
FOCUSED REVIEW OF FY 2011-12 REQUESTED BUDGET

EXECUTIVE SUMMARY

AKT performed a focused review of OMF's structure and operations to highlight potential areas for budget savings, recommend reinvestments in automation and highlight areas where Systems Applications and Products (SAP) can generate efficiencies.

AKT's focused review consists of two phases. The intent of Phase 1 was:

- To analyze OMF Bureaus' and Divisions' budgets and the review process for potential areas of budget savings
- To highlight inefficiencies in the use of SAP in OMF's processes
- To recommend possible avenues for reinvestment in automation that would lead to realization of the efficiencies SAP offers

In Phase I, AKT analyzed the OMF Fiscal Year (FY) 2011-12 Requested Budget, decision packages as of February 2011, and cash balances as of June 2010. We interviewed the Chief Administrative Officer (CAO), Bureau Directors, Managers, and selected staff, reviewed all information provided by OMF, and from this review, provided a description and analysis of all OMF budget components. AKT also reviewed the City's current use of SAP and has provided Bureau and Division information relating to SAP functionality. At the request of the CAO and the Mayor of the City of Portland, AKT did not consider the Citywide Projects Division of OMF in this review.

Phase I is intended to direct work for Phase II; a deeper investigation of OMF areas most likely to gain from revision and redesign of their processes.

PHASE I OUTCOMES

AKT held meetings with Bureau and Division Managers and staff to gain an understanding of the inputs, outputs, and analysis performed on the FY 2011-12 OMF Requested Budget and decision packages, which were provided to AKT as of February 2011. This analysis highlighted findings in three areas:

1. Areas for Immediate Cash Savings

After examination of the Internal Service Funds (ISF), AKT proposes the following policy options, which provide potential budget savings:

- A reduction of operating reserves to a target rate of 7.5% of operating costs results in a one-time savings of approximately \$1.8 million based on June 30, 2010 balances. The City sets these reserves by policy to a value between 5-10%. In most years, OMF Bureaus and Divisions with reserves are able to meet a 10% target for operating reserves. During times of budget constraints a target rate of 7.5% may be more appropriate until the economy can support the full reservation. Based on a 4 year trend, 7.5% will be sufficient to support contingencies requiring the use of these funds.
- Further examination of Printing and Distributions' (P&D) capital and technology reserves to identify and return any monies with unplanned use and expenditure for a one-time budget savings of up to \$600,000.

2. Analysis of FY 2011-12 OMF Requested Budget and Decision Packages

Our analysis of the FY 2011-12 OMF Requested Budget involved summarizing data from the various sources and making year-over-year comparisons of the data provided. AKT also examined the FY 2011-12 decision packages as of February 2011.

Appendix G summarizes all decision packages and AKT's interpretation of each. In the following three instances however, AKT questions Financial Planning's analysis:

- **Facilities – MF-30:** A one-time reduction in major maintenance. AKT believes that a reduction in major maintenance work should not be considered and in fact supports a full 30-year reserve study on each of the buildings owned by the City as a long term analysis of scheduled maintenance. The City needs to compare the results of such studies with their current reserve policies and analyze the sufficiency of reserve accounts to support the longer term replacement and maintenance needs.
- **Bureau of Technology Services (BTS) – MF-08:** A one-time reduction in professional service contracts. AKT believes that a reduction in budgets for professional service contracts may further increase BTS' project backlog as flexibility to transfer work to outside contractors is lessened.
- **Enterprise Business Solutions (EBS) – MF-15:** A one-time reduction in Professional, Technical, and Expert Services. AKT believes this reduction will hamper a Bureau that is still in development. EBS is implementing two add-ons to its Human Capital Management (HCM) module, Employee Self Service (ESS) and Manager Self Service (MSS), and a new reporting tool, Business Objects (BOBJ). These add-ons, in addition to increases in training needs, change requests, and implementation assistance City-wide will increase, not decrease the need for EBS' services.

3. SAP Issues and Recommendation to Propel Efficiency Gains

As captured in the City Auditor's report, *Business System Software Implementation: Expensive, Late and Incomplete*, the implementation of SAP City-wide has been challenging. All of the efforts of EBS and a portion of BTS efforts have been devoted to implementing SAP applications in City Bureaus and Divisions. Part of the Mayor's directive for this project is to recommend avenues for reinvestment in automation that take the greatest advantage of SAP efficiencies.

One of the most effective avenues for reinvestment in SAP automation is to make better use of what is already available. We would suggest this occur by creating a "platform of learning" group within OMF. This group would lead the effort to change and improve business processes most impacted by SAP implementation. Some of the responsibilities of this group would be:

- To ensure processes are modified to take advantage of SAP,
- To configure existing SAP modules to better meet user needs or
- To consider adding SAP modules based on recent EBS/SAP analysis.

This could be done through a variety of mechanisms, including leading focus groups through business process re-visioning, working with users to document and directly address system workarounds, providing an online location to share best practices, success stories, and how-to guides and by providing training for new and current users of the system.

We envision this group would be housed within EBS. To date, EBS' primary operations center on responding to Break-Fix maintenance requests, change requests and in implementing ESS, MSS and Business Objects in an effort to stabilize the current system. Ten percent of its FTE are devoted to improving how users work with SAP; these staff are participating in Political Advisory Committee (PAC) initiatives that address some of the most urgent systems issues within Bureaus. This is a good start. However, AKT believes EBS and the City can benefit from expanding and moving EBS into a leadership role, which will allow it to partner with business process owners. EBS will be guided by the PAC in setting project priorities. To be the most effective, EBS needs to align its role as a system implementer with its role as a central, monitored location for the training, best practices, user groups, process improvements, tutorials and other usage tools for SAP users. This additional role, however, takes resources EBS does not currently have. AKT recommends that rather reinvest in additional software, the City first consider investing in EBS, thus providing the staffing to support a fuller implementation process and a center for SAP process improvements.

PHASE II – NEXT STEPS

AKT's Phase I findings are preliminary; Phase II will drive a deeper perspective and look into the identified issue areas.

For Phase II, AKT recommends the following tasks:

- 1. Determine budget savings from adjustment of operating reserves or unplanned expenditures** – The operating reserve balances from ISFs shown in Appendix D are from reconciliations last performed on June 30, 2010. To adequately address the current balances, each ISF must:
 - Perform a reconciliation of current balances
 - Work with Business Operations to project the revenue and expense activity through June 30, 2011
 - Estimate the impacts of both decision packages and the spring budget modification packages
 - Estimate the planned vs. unplanned expenditures for P&D's capital and technology reserves

A one-time reduction can be calculated once this work is completed.

NOTE: As of the date of this report, the Mayor has requested that OMF Business Operations make reductions in ISF reserves and transfer \$1.3 million to City customer funds, as part of the FY 2011-12 Proposed Budget.

- 2. Recommend how to return available reserves** – In order to determine the appropriate recipients of the monies from the budget savings, AKT will work with OMF to determine the following:
 - Origin of the monies
 - Intended recipient of the monies
 - Intended use of the monies

If the origin and recipient(s) cannot be determined, AKT will work with OMF to determine an appropriate refund strategy.

NOTE: As of the date of this report, the Mayor has requested that OMF Business Operations develop a methodology to transfer shares of the \$1.3 million in reserve reductions to City customer funds, as part of the FY 2011-12 Proposed Budget.

- 3. Review OMF's current organizational structure** – OMF should consider reviewing the structure, interaction, and roles of Financial Services, Financial Planning, and Business Operations. AKT recommends that the City engage in a business process re-visioning of each with the intent of creating efficiencies through:
- Sharing gathered information and pooling data needs into a single request where possible
 - Establishing clearer boundaries and communicating those to their customers
 - Regularly surveying their customers for their needs and modifying service offerings to meet those needs
 - Developing collaborative methodologies to share work and work products when possible
- 4. Recommend changes to EBS to enhance the City's use of SAP** – Further analysis is needed to expand EBS's learning platform to drive the timely improvement of business processes, modification of existing SAP modules and addition of new SAP modules to reflect the SAP/EBS audit currently in draft. To do so, AKT will:
- Hold focus groups with appropriate stakeholders to identify the specific SAP needs of end-users within OMF
 - Determine if these needs are currently met, in the process of a change request, or have yet to be addressed
 - Identify at the entity level, if the needs can be addressed by: 1) changes to business processes; 2) additions and changes to current SAP modules; 3) purchase of additional SAP components
 - Recommend, based on findings from focus groups and stakeholders, how to redesign the role of EBS to better fit the needs of all OMF entities
 - AKT's review of OMF did not include other City Bureaus that may be affected by the same or similar concerns

NOTE: As of the date of this report, EBS reports they are cooperating in three business process initiatives in City Bureaus.

SUMMARY

We appreciate the opportunity to work with OMF Directors, Managers, and staff. Our valuable interactions with all individuals at OMF afforded us the opportunity to comprehensively analyze OMF's FY 2011-12 Requested Budget and to provide preliminary findings regarding immediate cash savings and SAP issues and efficiency gains.

CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE
Focused Review of FY 2011-12 Requested Budget
Phase I Report



TABLE OF CONTENTS

| | |
|---|----|
| Executive Summary | i |
| Project History and Overview | 1 |
| OMF FY 2011-12 Requested Budget Analysis | 2 |
| <i>Overview</i> | 2 |
| <i>Internal Service Funds</i> | 4 |
| Findings – <i>Internal Service Funds</i> | 11 |
| <i>General Fund Bureaus</i> | 12 |
| Findings – <i>General Fund Bureaus</i> | 15 |
| SAP Issues and Efficiency Gains | 16 |
| Findings – <i>SAP Issues and Efficiency Gains</i> | 18 |
| Phase II - Next Steps | 21 |
| Areas for Additional Consideration | 23 |
| Summary | 25 |
| Glossary and Acronyms | 26 |

APPENDICES

- Appendix A – Meetings and Participants Log
- Appendix B – Summary of Documents Received
- Appendix C – Internal Service Funds Summary Information
- Appendix D – Year-over-year Cash Balance Reconciliation
- Appendix E – General Fund Bureaus Summary Information
- Appendix F – Analysis of Dedicated Funds
- Appendix G – OMF Budget Analysis
- Appendix H – SAP Summary Information

PROJECT HISTORY AND OVERVIEW

At the request of the City of Portland, AKT performed a focused review of OMF's structure and operations to highlight potential areas for budget savings, recommend reinvestments in automation, and highlight areas where SAP can generate efficiencies. In order to investigate these areas, AKT:

- Reviewed, by Bureau, Division and Internal Business Service -
 - Actuals for FY 2008-09 and 2009-10
 - Revised Budget for FY 2010-11
 - Requested Budget for FY 2011-12, as of February 2011
 - Cash balances for all Internal Service Funds (ISF) for FY ending June 30, 2007 through 2010
 - 2011 decision packages and related analysis from Financial Planning and Budget Advisory Committee
- Interviewed the CAO, Bureau Directors, Managers, and selected staff
- Reviewed all information provided by OMF
- Reviewed Bureau information relating to SAP functionality
- Interviewed Business Operations and Financial Planning staff to gather data on discrepancies identified in year-over-year comparisons of budget and actual financial information

This level of review provided AKT the opportunity to gather insights and information not only from data and prior reviews, but also from those most involved in the delivery of OMF services. Interviews revealed persistent concerns with year-over-year budget and personnel cuts, meeting expanding demands for OMF services from the City, and systems and processes that were less than optimal. Interviews also revealed a continued commitment to provide the highest quality services possible within budget constraints. Other than the budget savings identified in our findings, our interviews and analysis did not reveal budget practices designed to favor OMF Bureaus and Divisions.

After providing an overview of OMF, the analysis is broken into three main topics, each with findings. The topics are:

1. Budget analysis for Internal Service Funds
2. Budget analysis for General Fund Bureaus
3. SAP Issues

From this analysis, we provide immediate recommendations for budget savings and for organization re-focus, a list of next steps that warrant further examination in Phase 2, and areas that the City should consider for future improvement projects.

Appendix A provides a log of meetings and participants. Appendix B provides a list of the documents reviewed in this project and a summary of their contents. A glossary providing definitions for terms and acronyms is provided at the end of this report.

OMF FY 2011-12 REQUESTED BUDGET ANALYSIS

OVERVIEW

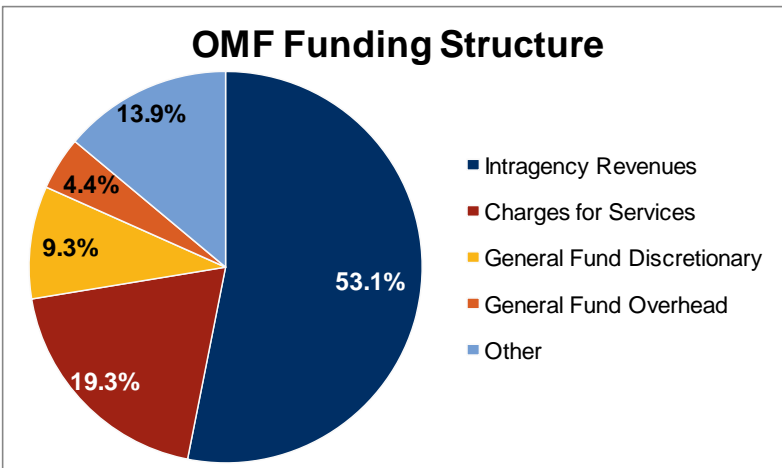
OMF ORGANIZATION OVERVIEW

The City of Portland Office of Management and Finance (OMF) was created in 2000 when the Bureaus of Finance & Administration, General Services, and Purchases were merged and is now overseen by the City's Chief Administrative Officer. OMF provides internal services to City Bureaus, and through managing the City's fiscal, human, physical and technological resources, supports the City's mission to deliver high quality services to the community. EBS was created in 2009 to maintain and continuously improve the City's new financial and human resource software system, SAP, which replaced the City's 20-year old IBIS system.

OMF consists of the Bureaus of Financial Services, Human Resources, Internal Business Services, Revenue, Technology Services, and the Divisions of Business Operations and Enterprise Business Solutions, as well as, special projects. Within OMF are Internal Service Funds (ISF), which provide central business services. These include all Internal Business Services as shown in the table to the right, plus the Bureau of Technology Services (BTS) and Enterprise Business Solutions (EBS). Each internal service provider operates based on a 100% cost recovery model through charges for services rendered. Charge rates are tied to the cost recovery needs of each specific fund.

| OMF Bureaus, Divisions and Services | |
|-------------------------------------|----------------------------|
| Bureaus | Internal Business Services |
| Financial Services | CityFleet |
| Human Resources | Facilities |
| Internal Business Services | Printing and Distribution |
| Revenue | Procurement |
| Technology Services | Risk Management |
| Divisions | |
| Business Operations | |
| Enterprise Business Solutions | |

OMF FUNDING OVERVIEW



OMF is funded through a combination of interagency revenues, charges for services, general fund, and other resources as described below.

Interagency Revenues – Revenue generated from City Bureau or Division use of services provided by ISFs. Distribution, facility maintenance, and fleet services are some examples. Interagency Agreements (IA) formalize the arrangement including rates charged and services provided.

Charges for Services – Revenues generated from customers outside the City for services provided by OMF Bureaus and Divisions.

General Fund Discretionary – Revenues received from discretionary resources such as property taxes may be allocated to various City Bureaus or Divisions at the discretion of Council. This is in contrast to non-discretionary resources, which by policy or statute support one service or activity (i.e. Bureau specific revenues or grants).

General Fund Overhead – The General Fund Overhead account distributes revenues to support central services provided to others such as Accounting, HR, Purchasing, Legal and Council Offices.

Other – Other revenue components include charges for licenses and permits, specific taxes such as lodging, cash transfers, and agreements with other non-City government agencies.

OMF FY 2011-12 REQUESTED BUDGET ANALYSIS

INTERNAL SERVICE FUNDS

AKT's analysis of OMF's FY 2011-12 Requested Budget separates Internal Service Funds from General Fund Bureaus. The structure and funding for each group is fundamentally different and thus warrants a separate discussion.

AKT reviewed the 6 ISFs during Phase I using budgets, decision packages, budget modification packages, Budget Advisory Committee's analysis, interviews with ISF leadership, Business Operations and Financial Services, performance measures, and prior focused reviews and audits to drive our analysis.

Our in-depth analysis of each ISF includes:

- **Budget Overview** – Examining year-over-year comparisons between actuals for FYs 2008-09 and 2009-10, Revised Budget for FY 2010-11, and the February Requested Budget for FY 2011-12 to understand the impact of this year's 1.5% budgetary reduction and to highlight any major discrepancies in budget line items.
- **Reserves Overview** – Examining individual cash balances to determine if year-over-year target rates were set appropriately to meet the needs of each ISF.
- **Decision packages** – Examining the analysis of decision packages provided by Financial Planning and by the Budget Advisory Committee and determining if AKT concurs with the decision.

Appendix C provides informational detail and analysis on the overall function, reserves and accounts, budget components, performance measures, and decision packages of each ISF. Appendix D provides a listing of all cash balances for all ISFs from 2007 – 2010 with accompanying descriptions. Appendix G contains financial data comparisons and graphs relating to our year-over-year analysis.

BUREAU OF TECHNOLOGY SERVICES

Budget Overview

Between FY 2008-09 and FY 2009-10 there was a \$7.5 million decrease and between FY 2009-10 and FY 2010-11 there was an additional decrease of \$2.7 million in revenue as the bond sale related to the SAP implementation was completed. The other significant change for BTS was the segregation of the EBS workload and staff in FY 2009-10. This is reflected in the \$6 million increase in fund transfer expenditures in FY 2009-10 as well as charges for services and other categories.

For BTS, internal and external materials and services and fund transfers are directly related to the number of projects they are able to staff during the year. Accordingly, these amounts vary year over year. In years with significant expenses related to projects, including FY 2010-11, BTS will typically spend down contingency funds as well as dedicated project funds.

Reserves Overview

| BTS - Operating Reserve Targets | | | |
|---------------------------------|-----------|----------|-------------|
| Year | \$ | Target % | % of target |
| 2010 | 4,407,694 | 10% | 100.0% |
| 2009 | 2,153,039 | 10% | 50.0% |
| 2008 | 4,764,511 | 10% | 77.5% |
| 2007 | 4,903,050 | 10% | 100.0% |

Operating Reserves – BTS maintains Operating Reserves, which have varied over the timeframe of our analysis. As of June 30, 2010, BTS allocated 10% of its total reserves to Operating Reserves and was able to meet that target by June 2010. Fluctuations in BTS' Operating Reserves from 2008-2009 result from the diversion of funds from Operating Reserves to Technology/Capital Improvement Project Reserves.

Capital Reserve – BTS' Technology (Capital) Reserve is used to fund the replacement of systems that do not have a replacement component in their rates. The 2010 ending balance will be drawn down to zero by June 30, 2011 to fund Capital Improvement Projects (CIP). The budget for FY 2011-12 capital projects is \$3,767,015.¹ Planned expenditures on the designated projects will deplete the FY 2011-12 reserves and require \$553,705 of BTS' operating reserves to complete. As indicated in our findings section, the impact of this activity must be considered when calculating potential budget savings from cash balances for FY 2011 - 12.

| BTS - Capital Reserve | | |
|-----------------------|-----------|--------|
| Year | Ending | Target |
| 2010 | 3,213,310 | - |
| 2009 | 2,882,455 | - |
| 2008 | - | - |
| 2007 | 3,398,331 | - |

Replacement Reserves – BTS maintains two accounts within its Replacement Reserves – an Electronic Equipment account and Lifecycle Replacement for Personal Computers and Laptops account. For each, BTS maintains a scheduled replacement and maintenance plan and collects a surcharge designed to fund the replacement at the end of the useful life.

Because the replacement accounts are designated to be a stable funding source for the City's assets and end-user equipment, it is important to understand:

- The appropriate level of funding
- Funding targets
- Rate structure to achieve funding targets

AKT believes that comprehensive rate and reserve studies are necessary to accurately determine if these accounts are adequately funded and if the rates charged by BTS are able to fund both the Replacement and Major Maintenance accounts. AKT provides additional detail in the **Additional Areas for Consideration** section of this report.

Dedicated Funds – For customer projects, BTS will generally receive the Dedicated Funds in the year that the project commences. For BTS internal projects, funds are generally dedicated in the year the project will take place. In both cases, most of the Dedicated Funds are spent or encumbered by year end or shortly after.

Appendix F details the projects with of Dedicated Funds. As of the date of this report, most of the monies have been depleted.

¹ Bureau of Technology Services, BTS Funds, Use of June 30, 2010 Technology Reserve Balance (April 2011).

Decision Package

Decision package, MF-08, is for a one-time \$181,335 reduction in professional services contracts. The cut would impact a number of projects related to Production Engineering, Support Systems & Asset Management and Desktop deployment. Financial Planning believes that BTS has sufficient resources in its budget to reallocate funds for its most critical projects. When funds are needed, Financial Planning indicates that BTS can use contingency funds. The Budget Advisory Committee disagrees; AKT disagrees as well. BTS' project backlog may increase with reduced flexibility to transfer work to outside contractors. In addition, historic under spending of external materials and services may reflect internal staffing constraints to direct projects rather than overestimation of costs.

CITYFLEET

Budget Overview

CityFleet uses industry specific software to track vehicle usage, schedule maintenance and to determine the appropriate time to trade in the vehicle. Fluctuations in capital outlays are a direct reflection of the timing of these purchases. Interagency/Government revenues increased more than \$4.8 million between FY 2009-10 and 2010-11. This is a reflection of Bureaus' delayed spending during years of budget cuts, but which CityFleet believes will be more in line with the increasing number of vehicles owned and serviced by the City in upcoming months.

In FY 2009-10, CityFleet and Facilities made a late-year interagency fund loan to the Grants Fund creating an oddity in CityFleet's financial picture of \$24,572.

Reserves Overview

Operating Reserves – CityFleet is not always able to meet its targeted Operating Reserves. As of June 30, 2010, CityFleet targeted 10% as an Operating Reserve, and was able to achieve only 7.5%. CityFleet targeted and met 20% Operating Reserves in 2007, 15% Operating Reserves in 2008 and 10% Operating Reserves in 2009.

| CityFleet - Operating Reserve Targets | | | |
|---------------------------------------|-----------|----------|-------------|
| Year | \$ | Target % | % of target |
| 2010 | 755,916 | 10% | 75.0% |
| 2009 | 753,678 | 10% | 71.5% |
| 2008 | 1,530,944 | 15% | 100.0% |
| 2007 | 1,831,879 | 20% | 100.0% |

Capital Reserve – CityFleet maintains a Capital Reserve to cover potential expenses at locations leased from Facilities. It is clear in our discussions with CityFleet it does draw on Capital Reserves during the course of the year but is able to refill the Capital Reserves to reach its set targets by year end.

| CityFleet - Capital Reserve | | |
|-----------------------------|---------|---------|
| Year | Ending | Target |
| 2010 | 446,149 | 446,149 |
| 2009 | 446,418 | 446,419 |

Capital Replacement Account – Like BTS, CityFleet maintains a scheduled replacement and maintenance plan. CityFleet's collects a surcharge for each vehicle which is designed to fund the replacement at the time in the life cycle where decreasing trade in value meets increasing maintenance costs.

Dedicated Fund – These monies have already been spent for the Station Yard Fuel Station Capital Improvement Project (CIP), which was scheduled to finish in December 2010.

