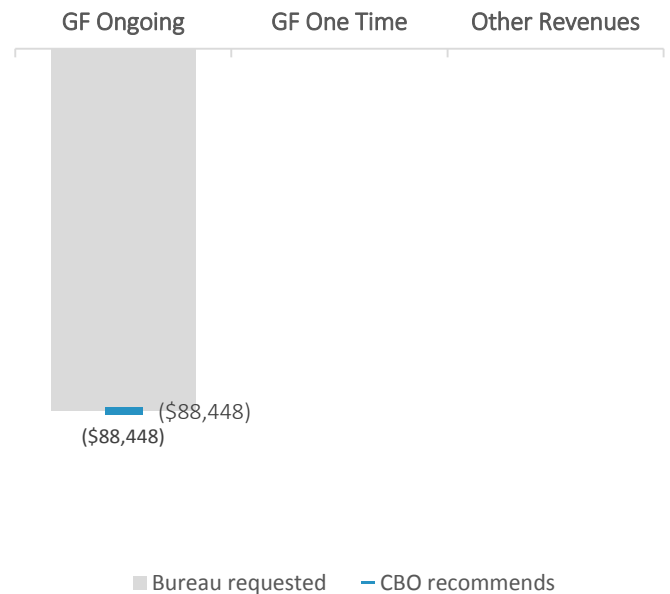
Adds



1.50 FTE Requested

.50 FTE Recommended

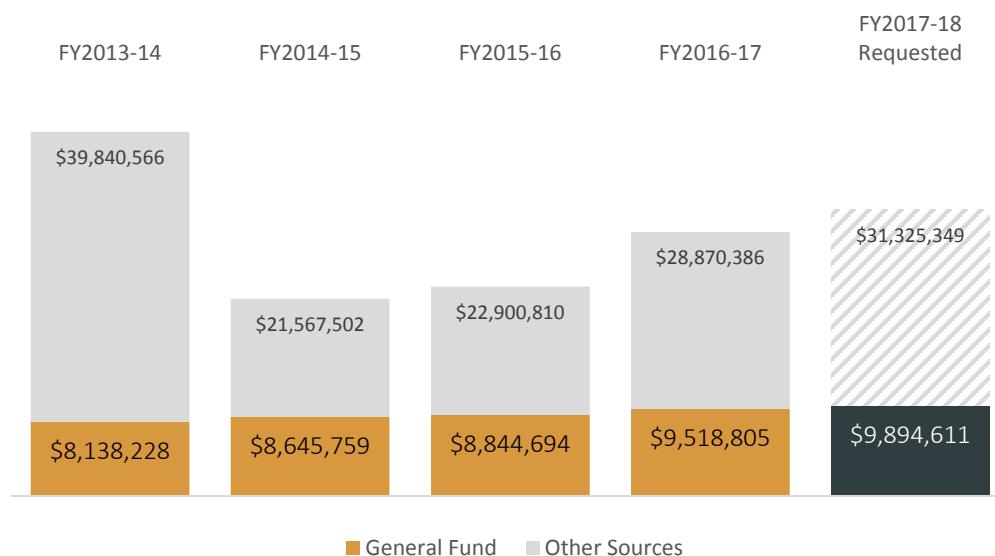
Reductions



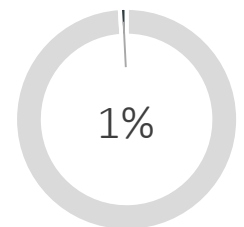
(0) FTE Requested

(0) FTE Recommended

Adopted Budget Revenues - 5-Year look back



Decision Packages & Requested Budget



- FY-17-18 Request Base
- FY17-18 Decision Packages

Key Issues

Audit Services Performance

During FY 2016-17, the Auditor offered cuts to the Audit Services Division to comply with the 5% reduction budget guidance given by the Mayor. At the time, the number of and cost per audit was briefly discussed. CBO now has additional industry benchmarking and best practices data published by the Association of Local Government Auditors (ALGA)¹ to help provide context. Access to this data is limited to member organizations, and the Auditor's Office provided the most recently published ALGA benchmarking report to CBO. While no two audits are exactly the same, all of the respondents in the ALGA benchmarking report use the same guidelines set forth in the Yellow Book. The scope, and therefore depth, of an audit is determined by the Auditor's Office.