ENTERPRISE BUSINESS SOLUTIONS

Budget Overview

EBS became a stand-alone Division in FY 2009-10. The budget information presented for FY 2010-11 and FY 2011-12 has significant fluctuations in most categories due to changes in how transactions are accounted for and “right-sizing” as an entity. EBS started as a General Fund entity with some IAs and has now transitioned to a full Internal Service Fund. The change better reflects its business practices of carrying out large projects, providing measured service levels, and needing cash balance reserves to accommodate multi-year projects.

Reserves Overview

Operating Reserves – EBS maintains Operating Reserves; as of June 30, 2010, EBS targeted 5% of their operating costs to their Operating Reserves. EBS switched from a General Fund entity to an Internal Service Fund in 2009. Thus, EBS started to fill its reserves in 2009. At the end of the past two years, EBS has been able to meet its set targets at 5% of operating costs.

| EBS - Operating Reserve Targets | | | |
|---------------------------------|---------|----------|-------------|
| Year | \$ | Target % | % of target |
| 2010 | 761,291 | 5% | 100.0% |
| 2009 | 527,000 | 5% | 100.0% |

Equipment Replacement Account – EBS has one Replacement Reserve account used for the maintenance of the SAP server. The server has a 5-year life and will need to be replaced in 2012 at an estimated cost of \$1.5 million.

Dedicated Funds – EBS holds monies resulting from its initial General Fund allocation these are dedicated to FY 2010-11 operations. These funds will act as a bridge for the Internal Service Fund until 2012 when IAs are expected to cover 100% of EBS’ costs.

EBS also holds Project Set-Aside monies that are identified for Business Objects Reporting software, MITAS software for Portland Housing Bureau, and On-line Recruitment for Bureau of Human Resources. These projects are scheduled to commence in 2011. When reconciled at June 30, 2011, the balance in this account should be less.

Decision Package

Decision package, MF-15, is a one-time reduction in Professional, Technical, and Expert Services (PTE) and part of the 1.5% budget reduction directed by the Mayor. The Budget Advisory Committee does not recommend the cut, nor does AKT.

Financial Planning indicates that EBS has under spent its external materials and services budget in FY 2009-10 and FY 2010-11 and that as of the FY 2010-21 Winter Budget Modification Package (BMP), EBS had a contingency of \$3 million and a beginning fund balance of \$4.5 million. However, EBS is still in its early stages of development. It is implementing two add-ons to its HCM module, ESS, MSS, and a new reporting tool, Business Objects. These add-ons, in addition to increases in training needs, change requests, and implementation assistance City-wide, will increase the need for EBS’ services. AKT further discusses the needed changes in the role and focus of EBS, in the **Next Steps** section of this report. EBS needs to maintain a consistent level of funding to absorb the volume of work resulting from continued SAP implementation.

FACILITIES

Budget Overview

Capital outlay charges directly reflect the activity for the year and are part of Facilities planned spending. Because Facilities deals with large projects, the fluctuations in capital outlay are significant. Facilities is anticipating expenditures for the Emergency Coordination Center (ECC) in the coming two fiscal years; there will be a bond sale to finance the activity and this is reflected in the Bond and Note expenses and revenue categories for those years. In FY 2008-09, Facilities purchased the Archive Center which accounted for most of that year's capital outlay. The large increases in contingency between FY 2009-10, 2010-11 and 2011-12 reflect the delay of major maintenance projects. The funds will accumulate until Facilities has staffing to begin the work in the next fiscal year or two.

In FY 2009-10, CityFleet and Facilities made a late-year interagency fund loan to the Grants Fund creating an oddity in Facilities' financial picture of \$52,173.

Reserves Overview

Operating Reserves – Facilities maintains Operating Reserves. As of June 30, 2010, Facilities allocated 10% of their operating budgets to its Operating Reserves. With the exception of 2007, Facilities is consistently able reach its target of 10% of Operating Reserves.

| Year | \$ | Target % | % of target |
|------|-----------|----------|-------------|
| 2010 | 2,073,000 | 10% | 100.0% |
| 2009 | 1,860,000 | 10% | 100.0% |
| 2008 | 1,860,000 | 10% | 100.0% |
| 2007 | 1,853,522 | 10% | 99.7% |

Capital Reserve – Since 2007, Facilities has not been able to reach its target Capital Reserve balance, indicating that occupancy rates were lower or maintenance costs were higher than budgeted. Targets are set using industry standards based on building values and age. Fluctuations in the reserve balances of up to \$512,000 in the past 4 years demonstrate the strong variation in Facilities' use of funds to meet capital project needs. The Capital Reserve has not been drawn down due to capital costs that could not be covered by other means.

| Year | Ending | Target |
|------|-----------|-----------|
| 2010 | 1,070,370 | 2,623,000 |
| 2009 | 822,974 | 1,797,000 |
| 2008 | 1,287,186 | 1,940,000 |
| 2007 | 775,000 | 1,940,000 |

Major Maintenance Account – Similar to BTS, the Replacement and Major Maintenance accounts are designated to be a stable funding source for the City's assets. An immediate cut to these funds can potentially disrupt the provision of needed services to ISF customers. As a result, AKT believes that comprehensive 30-year rate and reserve studies are necessary to properly determine if these accounts are adequately funded and if the rates charged by Facilities are able to fund the Major Maintenance accounts. AKT provides additional detail in the **Additional Areas for Consideration** section of this report.

Dedicated Funds – Facilities holds reserves dedicated to City Hall space reconfigurations, the Emergency Communications Center, and bond funded monies restricted for the new Archives Center. Appendix F Table 3 details the use of the project funds over the past four years.

Decision Package

Decision package, MF-30, is for a one-time \$60,000 reduction in the reserves that Facilities needs for major maintenance. Financial Planning did not recommend this reduction package. AKT concurs with Financial Planning's dissent and further believes that full 30-year reserve studies need to be conducted creating a long term analysis of Facilities maintenance programs.

PRINTING AND DISTRIBUTION

Budget Overview

P&D's business model has been refined over many years of service to the City, and the stability of its financial reports reflects the consistency of its service delivery. Year-over-year variation in capital outlay accounts of as much as \$500,000 are a direct result capital purchases executed according the replacement schedule maintained by P&D. As with other ISFs, bond expenses for P&D are due to the PERS initiative several years ago, not for debt incurred directly by P&D.

Reserves Overview

Operating Reserves – P&D maintains Operating Reserves. As of June 30, 2010, P&D allocated 10% of its operating budgets to its Operating Reserves. P&D is able to consistently reach its target of 10% of operating reserves.

| Year | \$ | Target % | % of target |
|------|---------|----------|-------------|
| 2010 | 310,000 | 10% | 100.0% |
| 2009 | 336,000 | 10% | 100.0% |
| 2008 | 306,000 | 10% | 100.0% |
| 2007 | 276,000 | 10% | 91.7% |

Capital Reserve – P&D's Capital Equipment Reserve is based on 10% replacement cost of all production equipment. P&D has been able to maintain its target level of reserves, \$400,000, since 2007. In FY 2011-12, P&D intends to purchase a \$60,000 production level copier with a \$150,000 3-year maintenance plan from this reserve.

Technology Reserves – P&D maintains a Technology Reserve which is dedicated to innovation projects. P&D has been able to maintain the target level of \$400,000 since 2007. It is clear in our discussions with P&D that while it may use its Technology Reserves during the course of the year, by year end it is able to keep reserve balances at target levels. In addition, P&D indicates that it does not have plans to carry out new projects or initiatives in the near future.

| Year | Capital Equipment | | Technology | |
|------|-------------------|---------|------------|---------|
| | Ending | Target | Ending | Target |
| 2010 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2009 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2008 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2007 | 400,000 | 400,000 | 400,000 | 400,000 |

| Year | Ending | Target |
|------|---------|---------|
| 2010 | 640,000 | 640,000 |
| 2009 | 610,169 | 680,000 |
| 2008 | 680,808 | 692,981 |
| 2007 | 692,981 | 634,400 |

Equipment Replacement Account – P&D maintains Capital Equipment carry-over accounts for all printers and copiers. This fund reflects a by-click surcharge designed to fund the future replacement of copiers and printers in service throughout the City. The reserve level in this account is roughly one third of the total cost to replace all copiers and printers under the replacement agreements with other City Bureaus and Divisions.

RISK MANAGEMENT

Budget Overview

Insurance and Claims – The Insurance and Claims and Workers' Compensation arms of Risk Management will jointly purchase insurance specific software to meet transactional needs. This is reflected in FY 2010-11 capital outlay accounts. Actual revenues are higher than budget during the time period analyzed primarily in response to conservative estimation practices. The increase of \$3.5 million in external materials and services between FY 2009-10 and 2010-11 is reflective of carrying over an appropriation for claims payments from FY 2009-10.

Workers' Compensation – Increases and decreases in external materials and services expenditures directly reflect actuarial determined expenses based on the City's experience.

Reserves Overview

Operating Reserves – Insurance and Claims and Workers' Compensation maintain Administrative/Contingency Reserves to cover unanticipated administrative costs for managing the funds. The target per OMF policy is to fill the reserves to 5 -10% of the administrative budget; Risk has met or nearly met the full 10% Operating Reserves from 2007 to 2010.

| Risk Management - Operating Reserve Targets | | | | | | |
|---|----------------------|----------|-------------|---------------|----------|-------------|
| Year | Insurance and Claims | | | Workers' Comp | | |
| | \$ | Target % | % of target | \$ | Target % | % of target |
| 2010 | 210,000 | 10% | 100.0% | 170,000 | 10% | 100.0% |
| 2009 | 180,000 | 10% | 100.0% | 170,000 | 10% | 95.0% |
| 2008 | 139,624 | 10% | 100.0% | 143,772 | 10% | 100.0% |
| 2007 | 153,000 | 10% | 95.6% | 151,000 | 10% | 97% |

Required Claims Reserves and Restricted for Future Claims Requirements – Both funds maintain actuarially determined balances to support the City's decision to be self-insured. The Required Reserves account is for the current year's estimation. The Future Claims account is used to smooth year-to-year fluctuations and provide less variation in rates charged to City Bureaus.

ONI Reserve – Insurance & Claims manages a reserve account on behalf of the Office of Neighborhood Involvement (ONI). This reserve does not accumulate or spend monies year over year except for the interest earned on the reserve.

Accounts – Both funds maintain a set aside account for the purchase of software designed to carry out claims processing and management. Purchase of the software will take place in 2012 after a Request for Proposal is released in 2011.

Property Insurance Deductible – Insurance & Claims also maintains an account for Property Insurance Deductibles of \$100,000. This account is static and provides the ability to assist City Bureaus should they experience a property claim and be unable to fund the deductible.

Dedicated Funds – Insurance & Claims holds a fund for claims over \$1 million. These are required monies as the Actuarial Reserves do not include any provision for losses in excess of \$1 million. This account is static.

FINDINGS

INTERNAL SERVICE FUNDS

After examination of the Internal Service Funds, AKT proposes the following options which highlight areas for potential immediate budget savings.

REDUCE OPERATING RESERVE TARGETS FOR FY 2011-2012

A reduction of Operating Reserves to a targeted rate of 7.5% of operating costs results in a one-time savings of approximately \$1.8 million based on balances at June 30, 2010. To calculate an accurate savings amount, the cash balances will need to be re-reconciled as of June 30, 2011. This one time reduction assumes CityFleet maintain its reserve target at 7.5% of fixed operating costs and EBS maintains its reserve target at 5% of fixed operating costs.

| Internal Service Funds | Reduction to 7.5% | | 6/30/10 | | |
|----------------------------------|-------------------|------------------|------------------|----------|-------------|
| | Adjusted Balance | Savings | \$ | Target % | % of target |
| Operating Reserve Targets | | | | | |
| Bureau of Technology Services | 3,305,771 | 1,101,924 | 4,407,694 | 10% | 100.0% |
| Facilities | 1,554,750 | 518,250 | 2,073,000 | 10% | 100.0% |
| CityFleet | 755,916 | - | 755,916 | 7.5% | 75.0% |
| Printing and Distribution | 232,500 | 77,500 | 310,000 | 10% | 100.0% |
| Insurance and Claims | 157,500 | 52,500 | 210,000 | 10% | 100.0% |
| Workers' Comp | 127,500 | 42,500 | 170,000 | 10% | 100.0% |
| Enterprise Business Solutions | 761,291 | - | 761,291 | 5% | 100.0% |
| Total | 6,895,228 | 1,792,674 | 8,687,901 | | |

RETURN RESERVES WITH NO IMMEDIATE OR PLANNED EXPENDITURES

Printing and Distribution holds two reserve funds, a Capital Reserve and a Technology Reserve. P&D indicates that the Technology Reserve has no immediate future planned expenditures. The Capital Reserve may be used to purchase a \$60,000 production copier with a 3-year maintenance plan; the total purchase is estimated at \$210,000. Target levels in both of these reserve accounts have remained steady at \$400,000 each since 2007. These reserve accounts total to \$800,000 and with planned expenditures of \$210,000, amounts up to \$600,000 are not associated with any planned expenditures.

| Year | P&D - Reserve Accounts | | | |
|------|------------------------|---------|------------|---------|
| | Capital Equipment | | Technology | |
| | Ending | Target | Ending | Target |
| 2010 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2009 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2008 | 400,000 | 400,000 | 400,000 | 400,000 |
| 2007 | 400,000 | 400,000 | 400,000 | 400,000 |

OMF FY 2011-12 REQUESTED BUDGET ANALYSIS

GENERAL FUND BUREAUS

AKT reviewed the seven General Fund Bureaus during Phase I using budgets, decision packages, Budget Advisory Committee's analysis, interviews with Bureau leadership, Business Operations and Financial Services, performance measures, and prior focused reviews and audits to drive our analysis. Below is a summary by General Fund Bureau.

Our in-depth analysis of each General Fund Bureau includes:

- Examining year-over-year comparisons between actuals for FYs 2008-09 and 2009-10, Revised Budget for FY 2010-11, and the February Requested Budget for FY 2011-12 to understand the impact of this year's 1.5% budgetary reduction and related decision packages. Our analysis includes highlights of major fluctuations in budget line items.
- Examining the analysis of decision packages provided by Financial Planning and by the Budget Advisory Committee and determining if AKT concurs with OMF analysis.

Appendix E provides the analysis of all FY 2011-12 decision packages for General Fund Bureaus and a breakdown of the reliance of each Bureau on Discretionary and Overhead Funds and their expenses. Appendix G contains financial data comparisons and graphs relating to our year-over-year analysis.

BUSINESS OPERATIONS

In total, Business Operations revenues over the compared periods varied modestly. An increase of 14% occurs between FY 2009-10 and FY 2010-11 due primarily to the transfer of position providing PERS oversight as discussed in the section for the Director's Office. In FY 2009-10, the decrease in personal services was due to the elimination of a budgeted Public Relations position and the reorganization involving the creation of Internal Business Services. This was offset by external materials and service expense increase due to post go-live SAP licensing costs.

BUREAU OF FINANCIAL SERVICES

Financial Services is a combination of several groups, including Financial Planning, Accounting, Debt Management, and Treasury. As such, an analysis of their budget must occur at a fairly high level. While the revenue stream overall has only minimal change year over year, the fluctuation in each line item is as much as 51% between years due primarily to changes in account structures from the SAP conversion. Interagency and Government Revenues were suppressed for FY 2009-10 as municipalities serviced by the City reduced their use of City services in response to their own budget cuts. Expenditures over the time periods analyzed were fairly constant with the exception of external materials and service which increased by \$342,000 between FY 2009-10 and FY 2010-11 and were used to purchase and implement publishing software.

BUREAU OF HUMAN RESOURCES

In the requested budget documents, the budget for the Health Fund and the budget for the Bureau are combined. Charges for services make up between 56% and 60% of the total revenue for BHR. Charges for services are related to the Health Fund and are comprised of administrative fees and estimated claim costs. Interagency and Government Revenues peaked in FY 2009-10 primarily due to the Bureau of Development Services and the corresponding workload associated with placement, termination benefits and other services provided to those employees impacted. BHR's workload is increased by both layoff and hiring activities; it is only during times of stable workforce that BHR is able to contemplate reducing its own staffing levels.

DIRECTOR'S OFFICE

The revenues and expenses related to the Director's Office are small, thus relatively small monetary changes may have a significant impact on year-over-year percentages. In FY 2009-10 a position supporting PERS oversight was moved to Business Operations creating a 47% change in revenue from General Fund Overhead and a corresponding change to Personal Services. Because of the very small budget of this group, the Director's Office did not take a reduction in the FY 2010-11 budget process.

PROCUREMENT

While included with other Internal Service Bureaus under BIBS, Procurement is a General Fund entity. As reflected in Appendix G, General Fund entity revenues and expenses are not required to balance at the Bureau level. There is a significant increase in general funds between FY 2008-09 and 2009-10, because Procurement took responsibility for technology purchases from BTS. This change also impacts Interagency and Government fund decreases for the same periods. During FY 2009-10 Procurement engaged in a large disparity study, creating a spike in expenditures for that period. Procurement receives procurement card (Pcard) and Office Depot rebates. In FY 2008-09 both rebates were included in miscellaneous revenue. In FY 2009-10 Procurement changed the way it accounted for Pcard rebates and the Office Depot rebate was not received until after fiscal year end for FY 2009-10. Between these two items, miscellaneous revenues dropped to near zero in FY 2009-10.

REVENUE BUREAU

Fund balances in the Revenue Bureau are related to the collection and administration of the following special revenue funds:

- Downtown Business Improvement District (Sub-Fund 204001)
- Lloyd Business Improvement District (Sub-Fund 204002)
- Private for Hire Transportation Safety (Fund 207000)
- Convention and Tourism (Fund 209000)
- School Surcharge Fund – terminated in FY 2008-09

The Revenue Bureau has made a decision to reduce the accumulated balance of these funds. This is evidenced in the year-over-year decrease in Beginning Fund balance and a corresponding reduction in Unappropriated/Contingency. The cessation of the School Surcharge Fund can be seen in the \$2.4 million reduction in Taxes/Licenses/Permits revenues between FYs 2008-09 and 2009-10.

The Revenue Bureau's workforce increased between FY 2007-08 and 2008-09 with the hire of seven new positions intended to increase revenue collection. The Bureau estimated the City would realize at least a 2:1 rate of return (revenues over expenses) by these positions. In FY 2009-10, an audit of the revenue generated by these seven positions confirmed the actual return on investment was 4:1.

INTERNAL BUSINESS SERVICES

The Bureau of Internal Business Services manages a range of core internal services critical to meet City business needs such as Facilities, CityFleet, Printing and Distribution, Procurement, and Risk Management. These services are offered to all City Bureaus and Divisions.

AKT analyzed each of these budgets separately above. Additional expense components to the BIBS budget are for a small portion of overhead and the salary expense of the Director of this Bureau.

FINDINGS

GENERAL FUND BUREAUS

AKT's discussions with Bureau Managers and staff and our review of the year-over-year operations and budgets for each of the General Fund Bureaus revealed that customers receiving services from Financial Services, Financial Planning, and Business Operations perceive some services as duplicative.

AKT believes that OMF and the City can benefit from a review of OMF's organizational structure with the intent of:

- Coordinating requests coming from Financial Services, Financial Planning, and Business Operations to create a single touch point to each Bureau or Division
- Sharing SAP data warehouses
- Collaborating on uniform reporting techniques through the use of a common data warehouse
- Changing business processes to increase the effectiveness of SAP
- Establishing protocol for a segregation of duties to ensure the Bureaus and Divisions undergo and follow the appropriate checks and balances
- Surveying customers and responding to the different level of need between larger General Fund Bureaus and Internal Business Services

SAP ISSUES AND EFFICIENCY GAINS

In Phase I, AKT was tasked with gathering user’s perspectives on the use of SAP and developing potential avenues to enact savings and/or create efficiencies through the use of SAP. To do so, AKT researched the history of the City’s SAP implementation, spoke with Bureau and Division Directors, Managers and staff, and reviewed all documentation pertinent to the City’s automation efforts. This section focuses on our SAP analysis, highlighting areas for SAP efficiency gains and suggestions for improvement.

Appendix H summarizes the history of SAP, our findings and methodology and a description of EBS’ role within SAP environment.

CURRENT SAP USAGE

“SAP was not implemented to cut positions. It’s about taking the administrative work away from staff so they can be doing the higher level work they should be doing to make a better Bureau.” – Manager of OMF Division

SAP’s current implementation has yet to fully stabilize; most OMF workgroups report time consuming workarounds to input data into the SAP system and to access needed information. Most inefficiencies stem from functions that have not yet been completely implemented or from business processes that have not been adjusted to fully utilize SAP. ESS and MSS implementations and Business Objects reporting and analytics implementations are in process but not yet complete. Once fully implemented, including user training and template development, there should be substantial efficiency gains within the City. The table below depicts the anticipated improvements from implementation of ESS, MSS and Business Objects.

| OMF-Wide SAP Issues and Efficiency Gains | | | | |
|--|--|--|-----------------|-------------------|
| Opportunity | Priority and Condition of Related Business Process | Improvement Type | Effort Required | EBS’s Status |
| ESS – Employee Self Service (Employees enter their own time to SAP electronically) | Medium – Currently ESS has been rolled out to some, but not all of OMF. Processes have not yet been standardized nor all variations been accounted for | If data requirements throughout OMF are understood and appropriate processes to use SAP efficiencies are developed and accepted, OMF should expect more consistent personnel related data and may gain some efficiencies from the 280 timekeeper roles currently allocated | Medium | Change Request |
| MSS – Manager Self Service (Managers approve time entered by employees electronically) | Low – Currently many timekeepers print out time reports for managers to approve. MSS has been tested in some Bureaus and is scheduled to be rolled out to other Bureaus as need dictates | If OMF adopts business processes designed to use SAP efficiencies, OMF should experience a reduction in staff time for timesheet approval and improve reliability and consistency of the approval process | Major | New Functionality |
| BOBJ - Business Objects Reporting (Allows dynamic reporting for managers) | High – Currently all Bureaus struggle with receiving reliable and consistent reports from SAP. The need for a user-friendly reporting tool has been well demonstrated and is scheduled to be available shortly | Provides management reporting allowing managers to track and manage their budgets and business trends | Major | New Functionality |

“SAP is Accounting, Financial and Human Capital software, but our unique business perspective and needs makes interacting with SAP difficult for our business purpose.” – Staff of OMF Bureau

SAP is more thoroughly incorporated into the framework of General Fund Bureaus, in part, because their purpose is to manage the accounting, financial and human capital for the City. General Fund use of the system matches the general purpose setup of SAP currently in place. Internal Service Funds have a more business-like approach in the services they provide to the City and, in several cases, have unique business needs that may or may not be addressed within SAP applications. The table below captures information gathered during our interviews with OMF Internal Service Funds. We understand from the Internal Service Funds and Business Operations that this information has been shared with EBS and is being considered in its prioritized list. Some of these same kinds of issues may exist in City Bureaus outside of OMF.

| Bureau Specific Examples of Current SAP Issues and Inefficiencies | |
|---|--|
| Internal Service Funds | Issues and Workarounds Noted |
| CityFleet | <ul style="list-style-type: none"> • Uses stand alone fleet management software for specialized functions; an interface has been developed which has eliminated manual transfer of information • Has workarounds to manage lack of reporting from SAP • Implementation of Business Objects may resolve current management reporting issues |
| Facilities | <ul style="list-style-type: none"> • Needs project management tools to support project focused staff/managers • Needs “Facilities Center” interface to upload data into SAP at appropriate levels, especially from staff using hand held systems to track work at project or site level |
| Printing and Distribution | <ul style="list-style-type: none"> • Takes additional time for materials management for P&D on SAP due to front loading processes P&D understands this was a business decision but pushing the work to the front end has no corresponding benefit to them |
| Risk Management | <ul style="list-style-type: none"> • Issues 35-50 direct payments per day to maintain compliance with workers’ compensation requirements • Standard AP check runs have insufficient turn around to meet regulation, requiring issuance of funds from imprest account. Manual effort is then required to record transactions into SAP • EBS has determined SAP is not designed to support insurance based business model and is in the process of issuing an RFP to find and implement insurance based software to accommodate these specialized needs |
| Procurement | <ul style="list-style-type: none"> • Has found that increased checks and balances, while an improvement for the City, creates more work for the Bureaus. • Maintains data very specific to Procurement. This requires a body of work and processes to set uniform practices and provide accurate reporting. The processes are cumbersome and time consuming; business practices may need to be adjusted to accommodate both Procurement requirements and SAP limitations • Has not received sufficient quality training in SAP use and staff were training while maintaining their full workload. Procurement believes this is true for the City as a whole and the workload has increased as a result. Training would also support changes needed in processes • Hasn’t found system to be intuitive; German acronyms are used for screen settings and input fields • Represented employees have significant requirements. Infrequent use of Human Capital Management modules creates inefficiencies for staff. “Every time you are doing a transaction, you are almost learning it for the first time.” |

FINDINGS

SAP ISSUES AND EFFICIENCY GAINS

AKT recognizes that EBS' operations and the services it provides to its customers are carried out at a defined resource level. We believe EBS operates effectively and efficiently, but is limited by current funding levels. To date, EBS' operations center on responding to Break-Fix maintenance requests and change requests and in implementing ESS, MSS and Business Objects to stabilize the current system. In addition, the implementation of SAP has made improvements to some of the City of Portland's business processes.

However, to meet the needs of OMF, AKT believes there are areas that need additional resources to drive the functionality of the SAP system. An increase in resources targeted to the development of a "platform of learning" and the modification and adaptation of current business processes to align with SAP capabilities will contribute to SAP's and EBS's overall success. AKT recognizes the efforts of voluntary advisory committees, such as the Political Advisory Committee (PAC). However additional resources will enable EBS to direct timely and efficient change using committees like the PAC for guidance and as secondary contributors to assist with on-going SAP efforts.

The following are preliminary SAP areas identified for improvements and enhancements. Our findings are a result of interviews with SAP end-users (Bureaus and Divisions) and implementers (EBS) within OMF. In the **Next Steps** section of this report, AKT suggests changing the role of EBS to include leading efforts to optimize SAP functionality within OMF and the City.

TRAINING

OMF Bureaus and Divisions need to prioritize, support, and fund training for users of SAP. Currently, super users (SAP Experts) exist within each Bureau and Division. To mitigate situations where a SAP Expert may be unavailable, Bureaus and Divisions should establish a collective knowledge base through the cross training of all levels of staff. This can occur through training that is formal and informal, OMF-wide and Bureau specific, in-person and on-the-web, through videos and written blogs hosted online. A standardized approach and combination of tactics should be utilized in order to reach as many individuals within OMF as possible. This is particularly the case with newly rolled out functions and the upcoming go-live of Business Objects.

BUSINESS PROCESS IMPROVEMENTS

SAP's success will continue to be influenced by a large number of factors. Adequate Business Process Redesign (BPR) is one of the most cited critical success factors in Enterprise Resource Software projects.² Bureaus and Divisions continue to maintain time consuming processes outside of SAP that may no longer be necessary. An analysis of needed business process improvements within Bureaus and Divisions can assist OMF in developing SAP beyond basic transactions and to better support the business needs of each Bureau and Division.

² Jose Esteves, Josep Casanovas, Joan Pastor, Monitoring Business Process Redesign in May ERP Implementation Projects, 21 2011, <<http://academic.research.microsoft.com/Paper/2314277.aspx>> (2001).

Bureaus and Divisions that have found ways to streamline business processes using the functions of SAP will benefit from sharing that information with other Bureaus. As a result, efficient business processes and best practices across Bureaus and Divisions can be standardized and socialized. Further, defining a clear set of metrics for monitoring BPR within ERP implementation may be useful in determining the progress of SAP objectives.

Efforts towards BPR require an infusion of resources. Such projects usually have high visibility and with skilled facilitators, can successfully resolve issues in ways that mutually beneficial users and their wider stakeholder group.³ Critical success factors include senior administrative support, participation by front line staff and their stakeholders, confidentiality of findings, communication strategies, a sense that the process has value, and sharing what you are doing with others.

COMMUNICATION STRATEGY

SAP is designed to streamline the work of OMF. However, in some cases SAP creates more administrative work and denies access to information critical to those making business decisions.

OMF may benefit from adopting a communication strategy to change the perception of SAP. The City should find ways to motivate employees to access, view and use SAP to their advantage. This can be done by continuously educating employees on the benefits of SAP, generating buy-in during new software implementation, and informing employees of the available tools to ensure successful use of SAP.

FOCUS OF EBS

One of the most effective avenues for reinvestment in SAP automation is to make better use of what is already available. We suggest this occurs by creating a “platform of learning” group within OMF. This group would lead the effort to change and improve business processes most impacted by SAP implementation. Some of the responsibilities of this group would be:

- To ensure processes are modified to take advantage of SAP,
- To configure existing SAP modules to better meet user needs or
- To consider adding SAP modules based on recent EBS/SAP analysis.

This could be done through a variety of mechanisms, including leading focus groups through business process re-visioning, working with users to document and directly address system workarounds, providing an online location to share best practices, success stories, and how-to guides and by providing training for new and current users of the system.

We envision this group would be housed within EBS. To date, EBS’ primary operations center on responding to Break-Fix maintenance requests, change requests and in implementing ESS, MSS and Business Objects in an effort to stabilize the current system. Ten percent of its FTE are devoted to improving how users work with SAP; these staff is participating in Political Advisory Committee (PAC) initiatives that address some of the most urgent systems issues within Bureaus. This is a good start. However, AKT believes EBS and the City can benefit from expanding and moving EBS into a leadership role, which will allow it to better partner with business process owners. EBS priorities should continue to be guided by the PAC.

³ J. Fred Gage, [Making PeopleSoft Administrative Systems Work: The Case for Business Process Redesign](https://net.educause.edu/ir/library/html/cnc9862/cnc9862.html), 21 May 2011, <<https://net.educause.edu/ir/library/html/cnc9862/cnc9862.html>> (1998).

To be the most effective, EBS needs to align its role as a system implementer with this recommended role as a central, monitored location for the training, best practices, user groups, process improvements, tutorials and other usage tools for SAP users. This additional role, however, takes resources EBS does not currently have. AKT recommends the City first consider investing in EBS, thus providing the staffing to support a fuller implementation process and a center for SAP process improvements.

PHASE II - NEXT STEPS

AKT's Phase I findings are preliminary with the intention that Phase II will provide a deeper perspective into the identified issues. Identification of areas for immediate cash savings, analysis of the FY 2011-12 Requested Budget and decision packages, and a focus on SAP issues and efficiency gains highlight areas for review in Phase II.

DETERMINE BUDGET SAVINGS FROM ADJUSTMENT OF OPERATING RESERVES OR UNPLANNED EXPENDITURES

The Operating Reserve balances from ISFs shown in Appendix D are from reconciliations last performed on June 30, 2010. To adequately address the current balances, each of the ISFs must:

- Perform a reconciliation of current balances
- Work with Business Operations to project the revenue and expense activity through June 30, 2011
- Estimate the impacts of both decision packages and the spring budget modification packages

A one-time reduction through reducing operating reserves to 7.5% and the return of reserve without immediately planned use can be calculated once this work is completed.

Further examination of P&D's Capital and Technology Reserves and planned expenditures may allow a one-time reduction of up to \$600,000 for any monies with unplanned use.

NOTE: As of the date of this report, the Mayor has requested that OMF Business Operations make reductions in Internal Services Funds' reserves and transfer \$1.3 million to City customer funds, as part of the FY 2011-12 Proposed Budget.

RECOMMEND A RETURN STRATEGY FOR AVAILABLE RESERVES

In order to determine the appropriate recipients of the funds from the cash balance reserves, AKT will work with OMF to determine the origin of the monies, intended beneficiary of the monies, and the intended use of the monies. If the origin and recipient(s) cannot be determined, AKT will work with OMF to determine an appropriate refund strategy.

NOTE: As of the date of this report, the Mayor has requested that OMF Business Operations develop a methodology to transfer shares of the \$1.3 million in reserve reductions to City customer funds, as part of the FY 2011-12 Proposed Budget.

REVIEW OF OMF'S ORGANIZATIONAL STRUCTURE

To the customers being serviced by Financial Services, Financial Planning and Business Operations, there is a lack of clarity on the roles and responsibilities. AKT recommends that the City engage in a business process re-visioning of each with the intent of creating efficiencies through:

- Sharing gathered information and pooling data needs into a single request where possible
- Establishing clearer boundaries and communicating those to their customers
- Regularly surveying their customers for their needs and modifying service offerings to meet those needs
- Developing collaborative methodologies to share work and work products when possible

RECOMMEND EXPANSION OF EBS' SERVICE LINE TO ENHANCE SAP USE

EBS is currently in the draft stages of developing a “roadmap” document entitled, *SAP Collaborative Value Assessment for the City of Portland: Enabling Enterprise Value (Version 2.0 For Review Purposes Only)*. It is our understanding that this document addresses many of the recommendations regarding an expansion of EBS' service line to enhance SAP use. In Phase II, AKT believes OMF needs to invest in EBS' expansion to increase its learning platform role and to enhance SAP use by leading initiatives that:

- Improve current business processes for better use of SAP
- Modify existing SAP modules that reflect user needs
- Add SAP modules based on recent EBS/SAP analysis

To do so OMF, alongside EBS, will need to do the following:

Gather Additional Information – Within the City of Portland, one of SAP's most useful aspects is the ability to centralize the software needs and to standardize how information is input and accessed. The City's decentralized structure hinders that aspect. The City would benefit from understanding and discovering areas prime for standardization either through business process changes or through changing SAP to better reflect users current systems needs. To do so, EBS needs to form stakeholder and/or focus groups to survey and document the following:

- Which functions of SAP are in use and by whom
- Current issues within each functionality
- Current workarounds
- New functionalities needed to enhance performance
- Knowledge gaps that require training for each function

This analysis will vary by Bureau and Division, but common themes are likely to emerge. These group forums will allow EBS to determine which functions cause the most trouble for end-users and which solutions that can be applied City-wide to create a centralized fix that will result in efficiency gains.

Create a Communication and Training Plan – A standardized communication and training plan for SAP will help EBS determine if it needs to modify existing SAP modules to reflect user needs or implement additional SAP modules. Centralized communication and training will provide baseline insight into SAP's current level of use, need, and functionality within the Bureaus and Divisions to help EBS make informed decisions about SAP modifications and additions.

AREAS FOR ADDITIONAL CONSIDERATION

CONDUCT RESERVE STUDIES FOR CAPITAL AND OTHER RESERVES

A reserve study is a long term budget planning tool, which analyzes the current status of the Reserve Fund and develops a stable and equitable funding plan to support anticipated future common area expenditures. A reserve study consists of two parts: the Physical Analysis and the Financial Analysis. For facility-based organizations, reserve studies frequently project major maintenance 20-30 years in the future. For vehicles, machinery, and IT major hardware, the projection years are less.

The purpose of a reserve study is to provide overseers of long lived assets with a better idea of what major expenses to expect, an educated estimate of when these expenses will occur, and an estimate of what it will cost.

CityFleet and P&D have Equipment Reserve accounts, while BTS and Facilities have both Equipment Reserve accounts and Major Maintenance accounts. Long term equipment replacement studies for the Internal Service Funds have not been conducted or are not conducted frequently. Reserve studies will allow OMF to create a more effective budget and determine the appropriate replacement surcharge to include in IAs. Reserve studies provide:

- A listing of major assets to be funded through reserves, their expected useful life, and predicted replacement costs to determine appropriate funding targets
- Rate structure to achieve funding targets
- An evaluation of the current strength of the Reserve Fund
- A recommended multi-year Reserve Funding Plan

This will provide each Internal Service Fund with a justified approximation of the types of monies needed to mitigate risk in both their reserves and accounts. While current economic conditions make additional charges to Bureaus to cover future maintenance and repair difficult to support, City of Portland Leadership needs to be informed of the costs to fund or the costs of the decision not to fund its assets and infrastructure maintenance and replacement.

CONDUCT COST ALLOCATION STUDIES

Cost allocation studies will assist OMF in analyzing the rate-setting process and practices of OMF's Internal Services Funds, to the extent that there are opportunities for improvements and cost savings. This work includes a review of these funds' reserves, their uses, and balances. A cost allocation study will ensure internal service rates are:

- Fair and equitable
- Provide sufficient resources to sustain operations and to maintain sufficient reserves for major maintenance and replacement
- Avoid wide fluctuations between fiscal years
- Provide ease of understanding for customers
- Be comparable with similar rates from other municipalities in the region

AKT is able to build upon its Phase I work with OMF and conduct interviews with key Bureau and Division representatives to identify the type and level of services the Internal Service Funds provide. This allocation model ensures that City Council sets the appropriation level at the Bureau/Division and Fund level based on sound cost causer/cost payer concepts. In addition, AKT is able to develop a Cost Allocation Manual that documents, by Fund, the type and level of services provided, the cost pools and the allocation factors used to allocate costs.

CONDUCT PERIODIC FOCUSED REVIEWS

In Appendix B, AKT lists documents that were reviewed in Phase I of this project. The most insightful documents that served as a baseline of our analysis include the Bureau/Division specific Focused Reviews. However, the Focused Reviews that were delivered to AKT are dated. CityFleet was last reviewed in 2003, Risk Management in 2003, BHR in 2005, Business Operations in 2006, and P&D in 2007. AKT recommends generating a regular schedule for periodic focused reviews to ensure consistent independent reviews of the OMF Bureaus and Divisions and to ensure operations are LEAN. AKT believes this will allow Bureaus and Divisions to:

- Improve business processes
- Identify key issues for planning purposes
- Identify and recommend areas for costs savings
- Address business needs and service gaps

SUMMARY

Through our work with leadership and staff within OMF, we gathered information that suggested potential areas for immediate budget savings and SAP efficiencies. The next steps for these areas include further analysis of the cash balance reserves once reconciled to June 30, 2011, a deeper look at potential modifications to SAP through analysis of the business processes surrounding SAP and through a re-focused EBS role. These next steps can be launched in parallel with each other.

A draft of this report and its findings were presented to the Mayor in April 2011. From this information the Mayor directed OMF to develop a budget savings plan from a one-time reduction to 7.5% operating reserves. OMF determined that approximately \$1.3 million existed in potential budget savings and was then directed by the Mayor to develop a plan to utilize the savings to reduce revenue gaps and support the ongoing mission of City Bureaus and Divisions.

AKT recommends that OMF consider the use of reserve studies to provide overseers of equipment and long lived assets with a better tool to estimate the longer term cost and timing major maintenance. Also, OMF should consider a cost allocation study to analyze the rate-setting processes and practices of OMF's ISFs. Both of these studies will complement our preliminary analysis of the ISF cash balances.

It was our privilege to meet with OMF Managers, Directors, and staff. We thank you for the opportunity.

GLOSSARY AND ACRONYMS

GLOSSARY

Accounts – OMF uses accounts to describe the portions of the Internal Service Funds held for either Equipment Replacement or Major Maintenance. Based on OMF internal policies for Replacement Accounts, *OMF 4.01 Replacement of Internal Service Funds' Assets* and Major Maintenance Accounts, *OMF 4.05 Major Maintenance Procedures*, all accounts have a committed purpose for which the funds are dedicated.

Bureau of Internal Business Services (BIBS) – The Bureau of Internal Business Services is comprised of, CityFleet, Facilities Services, Printing and Distribution, Procurement, and Risk Management.

Capital Reserves – Capital Reserves serve as a backstop to Equipment Replacement or Major Maintenance accounts. Capital Reserves can also be used to fund one-time projects for programs that have no capital component in their rates, or where the capital component is insufficient. This reserve is funded by the under spending of the expense budget or higher than planned revenues.

Charges for Services – OMF uses charges for services to describe resources generated from customers outside the City for services provided to them by OMF Bureaus and Divisions.

Dedicated Project Funds – Under certain conditions, Internal Service Funds may receive money from customers for specific one-time projects in one fiscal year and hold it until the project can be done in a later fiscal year. The CAO, Financial Planning and City Council review and approve such transactions in the seasonal BMP reports. In addition, there are several Dedicated Funds listed below that are single purpose, stand alone reserves committed to a particular purpose. There is no year end reconciliation detail provided for these stand alone reserves.

Employee Self Service (ESS) – An add-on to the Human Capital Management module within SAP that allows employees to enter their own time into SAP electronically.

Equipment Replacement Accounts – Most Internal Service Funds that service equipment assigned to Bureaus include in their rates either a replacement component or a major maintenance component to replace the equipment at the end of its useful life. The rates take into account salvage value of the existing equipment, expected lives, replacement costs, and interest earnings. The money accumulates in accounts within the Internal Service Funds. CityFleet, P&D, and BTS maintain equipment replacement ledgers outside of SAP.

General Fund Bureaus – General Fund Bureaus include – Bureau of Financial Services, Bureau of Human Resources, Business Operations, Director's Office, Procurement, and Revenue Bureau. General Fund Bureaus operate and receive revenue primarily from the General Fund Discretionary Account, General Fund Overhead Account, and on occasion from Interagency Agreements. AKT refers to these entities as "General Fund Bureaus."

General Fund Discretionary – General Fund Discretionary transactions result from revenues, such as property taxes, which may be allocated to various City services at the discretion of Council. This is in contrast to non-discretionary resources, which by policy or statute support one service or activity, for example Bureau specific revenues or grants.

General Fund Overhead – General Fund Overhead distributes revenues generated through charges to funds outside the General Fund for centralized administrative services, such as Accounting, HR, Purchasing, Legal and Council Offices.

Interagency Revenues – Interagency revenue from the establishment of an interagency agreement (IA) primarily includes charges for the services provided by Bureaus that utilize Internal Service Funds. Revenue is received by one Bureau from another Bureau in exchange for services or allocated usage of City-wide systems.

Internal Service Fund (ISF) – Internal Service Funds include Bureau of Technology Services, CityFleet, Enterprise Business Solutions Services, Facilities Services, Printing and Distribution, and Risk Management. Although there are five internal business service divisions under the purview of BIBS, there are six Internal Service Funds that provide services on a 100% cost recovery basis to other City Bureaus and outside agencies.

Major Maintenance Accounts – Rates for use of buildings and infrastructure include a major maintenance component that creates a stable funding source for larger projects designed to continue the quality and condition of the asset.

A model of each program's Major Maintenance account may be updated periodically and will forecast detailed replacement needs. The Facilities model is updated for the 5-year plan process and periodically throughout the fiscal year to determine the level of resources available for projects. The model also helps determine the major maintenance surcharge. The model assumes the Major Maintenance account is not increased or decreased by net income or loss on rates. The funds that have Major Maintenance accounts are Facilities and Bureau of Technology Services.

Management Self Service (MSS) – Management Self Services is an add-on to the Human Capital Management module within SAP that allows managers to electronically approve time entered into SAP by employees.

Operating Reserves – Internal Service Funds maintain Operating Reserves. OMF policy indicates Operating Reserves should target 5-10% of one year's fixed cost operating budget. Internal Service Funds do not track the specific inflows and outflows from the Operating Reserves. As a result, AKT is only able to examine the year-over-year ending Operating Reserve balances for each Internal Service Fund from 2007-10.

The 5-10% of fixed cost operating budget standard was recommended in a November 1990 Research Bulletin of the Government Finance Officers Association. Operating Reserves can be used to fund one-time, emergency, or unanticipated expenditure requirements and to maintain current service levels in the event of unanticipated revenue reductions within a fiscal year.

Other Reserves – Internal Service Funds have other reserves that are dedicated to specific special projects as well as funds that are unassigned and represent revenues over levels assumed with preparing rates.

Reserves – Funds held outside of planned or normal allocations to limit financial risk such as unanticipated expenses or revenue shortfalls. OMF reconciles its reserves at year end and does not specifically track the inflows and outflows of the reserves. The most recent cash balance reconciliation was June 30, 2010. AKT's analysis reflects our knowledge of the cash balances as of this date.

ACRONYMS

| | | | |
|--|------------|------------------------------------|------|
| Bureau of Human Resources | BHR | Internal Service Fund | ISF |
| Bureau of Internal Business Services | BIBS | Internet Based Information System | IBIS |
| Bureau of Technology Services | BTS | Manager Self Service | MSS |
| Business Objects | BOBJ | Materials and Services | M&S |
| Chief Administrative Officer | CAO | Office of Management and Finance | OMF |
| City of Portland | City | Office of Neighborhood Involvement | ONI |
| Employee Self Service | ESS | Portland Housing Bureau | PHB |
| Enterprise Business Solutions Services | EBS | Printing and Distribution | P&D |
| Facilities Services | Facilities | Systems Applications and Products | SAP |
| Human Capital Module | HCM | | |

APPENDIX A

MEETINGS AND PARTICIPANTS LOG

| | Date | OMF Participants |
|--|----------------|--|
| Internal Service Funds | | |
| Printing and Distribution | March 25, 2011 | Ron Hadduck, Aaron Beck, Jean Madden |
| Enterprise Business Solutions | March 28, 2011 | Bruce Theurer, Aaron Beck, Christy Owen, Cindy Delozier |
| Facilities | March 29, 2011 | Bob Keita, Aaron Beck, Brad Stevens |
| Risk Management | March 29, 2011 | Kate Wood, Aaron Beck, Jean Madden |
| CityFleet | March 29, 2011 | John Hunt, Christy Owen |
| Bureau of Technology Services | April 4, 2011 | Mark Greinke, Ralph Smith, Amy Tuttle |
| Procurement | April 4, 2011 | Christine Moody, Elyse Rosenberg, Ben Smith |
| Bureau of Internal Business Services | April 4, 2011 | Jeff Baer, Aaron Beck |
| Revenue Bureau | April 7, 2011 | Thomas Lannom, Terri Williams, Janice Hammond-Getten, Elyse Rosenberg, Kristin Johnson |
| Bureau of Financial Services - Financial Planning | April 12, 2011 | Andrew Scott |
| Business Operations | April 12, 2011 | Jane Braaten, Elyse Rosenberg, Ben Smith, Aaron Beck |
| Bureau of Human Resources | April 14, 2011 | Yvonne Deckard, Anna Kanwit, Larry Nelson |
| Bureau of Financial Services | April 14, 2011 | Rich Goward, Ben Smith, Elyse Rosenberg |
| Office of the Chief Administrative Officer | April 15, 2011 | Ken Rust |

APPENDIX B

SUMMARY OF DOCUMENTS RECEIVED

AKT was given access to a portal by OMF to access background documents for this focused review. This section highlights the materials provided by OMF and reviewed by AKT.