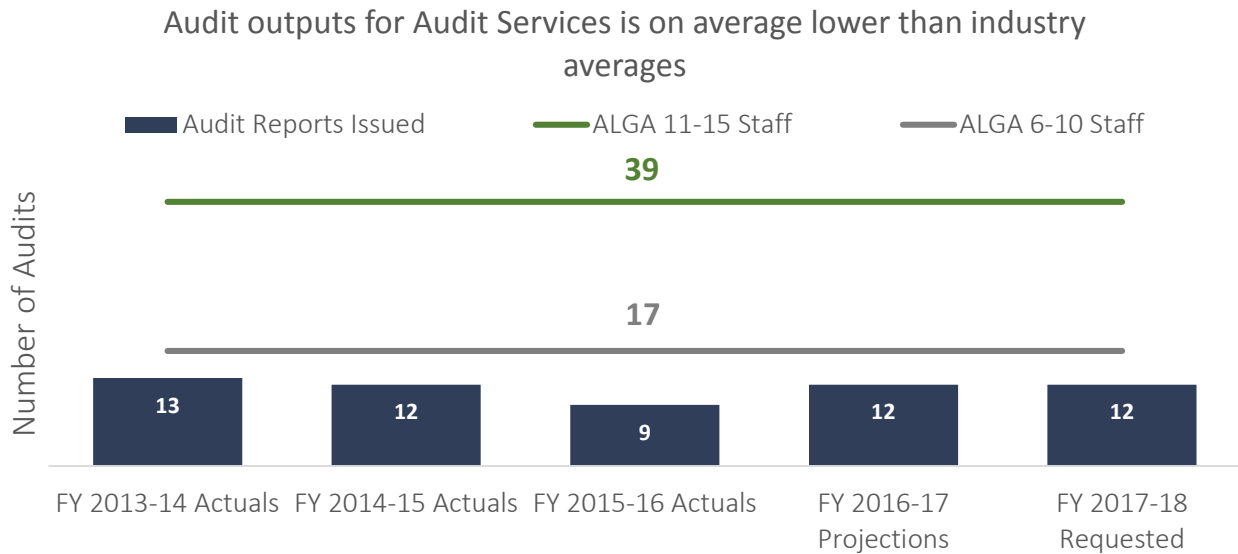
The Audit Services Division has had just over 11 FTE since FY 2013-14; however, there was staff turnover during FY 2015-16 that decreased the number of audits produced and increased costs. The Auditor's Office currently has 9.2 FTE Auditors. There is a Community Outreach and Information Specialist and a Director of Audit Services. During FY2016-17, the Community Outreach and Information Specialist position was considered for elimination and the Office stated that eliminating the position would reduce the number of audits released from 12 to 10 per year. The director assists in scoping audits as well as the review process. Taking this into consideration, CBO reports ALGA data below for audit departments with 11-15 and 6-10 staff.

- The average number of audits produced from FY 2013-14 to FY 2017-18 (projected) by The Auditor's Office is 11.5.
- Cost per audit has fluctuated from \$121,769 to \$157,843.²

¹ The ALGA surveys represent 104 audit departments ranging in size from 1-2 staff to 16+; of the 104, 13 have 11-15 staff and 30 had 6-10 staff. Respondents from the ALGA report stated that audit activities account for just under two thirds of staff time.

² This methodology differs from FY2016-17 methodology. This review removes the direct cost of the external financial audit as well as 75% of the total cost of the managing auditor.

ALGA reports that audit departments with 11-15 audit staff complete on average 39 audits per year in addition to 5 non-audit outputs (reports), and audit departments with 6-10 audit staff complete on average 17 audits per year and 6 additional outputs.



Even though no two audits are the same, the number of audits produced is an industry (ALGA) accepted performance metric as well as a performance metric reported by the Auditor’s Office. The ALGA Benchmarking and Best Practices report states that “...slightly more than three quarters of respondents indicated their audit department used performance measures...(and) 85% agree that the performance measures have been successfully integrated into ongoing management of the audit shop”. The data indicates the Auditor’s Office is producing less than one third of an audit department with 11-16 staff and approximately two thirds of what an audit department with 6-10 staff produce. CBO recognizes that the number of audits issued is not a perfect measure due to variation in scope. However, CBO strongly encourages audit services to review its performance against its peers and use performance management to ensure it is providing the highest quality services at the lowest possible cost.