OMF OVERVIEW DOCUMENTS

AKT was provided both the OMF Budget Presentation for FY 2010-11 and the OMF Strategic Plan 2010-12. These documents provided an overview of the budget, including the high-level purpose of each Bureau, the monetary break down of each Bureau's revenue, expenses and performance measures, the decision packages considered in the budget and OMF's strategic goals for the next fiscal year. These documents were the foundation for the interviews with Bureaus and Divisions at OMF and laid out a clear overview of each Bureau's and Division's strategic goals. The following is a list of documents reviewed in this group.

| Documents Reviewed | | |
|-----------------------|---------|-------------------------|
| Type | Year | Title of Document |
| OMF Overview Document | 2010-11 | OMF Budget Presentation |
| OMF Overview Document | 2010-12 | OMF Strategic Plan |

CUSTOMER SERVICE SURVEYS

We received Customer Service Survey Reports for the Bureaus and Divisions for each of the years 2006-10. These customer satisfaction surveys are conducted online and in conjunction with interviews of Bureau and Division Directors and Managers and City Council members and staff. The surveys give insight into the historical trends of customer satisfaction for each of the Bureaus and Divisions, measure how the Bureaus and Divisions address issues of the previous year, and highlight potential areas for improved customer service. These surveys were instrumental in understanding how Bureau and Division customers feel and what they feel the issues are. The surveys also framed the questions asked during subsequent meetings with Bureau and Division leaders. The following is a list of documents reviewed in this group.

| Documents Reviewed | | |
|-------------------------|------|-------------------|
| Type | Year | Title of Document |
| Customer Service Survey | 2010 | Survey Report |
| Customer Service Survey | 2009 | Survey Report |
| Customer Service Survey | 2008 | Survey Report |
| Customer Service Survey | 2008 | Survey Framework |
| Customer Service Survey | 2007 | Status Report |
| Customer Service Survey | 2006 | OMF Survey Report |

ADMINISTRATIVE SERVICES REVIEW

The Administrative Services Review was initiative started in 2000 to demonstrate if OMF provided quality administrative services at competitive costs in support of the public. These reviews, done by the Chief Administrator's Office, were a means to realize cost savings, improve the provision of services to Bureaus and Divisions, and increase accountability. These reviews documented the purpose behind each of the Bureaus and Divisions, their intended clients, their interaction with the city and how each were intended to achieve cost savings.

The following is a list of documents reviewed in this group.

| Documents Reviewed | | |
|-----------------------|------|--|
| Type | Year | Title of Document |
| Admin Services Review | 2004 | Summary Report of Frameworks and OMF Work Plan |
| Admin Services Review | 2001 | CAO Recommendations and Transition Plan |
| Admin Services Review | 2000 | City Code Changes |
| Admin Services Review | 2000 | Original Directive and Ordinance |
| Admin Services Review | 2001 | Admin Rule 10.1 |

FOCUSED REVIEWS AND INTERNAL AUDITS

The documents below are focused reviews and internal audits. Both types are similar to the Administrative Services Review as above, but were performed on a Bureau by Bureau basis. The purpose was to assess the efficiency and effectiveness of the Bureau specifically and not OMF generally. Focused reviews are generally conducted by outside consultants and identify key issues within the Bureaus, areas for cost savings and a strategic plan for dealing with service gaps. Internal Audits are conducted by the City Auditors office and tend to focus on a key issue or service gap by one of the Bureaus and offer suggestions on how to improve specific processes within the Bureaus. Both types of documents below identified major trouble spots and were used by AKT to form interview questions with each of the Bureaus.

| Year | Title of Document | Summary of Document |
|---|-------------------|--|
| City Fleet | | |
| 2003 | Focused Review | This review was an effort to improve the overall cost effectiveness of fleet operation and strategic objectives including cost control and environmental stewardship. |
| Facilities Services | | |
| 2010 | Internal Audit | This audit followed on the 2008 audit and focused on project managers and project planning, the process for completing design documents prior to construction bidding, and the process of documenting changes needed as work progressed. |
| 2008 | Internal Audit | This report found that project managers' lack of pre-project planning resulted in inadequately defined scopes of work, prolonged project designs, and project decisions made after the projects were designed and awarded. As a result, contracts had to be changed, and the cost and time required to complete the projects grew significantly from original estimates. |
| Printing and Distribution Services | | |
| 2007 | Focused Review | AKT suggested improvements intended to increase effectiveness and efficiency in hiring and reducing employee turnover, creating meaningful performance measurements and benchmarks, accommodating the changing demands of P&Ds customer base, consistently gathering customer feedback, and other measures intended to assist P&D become one of the City's highest quality service providers |
| Risk Management | | |
| 2003 | Focused Review | Eight important findings and recommendations were covered by the follow topics, cost allocation, loss prevention, liability claims, Workers' Compensation claims, selling claims service to others, Risk Management organization, information technology, and owner controlled insurance program. |

| Year | Title of Document | Summary of Document |
|---|---|--|
| Bureau of Technology Services (BTS) | | |
| 2007 | Internal Audit | This audit notes some improvement in BTS overall customer service, but indicates most Bureau do not feel BTS fully understands their business processes. The audit encourages BTS to work diligently to solve remaining questions with those Bureau contacts that were most vocal in their criticisms. |
| 2006 | Internal Audit | Auditors used the leading publication on Control Objectives for Information and Related Technologies (COBIT) to identify best practices to improve IT governance. |
| 2005 | Internal Audit | Auditors consistently heard a lack of understanding of how the rate model works, how rates are developed, and BTS actual costs for services. While rates are likely reasonable, communicating costs to other Bureaus could be improved. |
| Bureau of Human Resources | | |
| 2005 | Focused Review | AKT designed a 5 year strategic plan that included goals, strategies, and action plans to provide the direction, focus, performance measurement, and accountability for years 2005-10. |
| Procurement Services | | |
| 2007 | Internal Audit | Auditors recommended that Procurement ensure contract deliverables are provided before making payments to consultants, evaluate contracts for complex commodities and revise these contracts to take advantage of economies of scale, and develop methods to track commodity spending and cost savings through alternative purchasing strategies. |
| Business Operations and the CAO Office | | |
| 2006 | Focused Review | This review assessed the efficiency and effectiveness of the CAO and Business Operations. Recommendations were developed for improving how costs are distributed to customer Bureaus. |
| OMF – Overhead Model | | |
| 2004 | Focused Review | This project reviewed the components of a successful overhead allocation plan as it related to the City of Portland. It recommends that Portland target stability, support predictability, solidify allocable costs, simplify its processes, and enhance internal communications. |
| Bureau of Financial Services | | |
| 2004 | Financial Reporting and Compliance Project – Final Report | This report revealed widespread support for a controller position as the sole authority for issuing reports disclosing the fiscal condition of the City Bureaus to external users, establishing citywide standard accounting policies and procedures and initiating a decision process to replace the IBIS system. |
| City of Portland Generally | | |
| 2003 | Operational Review of the Budget Function | This report presented the Government Finance Officers Association's findings, analysis, and recommendations in key areas including evaluation of the budget process, budget roles and responsibilities, job and staffing analysis for the financial planning division, technology utilization in the budget process, and an assessment of conformity to National Advisory Council on State and Local Budgeting (NACSLB) standards and practices. |

| Year | Title of Document | Summary of Document |
|-----------------------|-----------------------|---|
| Revenue Bureau | | |
| 2010 | Methodology Review | The review evaluated the methodology used by the Bureau to calculate the ratio of revenues generated to expenses incurred for fiscal year 2009-10 revolving around seven new positions. The positions were justified based on a 2:1 return. The review concluded the methodology was correctly applied from a net revenue approach and identified opportunities to improve on the return on investment methodology. |
| 2009 | Internal Audit | This review of the Revenue Bureau followed earlier audits in 2004 and 2006. The audit revealed that the Revenue Bureau has continued to improve revenue collection processes by automating the collection process, clarifying and simplifying the business license code, and documenting the policy and process for tax receivable write-offs and civil penalties. |
| 2007 | Optimal Staffing Plan | This document outlines the optimal staffing plan, current staffing structure, analytical techniques used to evaluate the staff data, and a staffing solution which can help enhance overall productivity. The plan findings indicated additional FTEs were needed to optimize revenue collections. |
| 2006 | Internal Audit | This audit followed-up the 2004 audit and found that the Revenue Bureau has implemented most of the recommendations of the 2004 audit. Specifically, the Revenue Bureau has made significant strides in utilizing automated data sources to improve revenue collection practices, measuring and monitoring individual and organizational performance, enhancing its internal auditing procedures, and simplifying the process for businesses to apply for licenses and pay fees. In addition, employee satisfaction on some key internal communication issues improved. |
| 2004 | Internal Audit | This audit of the License and Tax division noted a large uncollected tax liability (“tax gap”) and a number of internal control weaknesses. Recommendations included improving collection practices and identifying non-complying businesses, using automation, improving internal controls and employee accountability and managerial communication. |

APPENDIX C

INTERNAL SERVICE FUNDS SUMMARY INFORMATION

From a fund balance perspective, the Office of Management and Finances has two categories of Internal Service Funds.

1. The first category consists of Internal Service Funds provide services on the basis of assigned equipment or space, on a time and materials basis, and/or a corporate-wide basis. These funds have balances made up of three basic categories: reserves, accounts, and dedicated funds for a specific purpose or special project. See Glossary for definitions.
2. The second category of Internal Service Funds provide insurance services. These include the Risk Management funds of Insurance & Claims and Workers' Compensation. Because the City is self-insured, the amounts of these insurance actuarial reserves are determined by actuarial studies. The actuarial studies analyze each fund's liabilities based on outstanding claims, exposure due to the number of City employees they cover, and trends in the industries to establish appropriate levels of reserves for established confidence levels. These insurance funds also maintain Operating Reserves to cover unanticipated administrative costs for managing the funds.

Internal Service Fund revenues are generated from interagency agreements between the provider and receiver Bureaus, intergovernmental agreements with other government entities, and agreements with private sector entities. ISFs may also receive a small amount of general fund discretionary and general fund overhead resources.

The largest portion of Internal Service Fund expenditures result from Personal Services and external and internal material and services charges.

- Internal M&S – Charges from other City Bureaus and Internal Service Funds
- External M&S – Charges for professional services, overhead (other than FTE), travel, etc.
- Personal Services – Charges for FTE salaries and benefits

BUREAU OF TECHNOLOGY SERVICES

BTS provides an array of information technology and telecommunications services to City Bureaus and other local governments and educational institutions. Information technology services range from desktop support and application development to geographic information systems and web services. BTS also manages telecommunication services including public safety communications and the 800 MHz radio system and the Integrated Regional Network Enterprise System (IRNE).

Reserve and Account Detail

BTS maintains the following contingency reserves and accounts:

- Operating Reserve: Operating Reserves are set at 5-10% of one year's fixed cost operating budget. Operating Reserves fund one-time, emergency, or unanticipated expenditure requirement and maintain current service levels in the event of unanticipated revenue reductions within a fiscal year. The incremental increases and decreases in the Fund occur through favorable or unfavorable budget to actual variances.

- Capital Reserve: The capital (Technology) Reserve serves as a backstop to the replacement and Major Maintenance accounts and provides additional funding.
- Equipment Replacement Account: BTS has two categories of Equipment Replacement Accounts –
 - Replacement monies for radio system equipment, video equipment, and/or miscellaneous electronic equipment. Replacement Funds are used when the equipment has reached end of life.
 - Bureaus pay an annual amount to Technology Services for ongoing PC and laptop replacement. Technology Services sequesters this money in separate Bureau accounts until PCs need to be replaced. Currently the equipment life cycle lasts 4 years. This replacement account can also be used to replace non-repairable devices.
- Major Maintenance Account: BTS' Major Maintenance account is dedicated to funding 800 MHz system and IRNE maintenance, upgrade, and improvement projects.
- Dedicated Funds: BTS maintains Dedicated Funds for customer projects. Under certain conditions Internal Service Funds receive money from customers for specific one-time projects in one fiscal year and hold the funds in reserve until the project can be done in a later fiscal year.

| BTS Budget Components | |
|-----------------------|---|
| Revenue | <ul style="list-style-type: none"> • Major source of revenue is service reimbursement transfers from City Bureaus and outside agencies |
| Expenses | <ul style="list-style-type: none"> • A majority of BTS expenses are in the form of external M&S and Personal Services • A smaller portion of expenses are for internal M&S, Capital Outlays, Bond Expenses and Fund Transfers |

| BTS Rate Structure Components | |
|--|---|
| Corporate Service Rates | <ul style="list-style-type: none"> • Set based on prior year IA allocation • E-government • Strategic planning • Information security |
| Bureau Specific Rate Allocations | <ul style="list-style-type: none"> • E-Commerce • IRNE data • Enterprise server • GIS/TRACS/CIS/SAP/Synergen |
| Metric Based Rates | <ul style="list-style-type: none"> • 800 MHz access • Radio & video, telecomm services and equipment • E-mail/internet access • Desktop/laptop computers • Servers/SAN/data networks |
| Pass -Through Charges | <ul style="list-style-type: none"> • Business lines/long distance • Cellular phones • Data lines |
| Time and Materials (costs not governed by contract rates) | <ul style="list-style-type: none"> • Billable radio shop • Billable telecom • Billable strategic technology • Billable operations • Billable engineering |

BTS Performance Measures

| | |
|---|--|
| Administration and Support | <ul style="list-style-type: none"> • Days elapsed from ordering a new desktop PC to installation • Number of bureau staff per clerical employee |
| Business Solutions | <ul style="list-style-type: none"> • Average number of unique visitors per day to PortlandOnline • Average number of page views per day to PortlandOnline • Average number of maps per day served through PortlandMaps • Payment Gateway availability • Yearly revenue processed electronically through the payment gateway (in millions) • Application and development hours billed |
| Customer Relations | <ul style="list-style-type: none"> • BTS customer survey satisfaction average rating |
| Information Security | <ul style="list-style-type: none"> • Percent of compliance with Current Payment Card Security Standards for City's electronic payment gateway • Average time between security incidents (involving five or more workstations) in days • Percentage of computers able to accept security patching • Average deployment cycle for major security software updates – workstations in days • Average deployment for security updates – servers, in days • Maximum percentage of computers without current security software installed and functioning |
| Infrastructure and Engineering | <ul style="list-style-type: none"> • Percent uptime for phone switch • Number of telephone lines provided in service • Percentage of time radio systems operated without failure • Internet availability percentage • Network availability (excluding scheduled maintenance) • Number of pieces of electronic radio equipment maintained per technician • Number of pieces of electronic radio equipment • Average number of telephone trouble tickets resolved per technician • Number of service orders submitted • Number of radio communication units accessing system |
| Office of the Chief Technology Officer | <ul style="list-style-type: none"> • OMF customer survey average satisfaction rating |
| Police IT | <ul style="list-style-type: none"> • Field reporting system availability (excluding scheduled maintenance) |
| Production Services | <ul style="list-style-type: none"> • Mission critical production system availability – Cayenta • Mission critical production system availability – SAP • Email availability (excluding scheduled maintenance) • Public safety system availability – BOEC • Public safety system availability – Police |
| Project Management Office | <ul style="list-style-type: none"> • Customer rating project management service provided as excellent • Number of total billable project hours managed by PMO |
| Support Center | <ul style="list-style-type: none"> • First Call Resolution: Percentage of problems resolved by Help Desk without escalation to Field Staff • Percentage of calls answered within 20 seconds • Resolution Time: Percentage of problems resolved same day • Number of Desktop/Laptop computer supported per technician • Replace all eligible PCs every 4th year under the lifecycle replacement program • Number of email accounts supported • Average number of HelpDesk Tickets per month |

BTS Decision Package Analysis

| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
|---------------------|-------------------|-----------|---------|---|-----------------|
| Technology Services | MF-07 | (57,000) | | Reduction in service to PBOT for garages through reassignment. Reassignment may increase response times. | Yes |
| | MF-08 | (181,335) | | Reduction in professional services contracts. Financial Planning believes that BTS has sufficient resources in its budget to reallocate funds for its most critical projects. When funds are needed, Financial Planning indicates that Technology Services can use contingency funds. The Budget Advisory Committee disagrees. AKT disagrees as well. BTS' project backlog may increase with reduced flexibility to transfer work to outside contractors. In addition, historic under-spending of external materials and services may reflect internal staffing constraints to direct projects rather than overestimation of costs. | No - See Report |
| | MF-09 | (245,808) | | Holds vacancies open for 2011-12. Financial Planning believes BTS can reassign to cover most critical activities. The Budget Advisory Committee disagrees. AKT concurs unless funds can be used for limited duration positions that would reduce project backlog. | Yes |

CITYFLEET

CityFleet is a division of the Bureau of Internal Business Services. The City of Portland owns over 2,800 vehicles and pieces of equipment, and it is CityFleet's responsibility to provide the services keeping them in optimal operating condition. Services include acquisition, maintenance, and repairs to its vehicles.

Reserve and Account Detail

CityFleet maintains the following contingency reserves and accounts:

- **Operating Reserve:** Operating Reserves are set at 5-10% of one year's fixed cost operating budget. Operating Reserves fund one-time, emergency, or unanticipated expenditure requirement and maintain current service levels in the event of unanticipated revenue reductions within a fiscal year. The incremental increases and decreases in the Fund occur through favorable or unfavorable budget to actual variances.
- **Capital Reserve:** The Capital Reserve is a backstop to the Replacement and Major Maintenance accounts and provides additional funding for one-time, emergency, or unanticipated expenditure requirements.
- **Equipment Replacement Account:** CityFleet maintains a replacement fund balance for vehicle replacements. CityFleet uses a vehicle specific schedule replacement plan where the cost for every vehicle or piece of equipment is estimated. This is done to ensure that funds collected through the replacement model will pay for like-for-like replacements on an ongoing basis. If a Bureau were to decide to replace a vehicle with a higher priced more costly vehicle the Bureau is responsible for the net difference and the replacement fund pays the remainder.
- **Dedicated Funds:** CityFleet maintains Dedicated Funds for Capital Improvement Projects.

CityFleet Budget Components

| | |
|-----------------|---|
| Revenue | <ul style="list-style-type: none"> • The fund's major source of revenue is service reimbursement transfers from City Bureaus. • Outside agencies also pay the City for vehicle maintenance services provided |
| Expenses | <ul style="list-style-type: none"> • CityFleet follows an Activity Based Costing model • Expenses include the time and M&S in the following areas of service: Shop Operations, Parts, Fuel, Motor Pool, Leases, and Acquisition • CityFleet also plans and has shop capital expenditures |

CityFleet Rate Structure Components

| | |
|--|---|
| Hourly Rate (Pass-Through) | <ul style="list-style-type: none"> • The hourly rate is charged for direct repairs, accident repairs, non-auto work, and outfitting for new vehicles. The same rate is charged for all CityFleet work • Total estimated operational costs are divided by estimated service hours to be billed to obtain an hourly rate • This rate covers 79% of the CityFleet's rate budget. CityFleet has one hourly rate for all shops and call-out repairs |
| Parts Rate (Pass-Through) | <ul style="list-style-type: none"> • Rates include the direct and indirect costs for managing the parts inventory, space rent, utilities, and technology services • CityFleet issues between \$2.9 million and \$3.2 million in parts every fiscal year • The surcharge is applied to the cost of the parts used in each work order and covers 7% of rate budget |
| Fuel Rate (Pass - Through) | <ul style="list-style-type: none"> • Rates include the direct and indirect costs for managing the fueling infrastructure, tank testing, station repair and permits • The fuel is issued through City owned fueling stations at a price per gallon below Portland market pricing • The fuel rate reflects the benefits of buying bulk fuel and lower operating expenses at the fuel stations • CityFleet purchases 1.8 million gallons of fuel each year. The rate is a per-gallon surcharge applied to the direct cost of the fuel and covers 3% of the rate budget |
| Replacement Rate and Acquisitions | <ul style="list-style-type: none"> • Rates include direct and indirect costs for the purchase of replacement vehicles and equipment and new vehicles. This rate is 10% of the CityFleet rate budget • Replacement rates are based upon class life cycles. Vehicles replacement criteria is set to produce the lowest life-cycle cost by replacing vehicles at a point where maintenance cost meets the vehicle's declining capital value ("The Sweet Spot") • Fund payment plus accrued interest and the salvage value pays for future replacement |
| Motor Pool Rate | <ul style="list-style-type: none"> • Rates include direct and indirect costs for operating a central pool of vehicles for customer use • The motor pool rate covers 0.5% of CityFleet's rate budget |
| Lease/Rental Rate | <ul style="list-style-type: none"> • Rates include the direct and indirect costs associated with managing the vehicles leased by City Bureaus from outside leasing agents • Projects are coordinated through CityFleet to determine if leasing is the most cost effective option for the customer • This rate covers 0.5% of CityFleet's Rate Budget |

CityFleet Performance Measures

| | |
|-------------------------------|---|
| Maintenance and Repair | <ul style="list-style-type: none"> • Percentage of quarterly safety inspections completed • Percentage of required training hours completed • Percent of time spend on scheduled vs. unscheduled repair (preventative maintenance compliance) • Percent of customers rating repair service satisfaction "usually" or "always" • In stock parts fill rate (goal to have parts available for efficient repair process) • Percent of services billed within 30 days • Percent of CityFleet vehicles that utilize alternate fuel and hybrid technology |
|-------------------------------|---|

CityFleet Performance Measures

| | |
|---|--|
| New & Replacement Acquisitions | <ul style="list-style-type: none"> Percentage of total fleet vehicles that are leased Percent of customers rating acquisition service satisfaction “usually” or “always” Percent of acquisition projects under budget Number of new vehicles purchased Percent of fleet purchase completed by 12/31 |
| Vehicle Pool | <ul style="list-style-type: none"> Percentage of usage against availability |

CityFleet Decision Package Analysis

| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
|-----------|-------------------|----------|---------|--|--------------|
| CityFleet | MF-17 | (63,945) | | Use of fuel cards in the East precinct. This is a pass through expense and has no impact on the CityFleet net budget. | Yes |
| | MR-18 | (43,200) | | Extension of the replacement cycle for Lieutenants’ cars. | Yes |
| | MF-19 | (28,260) | | 1.5% cut - CityFleet adjusted shift schedules to reduce overtime. It reports no impact to service delivery or labor relations. | Yes |

ENTERPRISE BUSINESS SOLUTIONS

EBS maintains and looks to continuously improve the City’s financial and human resource software system, SAP, which replaced the City’s legacy system, IBIS. EBS also provides functional and technical support to Bureau, as well as communications, change management, training, and administrative services in support of the new SAP system.

Reserve and Account Detail

EBS maintains the following contingency reserves and accounts:

- Operating Reserve: Operating Reserves are set at 5-10% of one year’s fixed cost operating budget. Operating Reserves fund one-time, emergency, or unanticipated expenditure requirement and maintain current service levels in the event of unanticipated revenue reductions within a fiscal year. The incremental increases and decreases in the Fund occur through favorable or unfavorable budget to actual variances.
- Equipment Replacement Account: EBS maintains a Replacement Fund for the replacement of its SAP server. Replacement is scheduled to occur in 2012.
- Dedicated Funds: EBS became an Internal Service Fund in 2009. As a result, dedicated monies are used for specific projects and to support the Internal Service Fund until 2012, when EBS estimates Interagency Agreements will cover 100% of its cost.