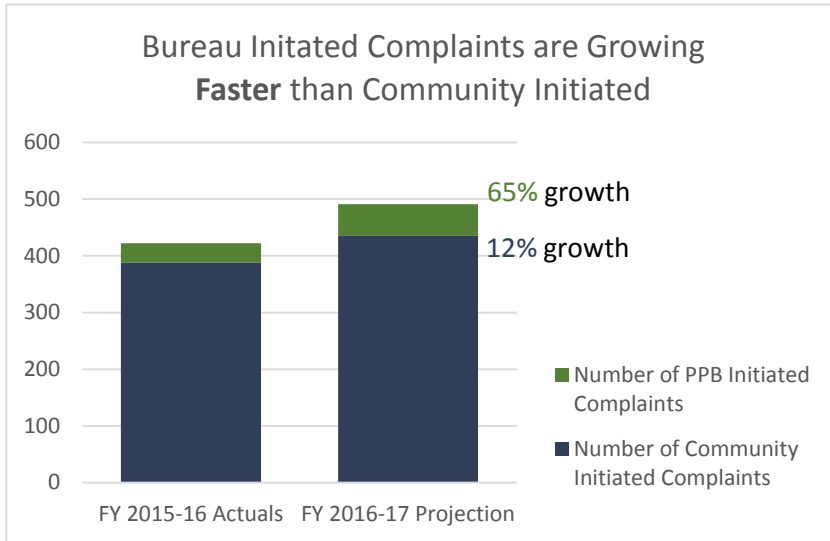
Decision Package Analysis & Recommendations

IPR Asst. Program Manager to Full Time, AU 01, \$69,870, 0.5 FTE

This package requests that the current IPR Assistant Program Manager transition from 0.5 FTE to 1.0 FTE. This request addresses requirements set forth by the state in House Bill 2002 and by the U.S. Department of Justice (DOJ) settlement agreement. A key element of the DOJ settlement is that all investigations be complete within 180 days. To meet this, IPR must complete their portion within a 60-day time frame. IPR strives to complete 45% of cases in a 60-day time frame. The percent of (estimated) cases that are projected to meet that goal in FY 2016-17 fell 5 percentage points from 29% in FY 2015-16 down to 24% in FY 2016-17. These

percentages are misleading as they do not adequately reflect changes in workload. Among other things, increased workload and process inefficiencies pose challenges to IPR achieving their goal.

As expected, there has been an increase in the total volume of complaints. There are two kinds of complaints: community initiated and Portland Police Bureau (PPB) initiated complaints. Each complaint requires some measure of intake and analysis from the IPR team.

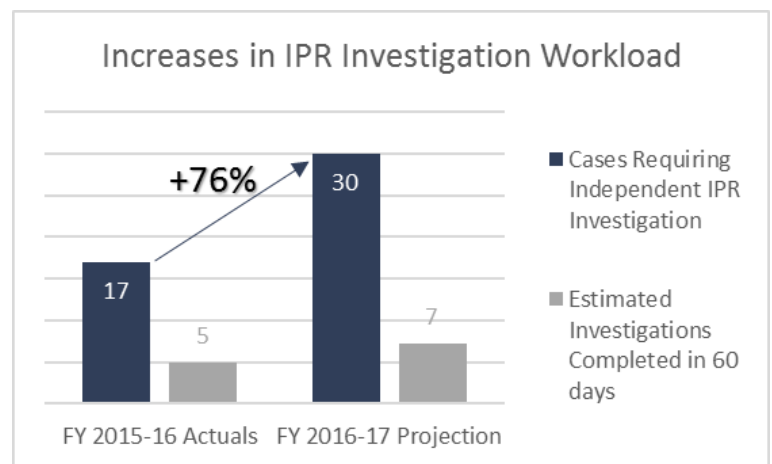


- The composition of complaints is important because community-initiated complaints often involve force, and the majority of these are referred for investigation either by internal affairs or IPR.
- Bureau-initiated complaints grew 65% in the last year while community initiated complaints grew 12%.
- Currently, the assistant manager is responsible for

reviewing the majority of bureau initiated complaints, which are more time intensive because they include: officer involved shootings, in-custody deaths, and interpersonal workplace conflicts.

To offset the additional workload, Council approved two additional investigators in FY 2016-17 bringing the total number of investigators to seven; however, until recently, only six of the seven positions were filled.

- Legislation that took effect in January 2016 changed criteria such that a significantly higher portion of cases are investigated.
- The number of cases referred requiring investigation grew 76% in the last year.
- City Code 3.21.070 gives IPR broad authority to independently investigate cases. DOJ guided IPR to specify what types of cases IPR investigates; specific criteria includes complaints pertaining to protests. With the



current political climate, IPR anticipates further increasing workload from this type of complaint.

Process improvement analysis conducted by a workgroup comprised of City bureaus and community members identified multiple inefficiencies in the complaint process. To fully implement these changes, various sections of City Code need to be changed and are going before Council in March 2017.

Due to the impending October 2017 deadline and clear increase in IPR workload, CBO recommends adding \$69,870 to increase the Assistant Program Manager from part-time to full-time.

CBO Recommendation: \$69,870 ongoing, 0.50 FTE

Senior Staff Attorney, AU 02, \$131,234, 1.00 FTE

This decision package adds one attorney to the Auditor's Office. The Auditor's Office intends to realign \$50,000 to offset the full \$170,490 cost of a senior staff attorney. The Auditor's Office will still seek advice from the City Attorney when the Auditor's Office is not in conflict with the City's position on matters such as employment and labor, Council operations, litigation defense, and other matters. The Auditor's Office believes this position is critical to ensuring independence of the Auditor's Office. There is currently a charter change proposed that will ensure the Auditor's independence and ability to retain or employ independent legal counsel.

CBO requested information from the Auditor's Office regarding hours of legal services they have received over the last three years. The Auditor's Office reported that they have received advice regarding employment, labor, and council operations from the City Attorney but that the City Attorney does not keep track of exact hours. The Office also stated that they sought the City Attorney's advice less often because of unresolved independence concerns.

Additionally, the Auditor's Office contracted for between 80-100 hours of outside counsel in 2016³ but did not report contracting with independent legal counsel in other years. The Auditor's Office feels this in no way reflects unmet demand for independent legal counsel and states using independent counsel for all remaining legal needs is cost-prohibitive.

No exact estimates of unmet legal demand were provided to CBO. To the degree that the Auditor's Office can help quantify this further, CBO can determine if it is cost beneficial to add in-house legal counsel. CBO currently has no way to evaluate the true demand. Cost of outside counsel is roughly \$375 per hour. At 100 hours per year, this would cost \$37,500. Since the Auditor has identified \$50,000 that can be realigned to pay for this position, CBO believes it is

³ Auditor's Office reported to CBO 2016 cost of independent legal counsel was \$31,272

more cost-effective to continue using outside counsel, and in the context of limited ongoing resources does not recommend funding this request.

CBO Recommendation: \$0, 0.00 FTE

Auditor’s Office 1% Reduction, AU 03, (\$88,448)

The package reduces ongoing General Fund resources allocated to support external materials and services expenses across the office and represents a 1% reduction. This reduction primarily impacts three areas: The financial audit contract, the Community Survey, and miscellaneous office needs.

The Auditor’s Office keeps a cushion available for price fluctuations in the financial audit contract of approximately \$100,000. This year, the contract is out for bid and so the price of the new contract is unknown. The office has stated that it will be a competitive process but cannot currently provide market rates for similar contracts as these are best captured in RFP responses and that process is not yet complete. Although fixed price auditing contracts are available, the Auditor’s office stated that they will not enter into a fixed price contract because it eliminates the possibility of the City paying less if the financial audit takes fewer hours.

The Auditor’s Office has performed the Annual Community Survey for the last 25+ years; it is used widely by City Bureaus and is a consistent source of data reflecting how citizens of Portland perceive their city and government. The Auditor’s Office has stated that reducing materials and services will render them unable to produce the Annual Community Survey (\$24,500), but reclaimed staff time will allow them to produce one additional audit. As illustrated in the key issues section of this review, the City Budget Office believes that it is possible for Audit Services to have higher output concurrent with the production of the Annual Community Survey.