EBS Budget Components

| | |
|-----------------|---|
| Revenue | <ul style="list-style-type: none"> Major source of revenue is service reimbursement transfers from City Bureaus EBS Services became an Internal Service Fund in FY 2009-10. Cost recovery is on a fixed rate methodology |
| Expenses | <ul style="list-style-type: none"> EBS sets its rate by forecasting its major expenses Main expenses are the number of Professional Technical and Expert (PTE) Services, in-house training and external training programs and Capital Improvement Projects (CIP) that EBS will need, such as server replacement |

| EBS Rate Structure Components | |
|---------------------------------------|--|
| Setting Process | <ul style="list-style-type: none"> EBS uses a 100% metric allocation rate to fund ongoing support Rates for FY 2010-11 were based on the following metrics |
| Budget Size | <ul style="list-style-type: none"> Accounts for 50% |
| FTE Count | <ul style="list-style-type: none"> Accounts for 25% |
| Number of Cost Centers | <ul style="list-style-type: none"> Accounts for 10% |
| Number of Internal Orders | <ul style="list-style-type: none"> Accounts for 10% |
| Number of WBS Elements | <ul style="list-style-type: none"> Accounts for 5% |
| Special Projects – Hourly Rate | <ul style="list-style-type: none"> EBS charges an hourly rate for staff time to implement services that are outside of the core business operations for EBS These are projects that are specific Bureau requests such as the interface from Mitas System (Housing Software) to SAP for the Portland Housing Bureau The hourly rate for FY 2011-12 is \$95.58/hour |

| EBS Performance Measures | |
|--------------------------|--|
| EBS Services | <ul style="list-style-type: none"> Customer Service satisfaction rating (scale 1 to 4) Percent of high priority change requests completed annually Number of training sessions delivered Number of high priority change requests received annually Number of high priority change requests completed annually Average number of Help Desk tickets open daily |

| EBS Decision Package Analysis | | | | | |
|--------------------------------------|-------------------|-----------|---------|---|-----------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Enterprise Business Solutions | MF-15 | (118,186) | | One-time 1.5% cut - reduction of Professional Services. Financial Planning believes prior years savings could indicate future performance. The Budget Advisory Committee disagrees. AKT concurs with the Budget Advisory committee. | No - See Report |

FACILITIES

Facilities is responsible for the construction, maintenance and operation of many of the City's buildings, including City Hall, The Portland Building, Police facilities, the Record Center, the Portland Communications Center, and the City's seven downtown parking garages. Facilities also contracts for building maintenance services with the City's Utility Bureaus and therefore is responsible for the Water Pollution Control lab, Water Bureau Interstate Building and the Kerby Maintenance Building.

Facilities includes the Spectator Facilities Program which manages the Memorial Coliseum, Jeld-Wen Field, and parking structures at the Rose Garden. In total, the program has various levels of responsibility for 70 buildings totaling 3 million square feet, approximately 2/3 of the City's total building inventory.

Facilities include space rentals, maintenance services, property services, such as the purchase or sale of city-owned property, property management services, space planning and renovation, facilities master planning, and project management for new construction or major renovation.

Reserve and Account Detail

Facilities maintains the following contingency reserves and accounts:

- **Operating Reserve:** Operating Reserves are set at 5-10% of one year's fixed cost operating budget. Operating Reserves fund one-time, emergency, or unanticipated expenditure requirement and maintain current service levels in the event of unanticipated revenue reductions within a fiscal year. The incremental increases and decreases in the Fund occur through favorable or unfavorable budget to actual variances.
- **Capital Reserve:** The Capital Reserve in Facilities serves as a backstop to the Facilities major maintenance account. The reserve is equal to one-half to one percent of the replacement value of the Facilities' assets. The standard of 1% of replacement value of the fund's facilities was determined using guidance from Oregon state statutes for reserve requirements for non-General Fund state facilities.
- **Major Maintenance Account:** Facilities maintains Major Maintenance accounts for buildings and groups of buildings. Services include basic maintenance, such as, painting, roofing, and HVAC systems and electrical upgrades and are categorized on the funding source - Portland Building, City Hall, 1900 Building, Portland Communications Center, Portland Archives and Records Center, Police Facilities, and Kerby Garage.
- **Dedicated Funds:** Facilities holds dedicated monies that are tied to specific projects. When possible, Facilities will commence the project upon receipt of the monies and in that particular fiscal year.

| Facilities Budget Components | |
|------------------------------|---|
| Revenue | <ul style="list-style-type: none"> • The fund is generally self-sufficient, requiring no direct General Fund discretionary support. Facilities may request General Fund capital support on behalf of a General Fund Bureau to cover project expenses specific to that Bureau • The fund's primary sources of revenue are service reimbursements from City Bureaus for space rental and other services, cash transfers for costs related to City Hall, and revenues from tenants occupying City-owned space. Services include building operations and maintenance, interior space remodels and reconfigurations, janitorial services, and property and capital project management • Debt issuance is also a resource for capital projects, with the resulting principal and interest obligations generally being incorporated into the rental rates |
| Expenses | <ul style="list-style-type: none"> • Most of Facility services' expenses are External M&S • A smaller but significant portion of expenses go toward repayment of City bonds • The remaining budgeted expenditures cover Internal M&S, Personal Services, Capital Outlays, and Fund Transfers |

| Facilities Rate Structure Components | |
|--|---|
| Building Rental Rate | <ul style="list-style-type: none"> • Total costs of building including operations and maintenance, debt service, and major maintenance, less outside revenues is divided by total square footage to develop rental rates • Tenants square footage includes an allocation of common area |
| Time and Materials Facilities Estimates | <ul style="list-style-type: none"> • 3 year history of actual expenses • Projected hourly rates • Current contracts for services and requests for services |

| Facilities Services Performance Measures | |
|--|--|
| Operations and Maintenance | <ul style="list-style-type: none"> • Percentage of City facilities maintained in good or better condition • Square foot of portfolio per maintenance FTE • Number of work orders completed for scheduled maintenance • Number of work orders completed for customer service requests |

| Facilities Services Performance Measures | |
|--|---|
| Property Management | <ul style="list-style-type: none"> • Portfolio management – Total square footage per property management employee • Portfolio size – Total square footage of facilities managed • Number of internal leases • Number of external leases |
| Project Management Office | <ul style="list-style-type: none"> • Value of capital projects completed |

| Facilities Decision Package Analysis | | | | | |
|--------------------------------------|-------------------|----------|--------------------------------|---|-----------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Facilities | MF-28 | 20,000 | | Reduction In security costs for City Hall. There will be no noticeable service level change. | Yes |
| | MF-29 | (8,500) | | Deferral of minor maintenance project in Portland Building. Facilities indicates deferral cannot be maintained. | Yes |
| | MF-30 | (60,000) | | One-time reduction in major maintenance reserve. | No - See Report |
| | MF-31 | | 96,870 <i>(Ongoing)</i> | Add previously cut project manager position (2 years) to manage already funded Facilities projects. This add package will be funded by project management fees. | Yes |
| | MF-32 | | 93,178 <i>(Ongoing)</i> | Property manager position, funded by Portland Housing Bureau. | Yes |
| | MF-35 | | 151,000 <i>(Ongoing)</i> | General Fund resources to alleviate the office and storage over-crowding situation in City Hall. Funding is to move and locate current staff and does not include physical reconfiguration | Yes |
| | MF-38 | | 1,541,063 <i>(One time)</i> | Purchase of Kelly building to continue housing Police and provide additional city owned space for lease. New tenants are needed as soon as possible to appropriately fund major maintenance reserves for the building. | Yes |
| | MF-39 | | 400,000 <i>(One time)</i> | Funding to support the first phase of the Citywide Americans with Disabilities (ADA) Compliance Assessment. The BAC advises that OMF should focus on the most used buildings first. Financial Planning recommends that Facilities charge this cost out to customers rather than use General Fund monies | Yes |

PRINTING AND DISTRIBUTION

It is P&D's responsibility to ensure City Bureaus and all local government customers receive on time, high quality and competitively priced reproduction and mailing services. All City entities must go through P&D to contract their printing work, although they can choose the actual provider of services.

Reserve and Account Detail

P&D maintains the following contingency reserves and accounts:

- Operating Reserve: Operating Reserves are set at 5-10% of one year's fixed cost operating budget. Operating Reserves fund one-time, emergency, or unanticipated expenditure requirement and maintain current service levels in the event of unanticipated revenue reductions within a fiscal year. The incremental increases and decreases in the Fund occur through favorable or unfavorable budget to actual variances.

- **Capital Reserve:** The capital Reserve is to replace production equipment that has become obsolete, or has high maintenance costs before it has achieved its useful life. For the capital reserve, a target of 10% of replacement value was determined. Production equipment will be replaced when the machine can no longer perform its intended function without major repairs and/or a significant loss of productivity, the equipment can no longer provide the necessary quality, or the equipment is no longer as productive as alternatives based upon technological improvements.
- **Other Reserves:** P&D has two other reserves – Unassigned Reserve and Technology Reserve. The Unassigned Reserve represents revenues over levels assumed when preparing rates. The Technology Reserve is intended for new initiatives and is based on 10% of the replacement value of the fund’s capital equipment. This reserve will be used:
 - To fund investment opportunities that will allow the City to take advantage of emerging technologies or other business opportunities that will increase service levels and/or reduce costs.
 - To fund purchases of equipment and improvements that allows the fund to remain competitive with the private market.
 - To assist funding equipment with advanced technological features that cannot be immediately funded by replacement rates.
- **Equipment Replacement Account:** P&D maintains Capital Equipment carry-over accounts for all printing and copiers. Copy machines will be replaced when the machine has reached its useful life based on the number of copies made, the machine reaches a point where it can no longer function reliably, or the customer requests an upgrade. The first two options are fully funded by replacement monies within the Internal Service Fund. Upgrades may require the requesting customer to pay the difference.

| P&D Budget Components | |
|-----------------------|--|
| Revenue | <ul style="list-style-type: none"> • The main source of revenue is service reimbursement transfers from other City Bureaus and funds |
| Expenses | <ul style="list-style-type: none"> • The largest portion of P&D’s budgeted expenditures is External M&S • Another significant portion of P&D’s expenses are Personal Services • The other expense components are Internal M&S, Capital Outlay, Bond Expenses and Fund Transfers |

| P&D Rate Structure Components | |
|-------------------------------|--|
| Setting Process | <ul style="list-style-type: none"> • P&D uses multiple rates based on an estimation of expenses. P&D has hourly rates for variable services such as Duplicating, Microfilm, US Mail Processing, and Special Delivery. P&D also include a unique “click rate” or copier service rates based on usage. The mail delivery rate includes all of that program’s costs with postage treated as a “pass-through” |
| Fixed Services | <ul style="list-style-type: none"> • Mail sorting and delivery • Microfilm file maintenance service |
| Variable Services | <ul style="list-style-type: none"> • Copier services • Copy/print/bind (duplicating) services (including photography) • Customer services/pre-press services • 1900 Building services (including reprographics) • Microfilm services • U.S. Mail processing service • Portage, photography, special delivery |

| P&D Rate Structure Components | |
|--|---|
| Full Service Copier Rate | <ul style="list-style-type: none"> • Direct personal services • Related external materials and services (excluding copier paper) • Share of P&D administrative and general operations costs • Rate per copy side = total costs divided by estimated total annual number of full-service copy sides plus the click rate currently set at \$0.0075 per click • Copy paper is billed as copier services but separately |
| Estimates for Variable Services | <ul style="list-style-type: none"> • Preliminary estimates: <ul style="list-style-type: none"> ○ Calculate each customer's percentage of the entire amount billed to all customers in the prior fiscal year for each service area ○ Apply each customer's percentage to the total amount of the estimated revenue for each service area in the prospective fiscal year ○ P&D Manager reviews customer estimates ○ Customer Bureaus adjust estimates according to their business needs |

| P&D Services Performance Measures | |
|-----------------------------------|--|
| Copy Services | <ul style="list-style-type: none"> • Total number of in-bureau copies |
| Distribution | <ul style="list-style-type: none"> • Total number of pieces mailed per distribution employee |
| Duplication | <ul style="list-style-type: none"> • Percentage of work shipped on time • Basic Copy Center rate • Total number of work orders completed • Total number of copy center sheets • Total number of press impressions • Total number of digital color prints (in millions) |
| Microfilm | <ul style="list-style-type: none"> • Work shipped on time |

| P&D Decision Package Analysis | | | | | |
|----------------------------------|-------------------|----------|---------|---|--------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Printing and Distribution | MF-14 | (58,061) | | 1.5% cut - P&D will leave an unfilled position vacant. P&D believes that service levels will not be impacted. | Yes |

RISK MANAGEMENT

Risk Management is responsible for administering the City's worker compensation, general tort liability, and auto liability programs. Risk Management also manages the self insurance programs and procures commercial insurance for various uninsured risks.

Its additional services to City Bureaus include occupational health and infectious disease, injured employee return to work, employee safety, loss prevention, risk assessment, catastrophic property loss insurance recovery, and third party subrogation.

Reserve and Account Detail

Risk Management maintains the following contingency reserves and accounts:

- **Operating Reserve:** Operating Reserves are set at 5-10% of one year's fixed cost operating budget. Operating Reserves fund one-time, emergency, or unanticipated expenditure requirement and maintain current service levels in the event of unanticipated revenue reductions within a fiscal year. The incremental increases and decreases in the Fund occur through favorable or unfavorable budget to actual variances. Risk Management holds Operating Reserves for both Insurance and Claims and Workers' Compensation.

- **ONI Reserve:** The ONI Reserve is for neighborhood association officers' initial legal costs related to lawsuits brought against them in the course of their official earnings.
- **Capital Reserve:** The Capital Reserve is a project set-aside reserve for capital improvement projects
- **Property Insurance Deductible Account:** Insurance & Claims maintains an account for Property Insurance Deductibles. Bureaus that cannot afford the per-claim \$100,000 deductible to restore their property after damage or loss can borrow against this reserve and pay back over the next 5 years.
- **Dedicated Funds:** Insurance and Claims and Workers' Compensation hold required claims reserves and monies for use in future rate reductions and/or future reserve requirements. Risk Management receives the forecasted claims costs and required reserves for each of the next 5 years from an actuarial study completed by a third party. The next 5 years of forecasted costs are entered into a worksheet that is designed to smooth out the annual increases in IA agreements. This method was devised to avoid large spikes and dips from year to year in the over all amount of self insurance dollars. This model is designed to meet the required reserves at the end of the 5-year projections.

| Risk Management Budget Components | |
|-----------------------------------|---|
| Revenue | <ul style="list-style-type: none"> • The main source of revenue is service reimbursement transfers from other City Bureaus and funds |
| Expenses | <ul style="list-style-type: none"> • The city pays the cost of claims with both of the listed funds below |

| Liability and Worker's Compensation Self-Insurance IA Components | |
|--|---|
| Setting Process | <ul style="list-style-type: none"> • Generally rates go through two steps. First, they determine the total amount needed to be collected through IAs for the next fiscal year. Then, allocate the total amount among all City Bureaus/offices or divisions |
| Costs | <ul style="list-style-type: none"> • Estimated claim costs (annual actuarial study) • Amount to maintain required claims reserves (annual actuarial study) • Excess insurance policies (liabilities and workers' comp) • Risk Management administrative costs • Estimated State Workers' Compensation Fund assessments |
| Offsetting Resources | <ul style="list-style-type: none"> • Estimated beginning fund balances • Estimated interest earnings • Risk's percentage for pursuing and collecting amounts owed to the City by those who have damaged city property |
| Smoothing Calculation | <ul style="list-style-type: none"> • Risk calculates rates on a 5 year basis to "smooth" rate increases • The total costs and offsetting revenues for WC and Liability are each projected over the next 5 years, applying a constant rate of change, so the required claims reserves are achieved by the end of the 5-year period |
| Self-Insurance Allocations | <ul style="list-style-type: none"> • Total citywide amounts for general liability, fleet liability and Workers' Compensation are allocated based on a combination of: <ul style="list-style-type: none"> ○ Experience – each Bureau, office or division's prior 4-year average of incurred claims cost compared to all others ○ Exposure – each Bureau, office or division's prior fiscal year payroll (for General Liability and Workers' Compensation) and prior 2-year average fleet miles. Including pool car usage (for Fleet Liability), compared to all others |

Other Risk IAs and Component Breakdown

| | |
|---|---|
| Property Insurance Policy | <ul style="list-style-type: none"> • Cost is allocated among participating Bureaus per reported property values |
| Special Insurance Policies | <ul style="list-style-type: none"> • Bureaus that require these are charged as pass-throughs |
| Occupational Health/Infectious Disease | <ul style="list-style-type: none"> • Costs for these programs are allocated to participating Bureaus proportionate to their previous year's use of these services |
| Flu Shots Program | <ul style="list-style-type: none"> • Costs are allocated based on each Bureau's percent of the City's total employees paid during the past January. Fire Bureau is excluded as they provide vaccinations for their own employees |

Risk Management Performance Measures

| | |
|---|--|
| Commercial Insurance | <ul style="list-style-type: none"> • Annual cost of City's property premium based on market conditions |
| Liability | <ul style="list-style-type: none"> • Incurred cost of general liability claims per \$100 payroll • Incurred cost of fleet liability claims per 100,000 miles driven |
| Loss Prevention | <ul style="list-style-type: none"> • Number of general liability claims per 200,000 hours • Number of fleet liability claims per 100,000 miles driven • Number of Workers' Compensation claims per 200,000 hours worked |
| Workers' Compensation | <ul style="list-style-type: none"> • Incurred cost of Workers' Compensation claims per \$100 payroll |
| Occupational Health & Infectious Disease | <ul style="list-style-type: none"> • Number of bodily fluid exposure incidents managed • Number of employees trained to deal with blood borne pathogens |

Risk Management Decision Package Analysis

| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
|------------------------------|-------------------|---------|---------|---|--------------|
| Insurance and Claims | MF-22 | (8,440) | | 1.5% cut - reduction in training, travel, and subscription costs for employees. Risk indicates cut is not sustainable without impact to service levels. | Yes |
| Workers' Compensation | | | | No decision packages were proposed for this entity. | Yes |

APPENDIX D

Cash Balances at Fiscal Year End 2007-10

| CityFleet | | | | | | | | | |
|---------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|------------------|
| Reserve | Classification Type | 2010 | | 2009 | | 2008 | | 2007 | |
| | | Ending | Target | Ending | Target | Ending | Target | Ending | Target |
| Operating Reserve | Assigned | 755,916 | 1,007,888 | 753,678 | 1,053,678 | 1,530,944 | 1,530,944 | 1,831,879 | 1,831,879 |
| Capital Replacement Account | Committed | 15,979,883 | 15,727,911 | 14,753,712 | 14,753,712 | 15,188,145 | - | 14,918,322 | - |
| Capital Reserve | Assigned | 446,149 | 446,149 | 446,418 | 446,419 | | | | |
| Satellite Garages Reserve | Committed | | | | | 180,081 | 180,081 | 174,836 | 174,836 |
| Property Development Reserve | Committed | | | | | 115,345 | 115,345 | 449,766 | 449,766 |
| Property Insurance Deductible | Assigned | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Inventory for Parts & Fuel | Committed | | | | | 470,635 | - | (1,080,000) | - |
| Return Savings from Fixed Rates | Committed | | | | | 283,000 | - | 1,004,165 | - |
| Dedicated to Projects | Committed | 716,301 | 716,301 | 650,000 | 650,000 | 38,420 | - | | |
| Unrestricted | Unassigned | | | | | | - | 804,727 | - |
| Total | | 17,998,249 | 17,998,249 | 16,703,808 | 17,003,809 | 17,906,570 | 1,926,370 | 18,203,695 | 2,556,481 |

| EBS | | | | | | | | | |
|--|---------------------|------------------|----------------|------------------|----------------|----------|----------|----------|----------|
| Reserve | Classification Type | 2010 | | 2009 | | 2008 | | 2007 | |
| | | Ending | Target | Ending | Target | Ending | Target | Ending | Target |
| Operating Reserve | Assigned | 761,291 | 761,291 | 527,000 | 527,000 | | | | |
| Dedicated to Other EBS On-going Projects | Restricted | 1,376,000 | - | 1,790,367 | | | | | |
| Replacement Reserve | Committed | 1,290,620 | - | | | | | | |
| Project Set-aside | Assigned | 729,000 | - | | | | | | |
| Undesignated | Unassigned | | | | | | | | |
| Total | | 4,156,911 | 761,291 | 2,317,367 | 527,000 | - | - | - | - |

| Facilities | | | | | | | | | |
|-----------------------------------|---------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| Reserve | Classification Type | 2010 | | 2009 | | 2008 | | 2007 | |
| | | Ending | Target | Ending | Target | Ending | Target | Ending | Target |
| Operating Reserve | Assigned | 2,073,000 | 2,073,000 | 1,860,000 | 1,860,000 | 1,860,000 | 1,860,000 | 1,853,522 | 1,860,000 |
| Capital Reserve | Assigned | 1,070,370 | 2,623,000 | 822,974 | 1,797,000 | 1,287,186 | 1,940,000 | 775,000 | 1,940,000 |
| Major Maintenance Reserve | Committed | 19,868,078 | - | 18,201,176 | | 15,449,708 | | 15,487,041 | |
| Dedicated to Bond Funded Projects | Restricted | 1,224,649 | - | 3,969,829 | | 7,109,168 | | | |
| Dedicated to Facilities Projects | Committed | 462,312 | - | | | | | | |
| Unrestricted | Unassigned | | | | | | | | |
| Total | | 24,698,409 | 4,696,000 | 24,853,979 | 3,657,000 | 25,706,062 | 3,800,000 | 18,115,563 | 3,800,000 |

| Printing & Distribution | | | | | | | | | |
|---|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Reserve | Classification Type | 2010 | | 2009 | | 2008 | | 2007 | |
| | | Ending | Target | Ending | Target | Ending | Target | Ending | Target |
| Operating Reserve | Assigned | 310,000 | 310,000 | 336,000 | 336,000 | 306,000 | 306,000 | 276,000 | 301,000 |
| Capital Equipment Reserve | Assigned | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| Technology Reserve | Assigned | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| Capital Equipment Carry-over (balance of unredeemed copier replacement collections) | Committed | 640,000 | 640,000 | 610,169 | 680,000 | 680,808 | 692,981 | 692,981 | 634,400 |
| Capital Equipment Encumbrances To Be Carried Forward | Committed | | | | | 400,000 | 400,047 | 45,635 | - |
| Carry-over Budget for BTS Programming Services | Committed | 100,000 | 100,000 | | | | | | |
| Unspent Budget for Production Equipment Carried to Next FY | Committed | 174,628 | 174,628 | 200,000 | | | | | |
| Unrestricted/undedicated | Unassigned | 8,560 | 8,560 | 199,115 | 23,048 | 7,219 | | 239,589 | 41,271 |
| Total | | 2,033,188 | 2,033,188 | 2,145,284 | 1,839,048 | 2,194,027 | 2,199,028 | 2,054,205 | 1,776,671 |

Risk Management

| Reserve | Classification Type | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | Ending | Target | Ending | Target | Ending | Target | Ending | Target |
| Insurance and Claims | | | | | | | | | |
| Required Claims Reserve | Restricted | 15,830,216 | 15,830,216 | 14,867,832 | 14,867,832 | 15,602,745 | 15,602,745 | 18,757,329 | 18,757,329 |
| Reserve for Claims Over \$1 Million | Restricted | 505,000 | 505,000 | 505,000 | 505,000 | 505,000 | 505,000 | 505,000 | 505,000 |
| Reserve for Property Insurance Deductible | Committed | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Admin Reserves/contingency | Assigned | 210,000 | 210,000 | 180,000 | 180,000 | 139,624 | 139,624 | 153,000 | 160,000 |
| Set Aside for RMIS CIP | Committed | 250,000 | 250,000 | | | | | | |
| ONI Reserve | Committed | 28,953 | 28,953 | 28,341 | 28,341 | 27,582 | 27,582 | 25,000 | 20,000 |
| Restricted for Use in Future Rate Reductions and/or Future Reserve Requirements | Restricted | 4,817,728 | 4,817,728 | 3,874,871 | 3,874,871 | 1,071,361 | 526,602 | (2,613,592) | (3,379,372) |
| Appropriated for Claims Payments in Next FY | Committed | | | 168,544 | | | | | |
| Workers' Compensation | | | | | | | | | |
| Required Claims Reserve | Committed | 8,911,166 | 8,911,166 | 9,440,037 | 9,440,037 | 9,709,244 | 9,709,244 | 11,707,154 | 11,707,154 |
| Admin Reserves/Contingency | Assigned | 170,000 | 170,000 | 170,000 | 179,000 | 143,772 | 143,772 | 151,000 | 155,000 |
| Set Aside for RMIS CIP | Committed | 250,000 | | | | | | | |
| Restricted for Use in Future Rate Reductions and/or Future Reserve Requirements | Restricted | 9,568,873 | 9,568,873 | 8,686,541 | 8,680,838 | 8,126,346 | 7,483,010 | 5,482,420 | 4,708,994 |
| Appropriated for Claims Payments in Next FY | Committed | | | 552,118 | | | | | |
| Total | | 40,641,936 | 40,391,936 | 38,573,284 | 37,855,919 | 35,425,674 | 34,237,579 | 34,267,311 | 32,734,105 |

BTS

| Reserve | Classification Type | 2010 | | 2009 | | 2008 | | 2007 | |
|---------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | Ending | Target | Ending | Target | Ending | Target | Ending | Target |
| Operating Reserves | Assigned | 4,407,694 | 4,407,694 | 2,153,039 | 4,306,078 | 4,764,511 | 6,150,287 | 4,903,050 | 4,903,050 |
| Replacement Reserves | Committed | 15,237,909 | 19,916,824 | 14,555,693 | 18,122,321 | 11,723,743 | 16,742,732 | 10,654,787 | 15,299,711 |
| Technology Reserve | Assigned | 3,213,310 | - | 2,882,455 | | | | 3,398,331 | |
| Customers | Committed | 270,143 | - | 120,143 | | 709,066 | | 977,594 | |
| Dedicated to Other BTS Projects | Committed | 2,185,207 | - | 4,685,577 | | 12,712,610 | | 16,413,304 | |
| Total | | 25,314,263 | 24,324,518 | 24,396,907 | 22,428,399 | 29,909,930 | 22,893,019 | 36,347,066 | 20,202,761 |

APPENDIX E

GENERAL FUND BUREAUS SUMMARY INFORMATION

AKT examined the entities within OMF that operate and receive revenue primarily from the General Fund Discretionary Account, General Fund Overhead Account, and occasionally from Interagency Agreements. AKT refers to these entities as “General Fund Bureaus.”