Demonstrated in the table below, the Auditor’s Office consistently underspends external materials and services funds on average by \$364,774. The table excludes the Assessments, Finance, and Foreclosure program since underspending in this program does not impact General Fund savings. CBO recognizes that external materials and services was reduced last year by \$83,954 and has incorporated this reduction into the analysis. Year-to-date EMS spending for the Auditor’s Office for FY 2016-17 is closely following FY 2015-16. CBO projects external materials and services spending will be approximately \$840,033. As such, the Auditor’s Office is on track to underspend the external materials and services budget.

EMS Spending	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Revised Budget	1,430,796	1,299,630	1,456,193	969,264	1,076,550	1,209,966	1,287,534
Actual Expenditures	917,599	961,416	1,021,210	717,545	800,434	835,552	840,033
Difference	513,197	338,214	434,983	251,719	276,116	374,414	447,501
<i>Percent Underspent</i>	<i>35.9%</i>	<i>26.0%</i>	<i>29.9%</i>	<i>26.0%</i>	<i>25.6%</i>	<i>30.9%</i>	<i>34.8%</i>

The Auditor's office believes they need a large cushion in order to avoid having to ask Council for additional funds during the year, which they argue threatens their ability to independently audit City services. However, budgeting unneeded resources to a program keeps those resources from being used for other City priorities.

Although further reductions to the external materials and services budget will reduce flexibility, the City Budget Office believes that the reduction can be taken with minimal impact to level of service. It is the intent of the Auditor's Office to cut the Annual Community Survey if this reduction is taken; however, CBO believes there is sufficient underspending in external materials and services and the cost of the Annual Community Survey can be absorbed.

CBO Recommendation: (\$88,448)

Bureau Budget Summary – Request and Recommendations

Below is a summary of Auditor’s operating budget.

	Adopted FY 2016-17	Request Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Revised (A+B+C)
Resources					
Budgeted Beginning Fund Balance	\$ 16,688,763	\$ 16,691,143	\$ -	\$ -	\$ 16,691,143
Charges for Services	1,171,045	1,139,417	-	-	1,139,417
Interagency Revenue	165,000	158,904	-	-	158,904
Fund Transfers - Revenue	500,000	-	-	-	-
Bond and Note	9,027,599	13,629,814	-	-	13,629,814
Miscellaneous	8,487,937	6,502,603	-	-	6,502,603
General Fund Discretionary	4,334,984	5,504,036	41,445	(60,023)	5,447,544
General Fund Overhead	5,183,821	4,277,919	71,211	(71,211)	4,315,833
Total Resources	\$45,559,149	\$47,903,836	\$112,656	\$ (131,234)	\$47,885,258
Requirements					
Personnel Services	\$ 6,239,753	\$ 6,440,265	\$ 240,360	\$ (170,490)	\$ 6,510,135
External Materials and Services	1,523,032	1,664,307	(117,448)	50,000	1,596,859
Internal Materials and Services	3,415,436	3,404,397	(10,256)	(10,744)	3,383,397
Bond Expenses	12,375,028	11,173,693	-	-	11,173,693
Fund Transfers - Expense	5,487,264	7,855,574	-	-	7,855,574
Contingency	2,886,682	2,511,683	-	-	2,511,683
Unappropriated Fund Balance	13,631,954	14,853,917	-	-	14,853,917
Total Requirements	\$45,559,149	\$47,903,836	\$112,656	\$ (131,234)	\$47,885,258

City of Portland
 Decision Package Recommendations
 (Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Office of the City Auditor											
<u>Adds</u>											
AU_01 - IPR Asst Program Manager to Full-Time	01	0.50	69,870	0	0	69,870	0.50	69,870	0	0	69,870
AU_02 - Add Sr Staff Attorney (partial realignment)	02	1.00	60,023	0	71,211	131,234	0.00	0	0	0	0
<i>Total Adds</i>		1.50	129,893	0	71,211	201,104	0.50	69,870	0	0	69,870
<u>Reductions</u>											
AU_03 - Auditor's Office 1 Percent Cut	01	0.00	(88,448)	0	0	(88,448)	0.00	(88,448)	0	0	(88,448)
<i>Total Reductions</i>		0.00	(88,448)	0	0	(88,448)	0.00	(88,448)	0	0	(88,448)
Total Office of the City Auditor		1.50	41,445	0	71,211	112,656	0.50	(18,578)	0	0	(18,578)