Many of the rates charged by the Internal Service Funds include an overhead percentage that generates revenue and transfers cash to the General Fund for these services. Similar to the General Fund Discretionary Account, instead of displaying each portion of these cash transfers in each Bureau, the City uses an allocation account which it titles General Fund Overhead. This account nets out to zero at the total fund level.

The General Fund Discretionary and Overhead resources are split for each Bureau that receives General Fund allocations based on the services provided by each Bureau. For example, if Financial Services provided half of its services to the General Fund Bureaus, and half of its services to other funds such as Water, Sewer and Transportation, then the split of Overhead and Discretionary resources within their budget would be 50-50. In another example, the Revenue Bureau provides revenue collection services to the General Fund only. Therefore, it does not receive any General Fund Overhead resources. The funding is entirely General Fund Discretionary.

The City chooses to fund the General Fund Bureaus through the General Overhead and Discretionary Funds, and avoid IAs whenever possible. In most cases these Bureaus are not billed directly for the services they provide or receive. However, on occasion these Bureaus will have IAs that consist of the same five elements that Internal Service Funds use to create their rates. These elements include:

- Corporate Charges
- Assigned Units
- Requested Units of Service
- Pass-Through Expenses
- General Fund Overhead Markup

BUSINESS OPERATIONS

Business Operations provides an array of financial management, communications, policy development and project management services to OMF Bureaus and Divisions, Citywide Projects, and City Council offices. The Division performs financial analysis and management of all OMF funds as well as coordinating and administrating OMF-wide initiatives and projects.

| Business Operations Budget Components | |
|---------------------------------------|--|
| Revenue Makeup (Approximate) | <ul style="list-style-type: none"> • 27.84% General Fund Discretionary • 12.56% General Fund Overhead • 58.89% Interagency Revenues from IAs • 0.72% Other |
| Expenses (Approximate) | <ul style="list-style-type: none"> • 63.72% Personal Services • 14.46% External Material and Services • 21.82% Internal Materials and Services |

Business Operations Budget Components

| | |
|---|---|
| Interagency Agreement or Outside Agency Revenue Examples | <ul style="list-style-type: none"> • Business Operations receives IA revenues from OMF funds for financial services • Business Operations receives outside revenue from charitable organizations to reimburse it for work on charitable campaigns |
|---|---|

OMF Business Operations Performance Measurements

| | |
|-------------------------------------|---|
| Administration & Support | <ul style="list-style-type: none"> • Total budget managed annually (in millions) • Percent of appropriation units that were in full compliance for the fiscal year • Annual number of accounts payable invoices processed per Business Operations accountant • Number of OMF employees per timekeeper • Annual number of accounts payable invoices processed • Annual dollar amount of interagency billings |
|-------------------------------------|---|

Business Operations Decision Package Analysis

| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
|---------------------|-------------------|----------|---------|--|--------------|
| Business Operations | MF-03 | (21,187) | | One-time 1.5% cut to hold a part-time entry level position open for 75% of the year. Reassignment of financial analyst to the communications team will offset the loss of the assistant's position. Additional productivity is anticipated in communications team. | Yes |

BUREAU OF FINANCIAL SERVICES

BFS provides financial management services to the City in areas such as financial reporting and planning, treasury, debt issuance, accounting, payroll, budget process management and publication, and grants management. The division is managed by the Chief Financial Officer (CFO).

BFS Budget Components

| | |
|--|--|
| Revenue Makeup (Approximate) | <ul style="list-style-type: none"> • 28.98% General Fund Discretionary • 42.89% General Fund Overhead • 8.48% Interagency Revenues from IAs • 19.64% Other |
| Expenses (Approximate) | <ul style="list-style-type: none"> • 76.80% Personal Services • 9.00% External Material and Services • 14.21% Internal Materials and Services |
| Interagency Agreement or Outside Revenue Examples | <ul style="list-style-type: none"> • Accounting receives IA revenue from Portland Bureau of Transportation (PBOT), Hydropower and BES for Comprehensive Annual Financial Report preparation work • Financial Planning receives IA revenue from the Housing Bureau for grants compliance • Debt Management is fully funded by IA's because the pool of City bureau customers is small • Treasury is funded by a portion of each City fund's interest earnings |

BFS Performance Measurements

| | |
|-------------------|---|
| Accounting | <ul style="list-style-type: none"> • Number of payroll checks without error • Percent of accounts receivable invoices collected within 60 days • Percent of payroll checks direct deposited • Number of manual payroll checks issued • Number of accounts receivable invoices issued |
|-------------------|---|

| BFS Performance Measurements | |
|------------------------------|--|
| Debt Management | <ul style="list-style-type: none"> City's Unlimited Tax General Obligation Bond Rating (1=AAA) Debt under management Number of long-term debt issues outstanding Number of short-term borrowing programs managed |
| Financial Planning | <ul style="list-style-type: none"> Accuracy of financial forecasts (percent within actual) Number of active grants |
| Treasury | <ul style="list-style-type: none"> Percent of employees participating in deferred compensation program Investment portfolio yield as a percent of benchmark Investment Portfolio |

| BFS Decision Package Analysis | | | | | |
|-------------------------------|-------------------|----------|---------------------|---|--------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Financial Services | MF-24 | (8,540) | | One time 1.5% cut - reduction in Materials and Services in Debt Management Group. This will not significantly affect service delivery and the savings will be passed back to Bureaus. | Yes |
| | MF-25 | (17,094) | | Reduction in Materials and Services in Treasury. This will not significantly affect service delivery. Savings will be passed back to the Bureaus via interest income. | Yes |
| | MF-02 | (37,791) | | Eliminates public option survey for FY 2011-12. OMF has survey results from prior years to guide efforts. | Yes |
| | MF-06 | | 62,950 (Ongoing) | Limited duration position for geographic budget mapping and performance management. The costs for this position will be shared by Bureaus through IA's. The OMF Budget Advisory Committee objected to the on-going funding of this position. AKT encourages an audit of this position on an on-going basis to determine its return on investment. | Yes |

BUREAU OF HUMAN RESOURCES

BHR is responsible for management of the City's human resources systems including administrative rules and procedures and is responsible for assisting City bureaus to recruit, develop, and retain a competent and high-quality workforce. BHR also manages employee benefits, the Health Insurance Fund, classification and compensation, labor relations, and workforce training.

| BHR Budget Components | |
|---|---|
| Revenue Makeup (Approximate) Without Health Insurance Fund¹ | <ul style="list-style-type: none"> 41.99% General Fund Overhead 49.30% General Fund Discretionary 6.84% Interagency Revenues from IAs 1.87% Other |

¹ These line items do not take into account the Health Insurance Operating Fund which is a large portion of these line items on BHR budget as a whole. The Health Insurance Operating Fund is used to pay medical and prescription claims for City employees, dependents, retirees, and other participants in the City's self-insurance plans. In the total requested FY 2011-12 Budget, The Health Insurance Operating Fund comprises 88.85% of BHR's total budget. AKT excluded data from this fund out to provide a more accurate picture of BHR's actual revenue and expenses based on operations. It is important to note that there are pieces of BHR operational costs allocated to the Health Fund, including time charged for some employees. Therefore, this is only an approximation of the breakdown of BHR's operational budget.

| BHR Budget Components | |
|---|--|
| Expenses (Approximate) Without Health Insurance Fund¹ | <ul style="list-style-type: none"> 83.38% Personal Services 6.29% External Material and Services 10.33% Internal Materials and Services |
| Interagency Agreement Examples | <ul style="list-style-type: none"> BHR receives IA revenues from Police for staff dedicated to Police HR work |

| BHR Performance Measurements | |
|--|--|
| Administration and Support | <ul style="list-style-type: none"> % of Average Basic Pay Records Unlocked by Final Payroll Run Employee personnel transactions reviewed Central Time Management transactions OM transactions administered |
| Benefits | <ul style="list-style-type: none"> Number of participants in benefits program Number of Fitness Center enrollees Number of Fitness Center visitors |
| Class/Compensation | <ul style="list-style-type: none"> Number of classification actions annually |
| Diversity Development/ Affirmative Action | <ul style="list-style-type: none"> Percentage of female applicants per recruitment Percentage of minority applicants per recruitment |
| Employment & Development | <ul style="list-style-type: none"> Percentage of recruitments meeting original or renegotiated timelines Employment exams posted Number of participant training hours coordinated or presented by BHR Number of Employment Applications Received |
| Labor Relations Operations | <ul style="list-style-type: none"> Total number of grievances received by the LR system Number of interim & successor agreement negotiations Number of Labor Relations training sessions |
| Site Teams | <ul style="list-style-type: none"> City employees per BHR Employee Cost of providing HR service per City FTE |

| BHR Decision Package Analysis | | | | | |
|-------------------------------|-------------------|----------|----------------------------|--|--------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Human Resources | MF-11 | (54,302) | | Reduction in employee development and diversity training conferences. This will not significantly affect service delivery. | Yes |
| | MF-13 | | 72,000 <i>(Ongoing)</i> | Reclassification and re-structuring of existing positions to support Health Fund workload and audit preparation. | Yes |
| | MF-12 | | 77,520 <i>(Ongoing)</i> | Position to develop and coordinate wellness activities. Human Resources has prior year information to guide efforts and this position will support the health maintenance of City employees. | Yes |

DIRECTOR'S OFFICE

The Director's Office is the Office of the Chief Administrative Officer (CAO). In addition to City-wide responsibilities and managing OMF to ensure cost effective administrative and support services, the CAO is responsible for providing the Mayor and Council with accurate and timely information and analysis on a wide array of financial and policy issues.

| Director's Office Budget Components | |
|---------------------------------------|---|
| Revenue Makeup | <ul style="list-style-type: none"> 47.74% General Fund Discretionary 52.26% General Fund Overhead |
| Expenses | <ul style="list-style-type: none"> 87.63% Personal Services 3.83% External Material and Services 8.55% Internal Materials and Services |
| Interagency Agreement Examples | <ul style="list-style-type: none"> The OMF Director's Office does not have any Interagency Agreements |

Although the Director's Office has no specific performance measures, it is continuously evaluated through the successful management and completion of OMF initiatives, which includes significant projects such as the Public Safety Systems Revitalization Program (PSSRP), ongoing service delivery for the Business Solution Services Division, and other critical Mayor and Council-directed policy projects and activities.

| Director's Office Decision Package Analysis | | | | | |
|---|-------------------|------|---------|---|--------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Director's Office | | | | The Director's Office did not submit a 1.5% cut package, because of its size. | Yes |

PROCUREMENT SERVICES

Procurement is responsible for the policy development, oversight, and management of the City's procurement and contracting processes including specific outreach to locally owned minority, women and emerging small businesses. Procurement is also responsible for ensuring the procurement process is fair, efficient, effective, and accountable to everyone. Because of the large sums involved, what Procurement purchases and how it purchases those goods and services is critical to the City of Portland and its community.

| Procurement Budget Components | |
|---------------------------------------|---|
| Revenue Makeup | <ul style="list-style-type: none"> 28.74% General Fund Discretionary 58.99% General Fund Overhead 8.57% Interagency Revenues from IAs 3.70% Other |
| Expenses | <ul style="list-style-type: none"> 71.41% Personal Services 19.60% External Material and Services 8.99% Internal Materials and Services |
| Interagency Agreement Examples | <ul style="list-style-type: none"> Procurement receives IA revenue for specific one-time services approved by Council Procurement receives revenue from Portland Development Commission, the Housing Authority, and the Housing Bureau for contract compliance services |

Procurement Services Performance Measurements

- Procurement**
- Percent of apprenticeship hours worked on City contracts
 - Percent of formal prime contracts less than \$200,000 awarded to M/W/ESB contractors
 - Percent of minority/women contractor hours worked on City construction contracts
 - Total procurement card expenditures
 - Number of formal and informal PTE contracts processed

Procurement Services Decision Package Analysis

| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
|-------------|-------------------|----------|----------------------|--|--------------|
| Procurement | MF-01 | (12,751) | | This package will reduce the appropriation for External Materials & Services. | Yes |
| | MF-04 | | 129,167 (Ongoing) | Extends one limited term position to support the Minority Evaluator Program (MEP). This program is still in the development phase and there is still a substantial amount of work to be completed. AKT agrees this position should be extended for the year and recommends evaluating the program at year end. | Yes |
| | MF-05 | | 162,720 (Ongoing) | This extends two limited term positions to manage the increased workload caused by the Federal American Recovery and Reinvestment Act and the local stimulus efforts. | Yes |
| | MF-21 | (6,000) | | Reduction in appropriation to temporary services. This reduction will significantly reduce the Division's flexibility to seek temporary help. Financial Planning does not recommend this cut. | Yes |
| | MF-34 | | 184,635 (Ongoing) | Creates two new ongoing positions to support the Supplier Diversity Program. AKT agrees with FPD's assessment that while this is an important council goal, it can be accomplished by using targeted outreach and through collaborating with other Bureaus. | Yes |

REVENUE BUREAU

The Revenue Bureau is responsible for consolidated revenue collection efforts. Revenue programs issue permits, enforces regulations, and collects several types of revenue, including business license, transient lodging tax, and business property management.

Revenue Bureau Budget Components

- Revenue Makeup (Approximate)**
- 0% General Fund Overhead
 - 23.29% General Fund Discretionary
 - 22.19% Interagency Revenues from IAs
 - 54.52% Other²

² This number is large because the Revenue Bureau has unique line items that make up a large portion of revenues for the department. For instance the Revenue Bureau raises 15.94% of their total revenues through taxes and 32.14% of their total revenue through the licenses and permits. This is where most of the Other Revenue is derived.

| Revenue Bureau Budget Components | |
|---------------------------------------|--|
| Expenses (Approximate) | <ul style="list-style-type: none"> • 34.28% Personal Services • 49.98% External Material and Services • 14.45% Internal Materials and Services • 1.29% Other |
| Interagency Agreement Examples | <ul style="list-style-type: none"> • Revenue Bureau receives IA revenues from Water for managing their billing systems |

| Revenue Bureau Performance Measurements | |
|---|---|
| Regulatory | <ul style="list-style-type: none"> • Total Regulatory Revenue collected • Number of Permits/Contracts Issued |
| Revenue Collection | <ul style="list-style-type: none"> • Business License Tax Gap - Difference between business taxes paid and owed (in millions) • Total license & tax revenue collected (in millions) • Total other revenues collected (in millions) • Cost per license & tax dollar collected • Cost per operations dollar collected • Number of e-commerce transactions • Number of license & tax accounts managed • Number of collections accounts managed |

| Director's Office Decision Package Analysis | | | | | |
|---|-------------------|----------|-----------------------------|--|--------------|
| Entity | Decision Packages | Cuts | Add-Ins | Description | AKT concurs? |
| Revenue | MF-26 | (61,583) | | Reduction through anticipated vacancies and turnover. | Yes |
| | MF-27 | | 83,000 <i>(Ongoing)</i> | Permanent position to increase enforcement of towing fees. Intended to be self-funded through \$10 increase in towing fee, which is the first increase in 10 + years. | Yes |
| | MF-37 | | 264,864 <i>(Ongoing)</i> | Project to create consolidated City website for businesses. Full requirements of project have not been developed and alternatives have not been explored. Financial Planning disagreed with this add package and the Budget Advisory Committee was silent. AKT recommends deferral until additional information and alternatives are determined. | Yes |

BUREAU OF INTERNAL BUSINESS SERVICES

The Bureau of Internal Business Services Administration (BIBS) consists of one FTE and the performance of this Bureau is directly tied to the performance of the Internal Service Funds under the purview of this Bureau; specifically, Printing and Distribution, CityFleet, Facilities, Procurement, and Risk Management.

BIBS Administration manages a range of core internal services critical to meet City business needs such as Facilities, CityFleet, Printing and Distribution, Procurement, and Risk Management. These services are offered City-wide.

The revenue and expense components of the BIBS Administration budget are those of the Internal Service Bureaus that fall under its purview, specifically Facilities, CityFleet, Printing and Distribution, Procurement, and Risk Management. AKT described each of these budgets in Appendix C. Additional expense components to the BIBS Administration budget include a small portion of overhead and salary expense for the Director of this Bureau.

APPENDIX F

ANALYSIS OF DEDICATED FUNDS

BUREAU OF TECHNOLOGY SERVICES

Table 1

| Funds Dedicated to Completing Projects for Customers | | | | |
|--|---------|---------|---------|---------|
| Status of Reserves | 2010 | 2009 | 2008 | 2007 |
| BES Holdings - Funds transferred from BES dedicated to fiber build work on behalf of BES | 120,143 | 120,143 | 130,983 | 338,813 |
| OMF Holdings - Funds transferred from OMF dedicated to future OMF Projects - HR & EBS | - | - | 578,083 | 638,781 |
| Publisher - Funds Transferred from General Fund for Financial Planning's future replacement of Publisher | 150,000 | - | - | - |

Table 2

| Funds Dedicated to Other BTS projects | |
|---------------------------------------|------------------|
| Status of Reserves | 2010 |
| Voice Mail Replacement | 250,000 |
| Council Crest Tower Replacement | 20,000 |
| ACD Upgrade | 562,831 |
| Microwave System Replacement | 102,769 |
| IRNE Construction | 178,968 |
| Battery Back-Up Power Enhancement | 26,074 |
| Radio Site Networking | 30,000 |
| Radio Site Building Upgrades | 80,665 |
| Windows 7 Upgrade | 200,000 |
| Second ISP Linkat 911 Center | 60,000 |
| SAN Maintenance Budget Increase | 100,000 |
| Walters Hill Closing Costs | 43,900 |
| Walters Hill Purchase | 350,000 |
| Total | 2,185,207 |

FACILITIES

Table 3

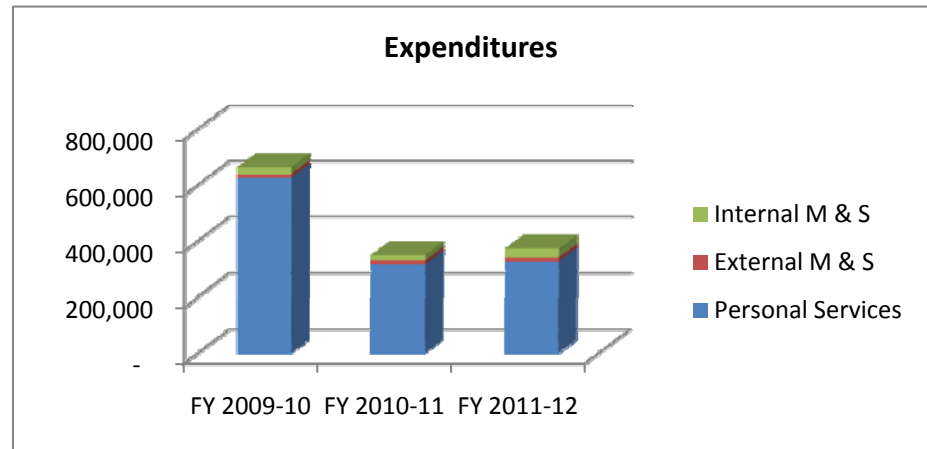
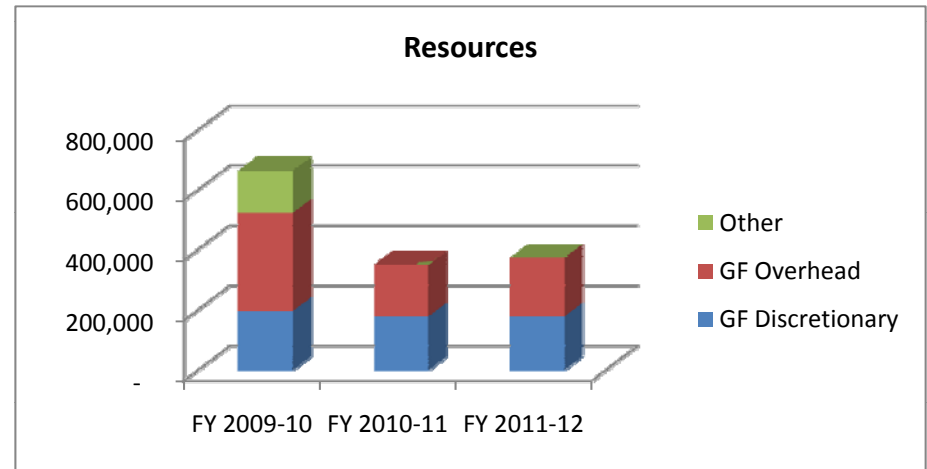
| Dedicated to Other and Bond Funded Projects | | | | |
|---|-----------|-----------|-----------|-----------|
| Status of Reserves | 2010 | 2009 | 2008 | 2007 |
| New Archives Project Reserve | 1,224,649 | 3,329,880 | 6,267,290 | |
| Emergency Coordination Center | 256,312 | 423,000 | 99,000 | |
| City Hall Restack money from Council | 206,000 | 206,949 | | |
| ADA Contract Reserve | - | 10,000 | 10,000 | |
| Training Facility for Police | - | - | - | 182,378 |
| Traffic Facility for Police | - | - | - | 550,500 |
| Police property warehouse sale proceeds for new warehouse | - | - | - | 2,862,922 |

APPENDIX G

OMF Budget Analysis

Director's Office

| | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|------------------------|----------------|----------------|----------------|
| Resources | | | |
| Gen Fund Discretionary | 196,943 | 177,885 | 178,111 |
| Gen Fund Overhead | 326,642 | 172,312 | 194,949 |
| Other | 140,701 | - | - |
| Resources | 664,286 | 350,197 | 373,060 |
| Expenditures | | | |
| Personal Services | 626,695 | 316,971 | 326,898 |
| External M&S | 13,099 | 14,280 | 14,280 |
| Internal M&S | 24,492 | 18,946 | 31,882 |
| Expenses | 664,286 | 350,197 | 373,060 |
| | | | |
| FTE | 2.00 | 2.00 | 2.00 |



Business Operations

FY 2008-09 FY 2009-10 FY 2010-11 FY 2011-12

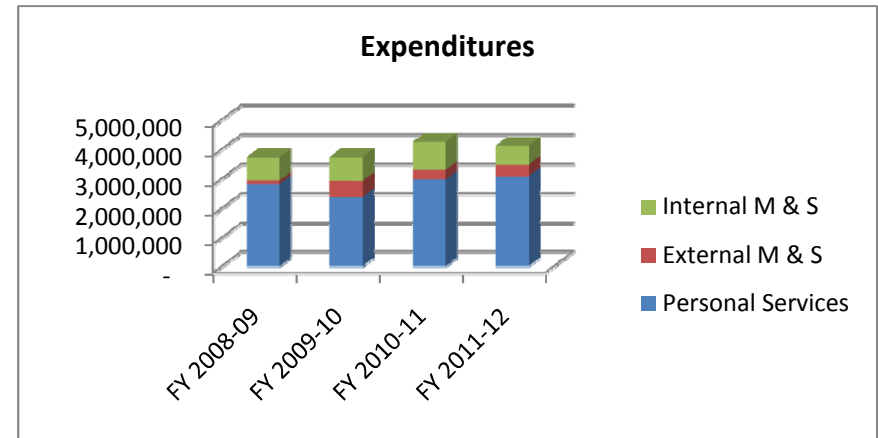
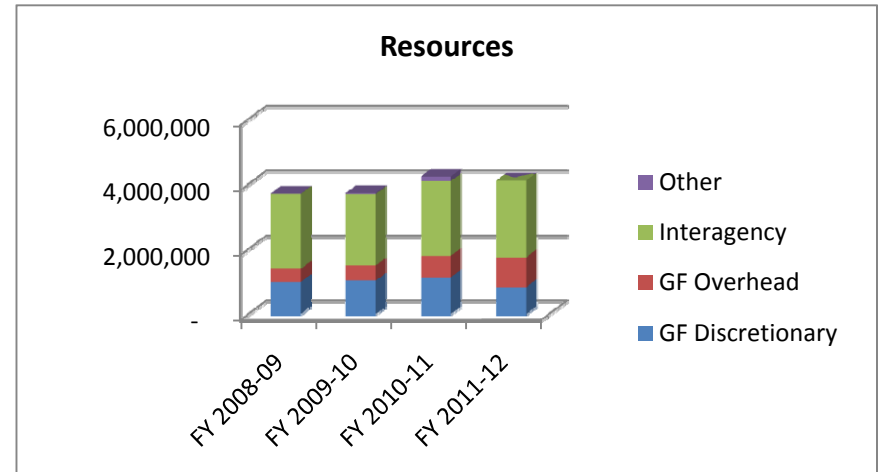
Resources

| | | | | |
|------------------------|------------------|------------------|------------------|------------------|
| Gen Fund Discretionary | 993,538 | 1,039,772 | 1,141,734 | 838,096 |
| Gen Fund Overhead | 405,666 | 469,008 | 662,500 | 918,528 |
| Interagency | 2,309,556 | 2,199,260 | 2,302,172 | 2,362,201 |
| Other | 8,037 | 26,755 | 138,477 | - |
| Resources | 3,716,797 | 3,734,795 | 4,244,883 | 4,118,825 |

Expenditures

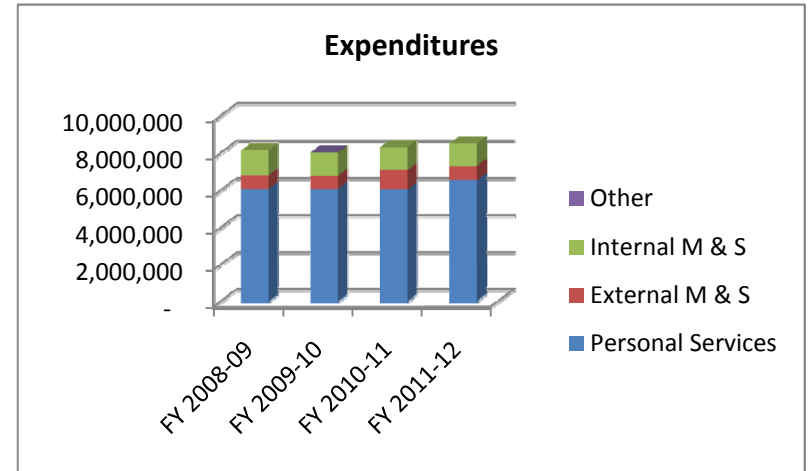
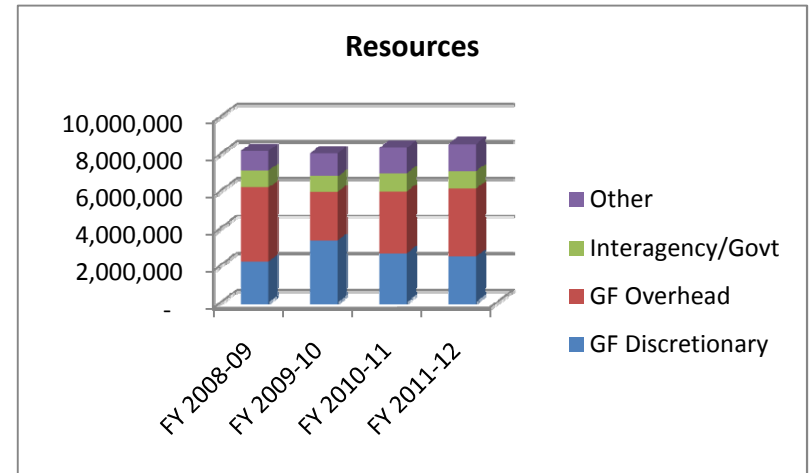
| | | | | |
|-------------------|------------------|------------------|------------------|------------------|
| Personal Services | 2,816,185 | 2,379,668 | 2,964,986 | 3,076,738 |
| External M&S | 120,559 | 540,191 | 329,171 | 398,479 |
| Internal M&S | 790,853 | 814,936 | 950,726 | 643,608 |
| Expenses | 3,727,597 | 3,734,795 | 4,244,883 | 4,118,825 |

FTE 28.00 28.00 28.00 28.00



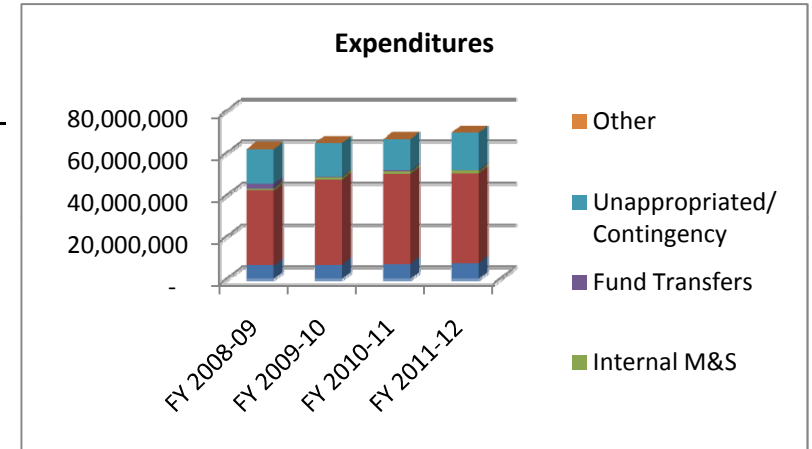
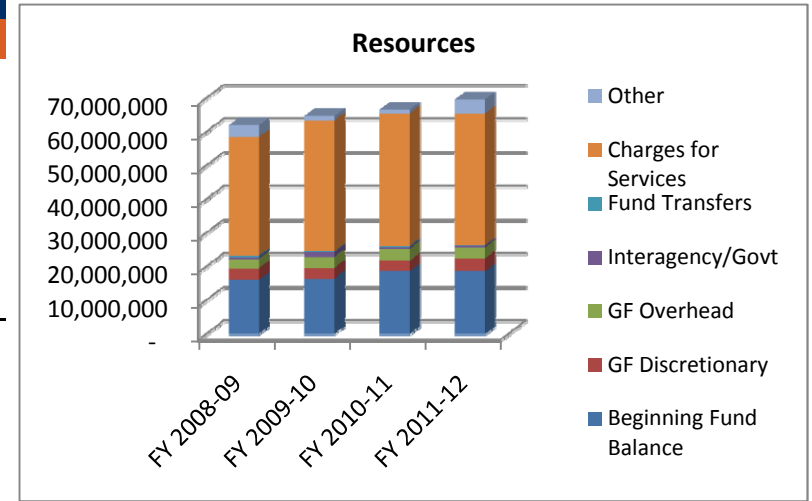
Bureau of Financial Services

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|------------------------|------------------|------------------|------------------|------------------|
| Resources | | | | |
| Gen Fund Discretionary | 2,205,113 | 3,334,995 | 2,655,357 | 2,465,999 |
| Gen Fund Overhead | 3,977,362 | 2,614,366 | 3,308,802 | 3,649,838 |
| Interagency/govt | 910,759 | 831,666 | 984,608 | 938,112 |
| Other | 1,059,756 | 1,250,128 | 1,366,665 | 1,455,010 |
| Resources | 8,152,990 | 8,031,155 | 8,315,432 | 8,508,959 |
| Expenditures | | | | |
| Personal Services | 6,094,454 | 6,091,810 | 6,041,215 | 6,534,617 |
| External M&S | 716,459 | 694,483 | 1,036,403 | 765,644 |
| Internal M&S | 1,342,077 | 1,244,759 | 1,237,814 | 1,208,698 |
| Other | | 103 | | |
| Expenses | 8,152,990 | 8,031,155 | 8,315,432 | 8,508,959 |
| | | | | |
| FTE | 60.60 | 59.70 | 59.70 | 60.10 |



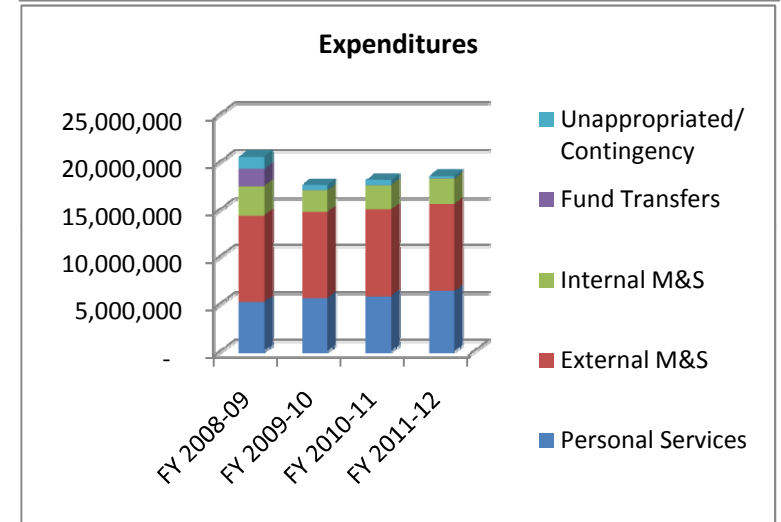
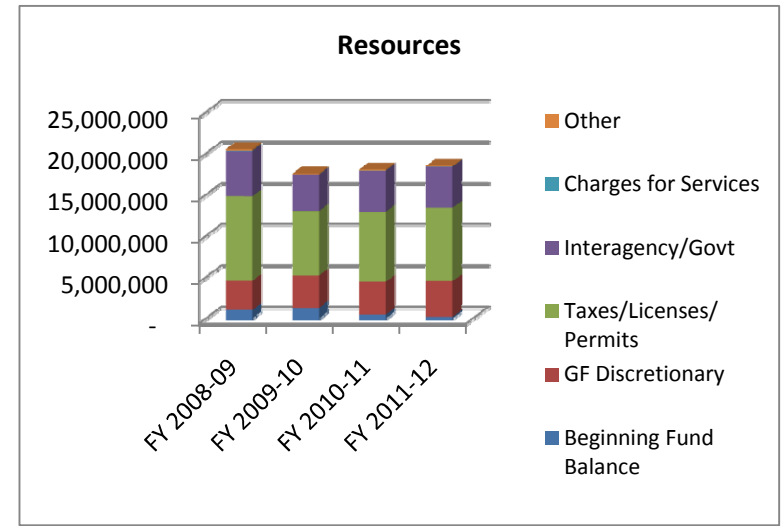
Bureau of Human Resources

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 16,076,911 | 16,525,785 | 18,689,380 | 18,689,380 |
| Gen Fund Discretionary | 3,473,852 | 3,162,636 | 3,080,594 | 3,832,276 |
| Gen Fund Overhead | 2,724,512 | 3,244,464 | 3,595,106 | 3,264,067 |
| Interagency/Govt | 593,872 | 1,434,793 | 497,674 | 532,076 |
| Fund Transfers | 461,546 | 255,892 | 325,543 | 115,500 |
| Charges for Services | 35,211,267 | 38,838,836 | 39,376,693 | 39,143,924 |
| Other | 3,456,230 | 1,277,355 | 1,112,334 | 4,126,066 |
| Resources | 61,998,190 | 64,739,761 | 66,677,324 | 69,703,289 |
| Expenditures | | | | |
| Personal Services | 6,507,038 | 6,917,603 | 7,267,895 | 7,659,752 |
| External M&S | 35,731,938 | 40,551,302 | 42,870,647 | 42,733,766 |
| Internal M&S | 1,104,501 | 1,232,562 | 1,129,868 | 1,296,366 |
| Fund Transfers | 2,108,119 | 314,059 | 561,945 | 503,882 |
| Unappropriated/ Contingency | 16,525,785 | 15,704,507 | 14,820,309 | 17,482,863 |
| Other | 20,809 | 19,728 | 26,660 | 26,660 |
| Expenditures | 61,998,190 | 64,739,761 | 66,677,324 | 69,703,289 |
| FTE | 69.17 | 70.90 | 70.00 | 72.00 |



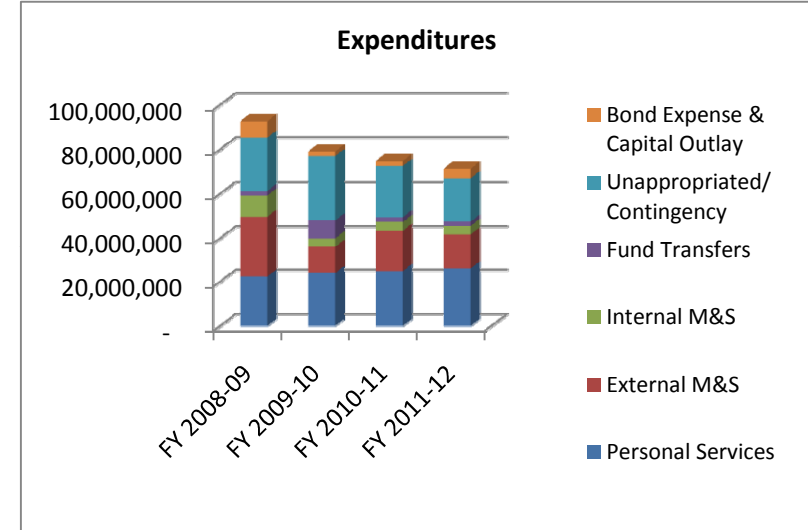
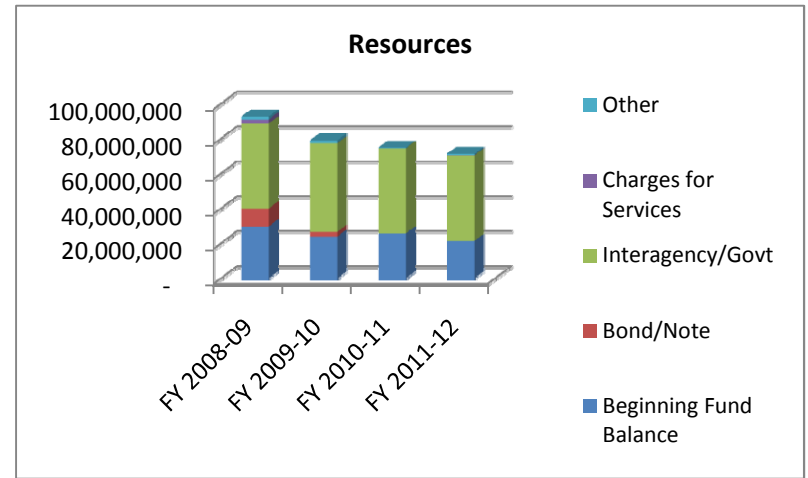
Revenue Bureau

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 1,043,269 | 1,319,641 | 494,692 | 219,882 |
| Gen Fund Discretionary | 3,524,903 | 3,914,420 | 3,968,957 | 4,311,438 |
| Taxes/Licenses/ Permits | 10,258,152 | 7,813,212 | 8,490,270 | 8,898,955 |
| Interagency/Govt | 5,491,631 | 4,413,234 | 4,976,306 | 4,985,078 |
| Charges for Services | 37,510 | 29,243 | 30,000 | 28,100 |
| Other | 174,990 | 97,385 | 122,023 | 67,000 |
| Resources | 20,530,455 | 17,587,135 | 18,082,248 | 18,510,453 |
| Expenditures | | | | |
| Personal Services | 5,169,151 | 5,637,722 | 5,807,074 | 6,345,162 |
| External M&S | 9,207,768 | 9,113,370 | 9,188,483 | 9,250,939 |
| Internal M&S | 3,075,253 | 2,239,744 | 2,557,660 | 2,675,081 |
| Fund Transfers | 1,758,642 | 28,061 | 14,388 | 18,235 |
| Unappropriated/ Contingency | 1,319,641 | 568,238 | 514,643 | 221,036 |
| Expenditures | 20,530,455 | 17,587,135 | 18,082,248 | 18,510,453 |
| FTE | 60.00 | 70.90 | 70.00 | 72.00 |



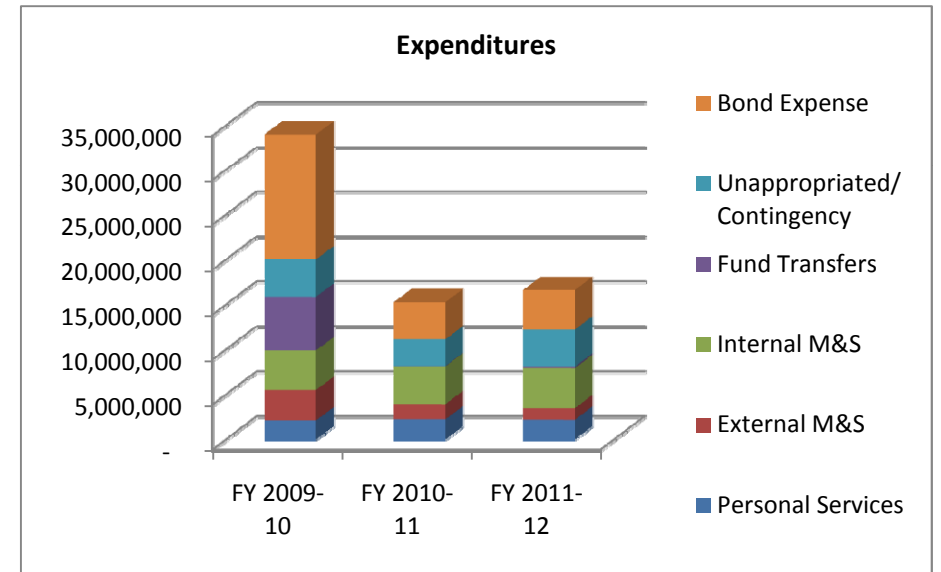
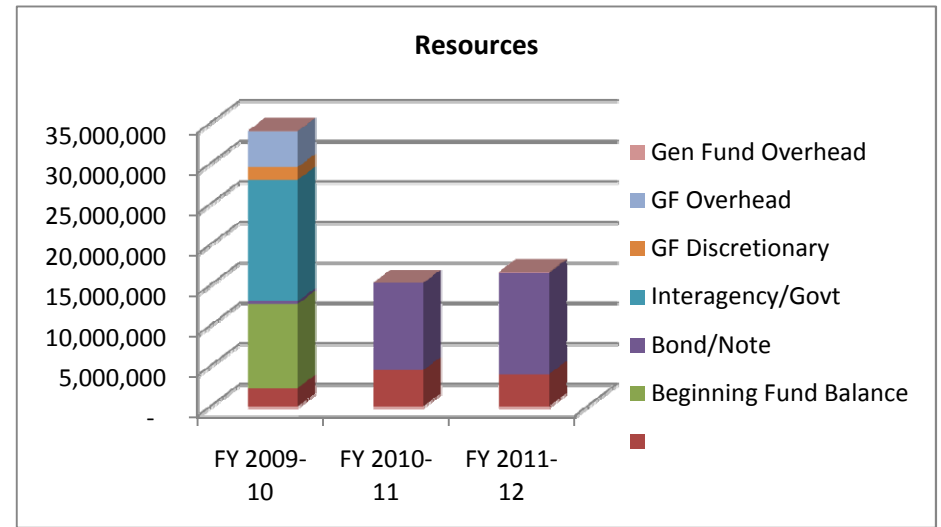
Bureau of Technology Services

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 29,784,249 | 23,977,651 | 25,819,864 | 21,431,487 |
| Bond/Note | 10,313,363 | 2,721,753 | - | - |
| Interagency/Govt | 48,644,927 | 50,754,265 | 48,755,274 | 49,027,687 |
| Charges for Services | 2,374,820 | 52,027 | - | 155,547 |
| Other | 1,619,331 | 1,612,400 | 333,500 | 777,393 |
| Resources | 92,736,690 | 79,118,096 | 74,908,638 | 71,392,114 |
| Expenditures | | | | |
| Personal Services | 22,386,683 | 23,982,872 | 24,919,301 | 26,102,359 |
| External M&S | 27,294,654 | 12,025,198 | 18,619,537 | 15,713,707 |
| Internal M&S | 9,595,310 | 3,987,444 | 3,877,459 | 3,837,072 |
| Fund Transfers | 2,066,366 | 8,003,279 | 2,092,114 | 1,835,938 |
| Unappropriated/ Contingency | 23,977,651 | 29,014,426 | 23,121,923 | 19,606,081 |
| Bond Expense & Capital Outlay | 7,416,026 | 2,104,877 | 2,278,304 | 4,296,957 |
| Expenditures | 92,736,690 | 79,118,096 | 74,908,638 | 71,392,114 |
| FTE | 230.80 | 223.00 | 222.00 | 223.00 |
| | - | - | - | - |



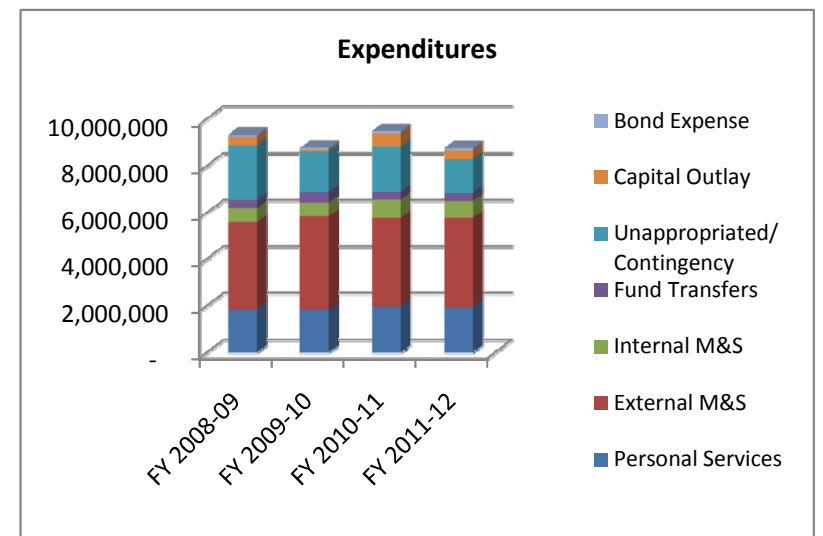
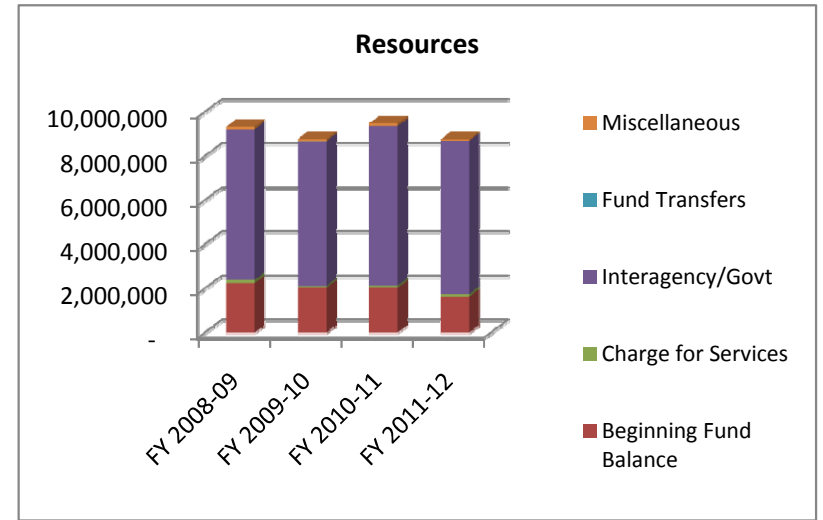
Enterprise Business Solution

| | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|----------------------------|-------------------|-------------------|-------------------|
| Resources | | | |
| Beginning Fund Balance | 2,311,351 | 4,493,273 | 3,984,839 |
| Bond/Note | 10,346,911 | | |
| Interagency/Govt | 345,000 | 10,777,104 | 12,506,414 |
| Fund Transfers | 14,984,197 | | |
| Gen Fund Discretionary | 1,580,168 | | |
| Gen Fund Overhead | 4,430,659 | | |
| Other | 22,070 | 11,921 | 140,000 |
| Resources | 34,020,356 | 15,282,298 | 16,631,253 |
| Expenditures | | | |
| Personal Services | 2,140,975 | 2,260,800 | 2,210,737 |
| External M&S | 3,388,803 | 1,700,340 | 1,280,314 |
| Internal M&S | 4,395,861 | 4,204,937 | 4,456,685 |
| Fund Transfers | 5,970,891 | 44,967 | 175,818 |
| Unappropriated/Contingency | 4,154,890 | 2,955,304 | 4,113,937 |
| Bond Expense | 13,968,936 | 4,115,950 | 4,393,762 |
| Expenditures | 34,020,356 | 15,282,298 | 16,631,253 |
| FTE | 16.50 | 20.00 | 20.00 |



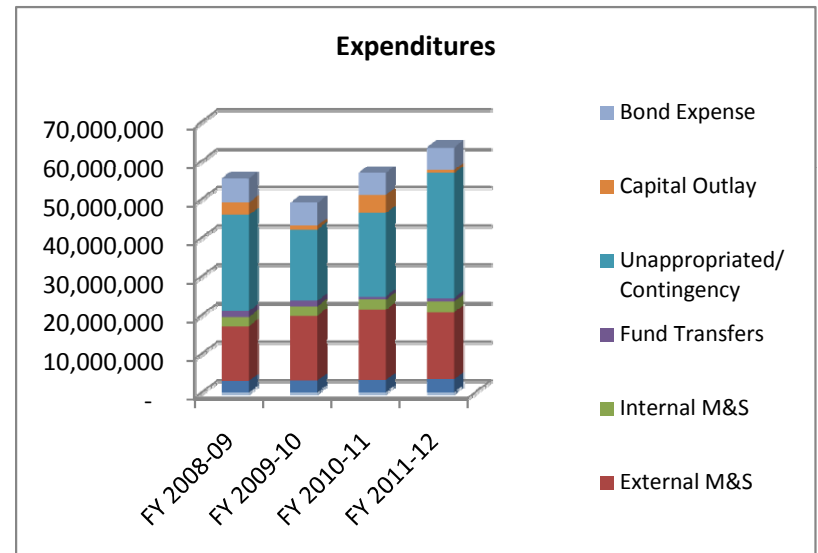
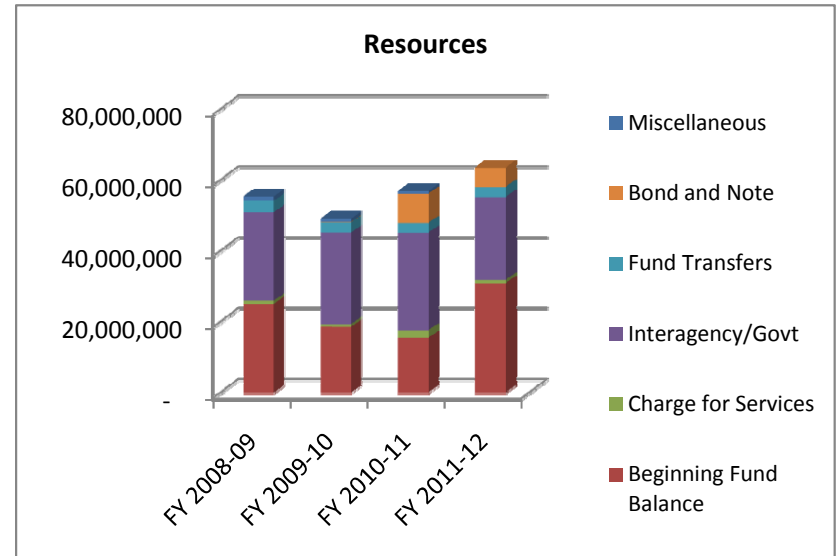
Printing and Distribution

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--------------------------------|------------------|------------------|------------------|------------------|
| Resources | | | | |
| Beginning Fund Balance | 2,245,959 | 2,030,769 | 2,034,628 | 1,638,685 |
| Charge for Services | 148,090 | 85,030 | 99,385 | 108,676 |
| Interagency/Govt | 6,825,762 | 6,558,324 | 7,228,420 | 6,952,566 |
| Fund Transfers | - | 3,569 | - | - |
| Miscellaneous | 111,058 | 93,372 | 124,601 | 60,707 |
| Resources | 9,330,869 | 8,771,064 | 9,487,034 | 8,760,634 |
| Expenditures | | | | |
| Personal Services | 1,853,267 | 1,800,216 | 1,974,322 | 1,943,626 |
| External M&S | 3,724,368 | 4,044,929 | 3,805,186 | 3,835,609 |
| Internal M&S | 623,323 | 595,230 | 792,612 | 729,819 |
| Fund Transfers | 352,380 | 450,353 | 327,185 | 351,538 |
| Unappropriated/ Contingency | 2,330,785 | 1,733,169 | 1,924,370 | 1,426,291 |
| Capital Outlay | 357,502 | 62,558 | 568,878 | 371,250 |
| Bond Expense | 89,244 | 84,610 | 94,481 | 102,501 |
| Expenditures | 9,330,869 | 8,771,064 | 9,487,034 | 8,760,634 |
| FTE | 25 | 25 | 24 | 24 |



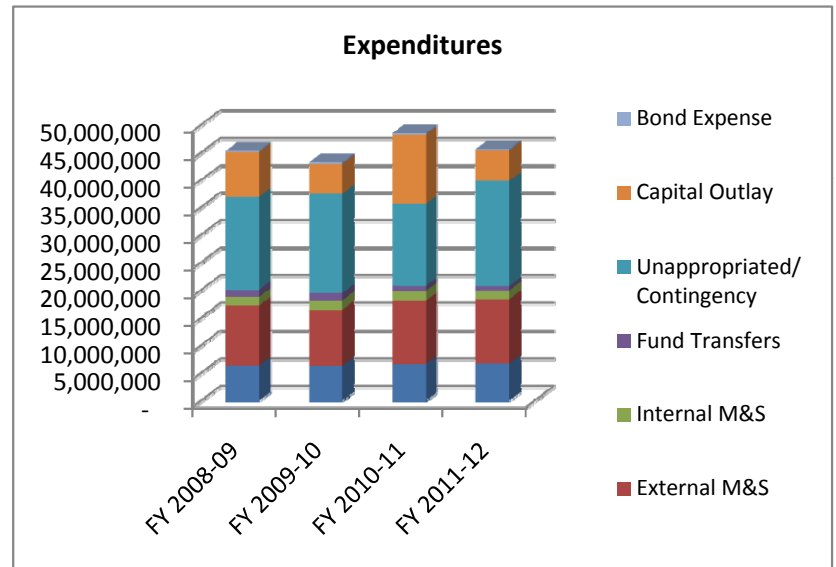
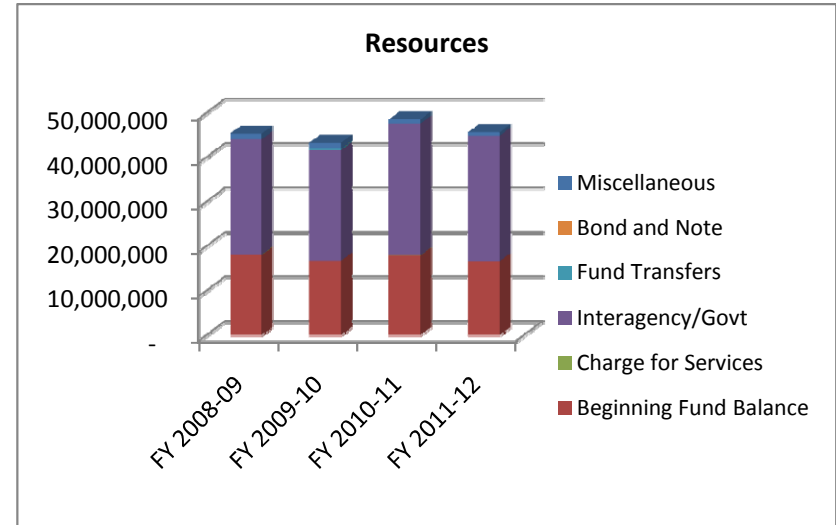
Facilities

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 25,080,817 | 18,577,724 | 15,435,886 | 30,860,250 |
| Charge for Services | 900,175 | 770,479 | 2,128,416 | 957,285 |
| Interagency/Govt | 24,951,427 | 25,808,700 | 27,547,216 | 23,399,103 |
| Fund Transfers | 3,272,723 | 2,927,382 | 2,784,560 | 2,854,734 |
| Bond and Note | | 102,775 | 8,286,566 | 5,451,000 |
| Miscellaneous | 1,207,082 | 928,833 | 701,884 | |
| Resources | 55,412,224 | 49,115,893 | 56,884,528 | 63,522,372 |
| Expenditures | | | | |
| Personal Services | 3,058,760 | 3,141,408 | 3,271,131 | 3,493,361 |
| External M&S | 14,161,284 | 16,786,978 | 18,114,470 | 17,289,384 |
| Internal M&S | 2,411,939 | 2,398,314 | 2,657,880 | 2,758,152 |
| Fund Transfers | 1,500,515 | 1,461,681 | 802,652 | 942,340 |
| Unappropriated/ Contingency | 24,853,983 | 18,453,017 | 21,598,136 | 32,328,625 |
| Capital Outlay | 3,218,681 | 981,436 | 4,658,520 | 900,000 |
| Bond Expense | 6,207,062 | 5,893,058 | 5,781,739 | 5,810,510 |
| Expenditures | 55,412,224 | 49,115,892 | 56,884,528 | 63,522,372 |
| FTE | 34 | 32 | 36 | 35 |



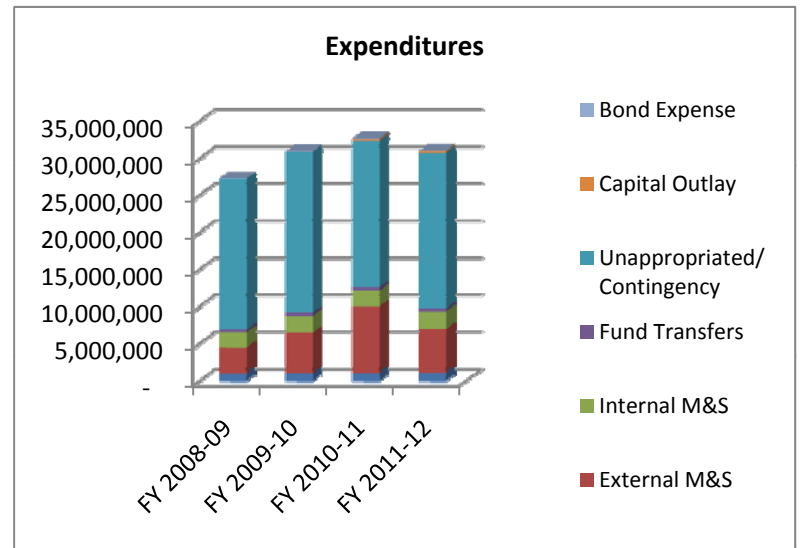
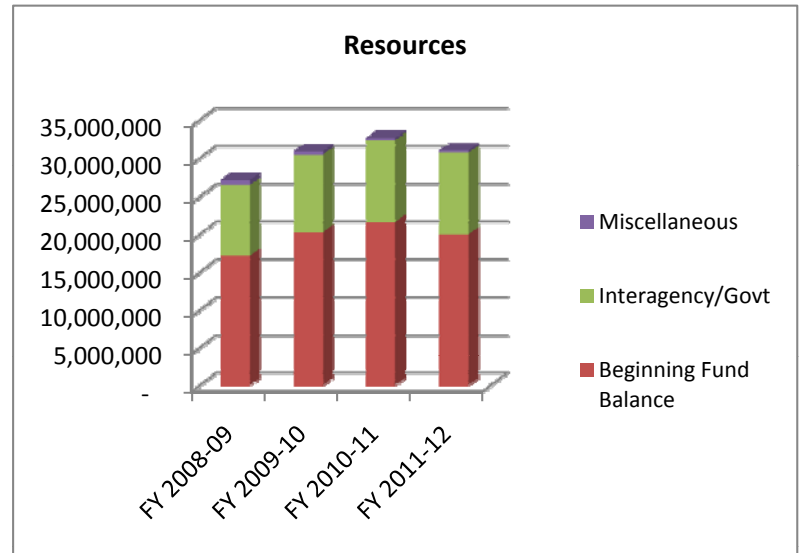
Fleet

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 18,059,782 | 16,737,369 | 17,936,161 | 16,659,699 |
| Charge for Services | 78,746 | 4,071 | 34,999 | - |
| Interagency/Govt | 25,945,403 | 24,897,534 | 29,625,232 | 28,265,389 |
| Fund Transfers | | 310,333 | | |
| Bond and Note | | 24,572 | | |
| Miscellaneous | 1,263,907 | 1,327,444 | 950,000 | 750,000 |
| Resources | 45,347,838 | 43,301,323 | 48,546,392 | 45,675,088 |
| Expenditures | | | | |
| Personal Services | 6,368,262 | 6,342,026 | 6,614,453 | 6,716,627 |
| External M&S | 10,865,744 | 10,126,294 | 11,480,148 | 11,664,621 |
| Internal M&S | 1,574,535 | 1,714,815 | 1,760,389 | 1,582,701 |
| Fund Transfers | 1,258,608 | 1,315,020 | 923,580 | 789,661 |
| Unappropriated/Contingency | 16,830,181 | 17,952,878 | 14,826,197 | 19,115,240 |
| Capital Outlay | 8,187,156 | 5,525,872 | 12,662,821 | 5,503,769 |
| Bond Expense | 263,352 | 324,418 | 278,804 | 302,469 |
| Expenditures | 45,347,838 | 43,301,323 | 48,546,392 | 45,675,088 |
| FTE | 77 | 77 | 77 | 77 |



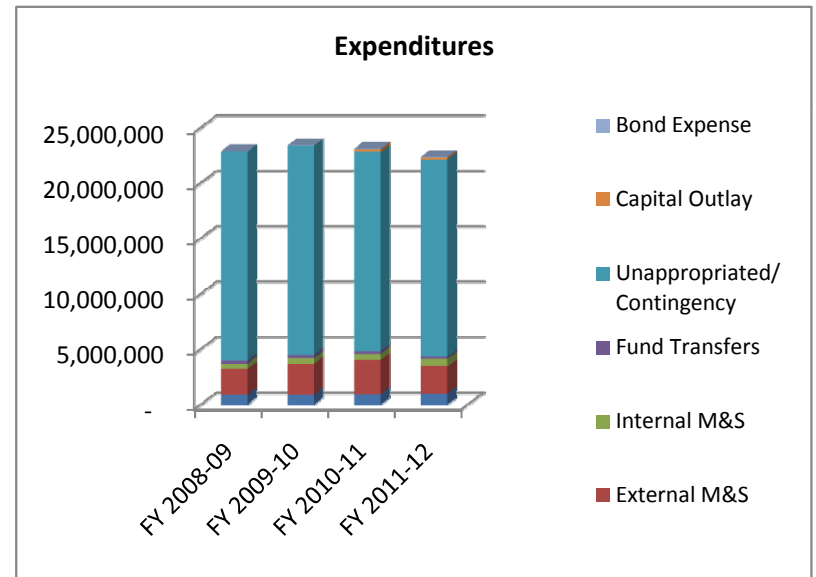
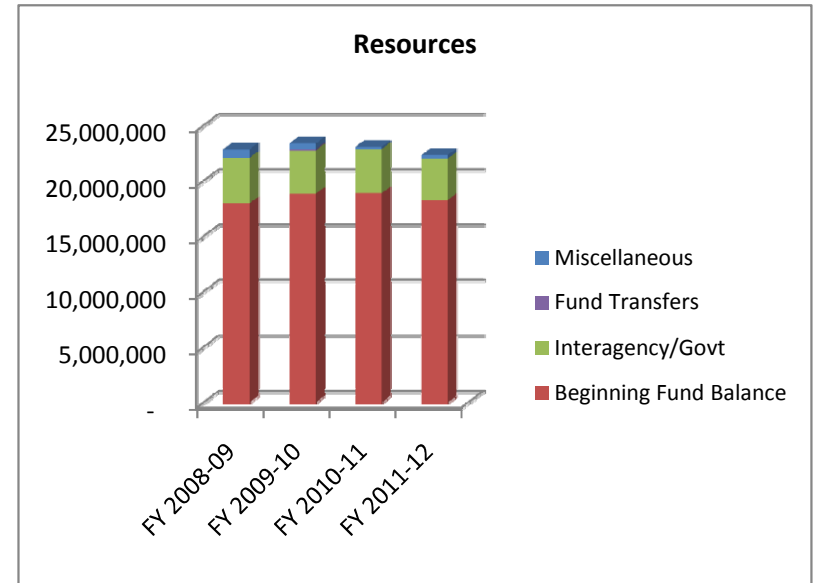
Insurance and Claims

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 17,203,188 | 20,334,785 | 21,702,796 | 20,028,736 |
| Interagency/Govt | 9,374,126 | 10,171,570 | 10,693,426 | 10,728,773 |
| Miscellaneous | 672,550 | 449,305 | 290,003 | 296,519 |
| Resources | 27,249,864 | 30,955,660 | 32,686,225 | 31,054,028 |
| Expenditures | | | | |
| Personal Services | 995,087 | 1,025,037 | 1,127,392 | 1,150,449 |
| External M&S | 3,476,215 | 5,433,789 | 8,893,213 | 5,796,164 |
| Internal M&S | 2,022,982 | 2,231,621 | 2,094,555 | 2,374,108 |
| Fund Transfers | 371,619 | 476,696 | 507,677 | 426,263 |
| Unappropriated/ Contingency | 20,334,785 | 21,741,896 | 19,754,327 | 21,068,564 |
| Capital Outlay | | | 257,000 | 182,000 |
| Bond Expense | 49,176 | 46,623 | 52,061 | 56,480 |
| Expenditures | 27,249,864 | 30,955,661 | 32,686,225 | 31,054,028 |
| FTE | 11 | 11 | 11 | 11 |



Worker's Compensation

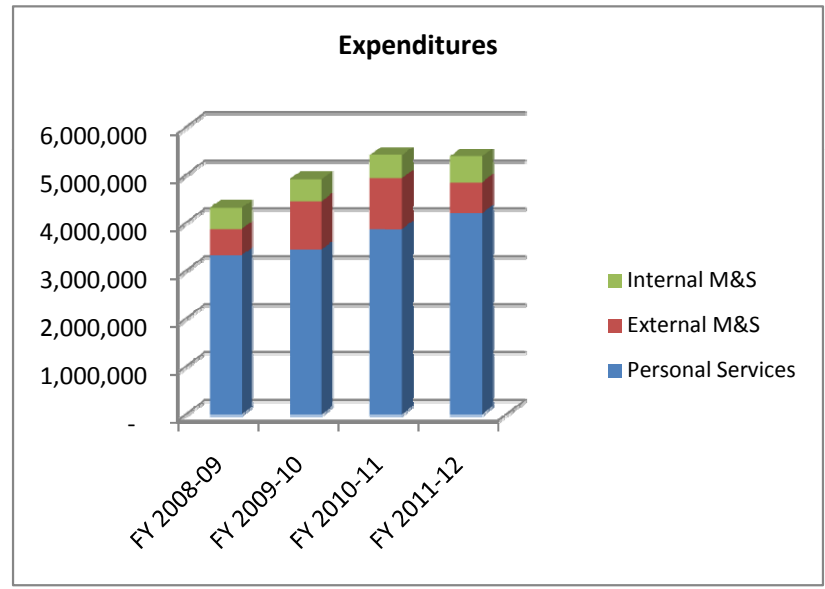
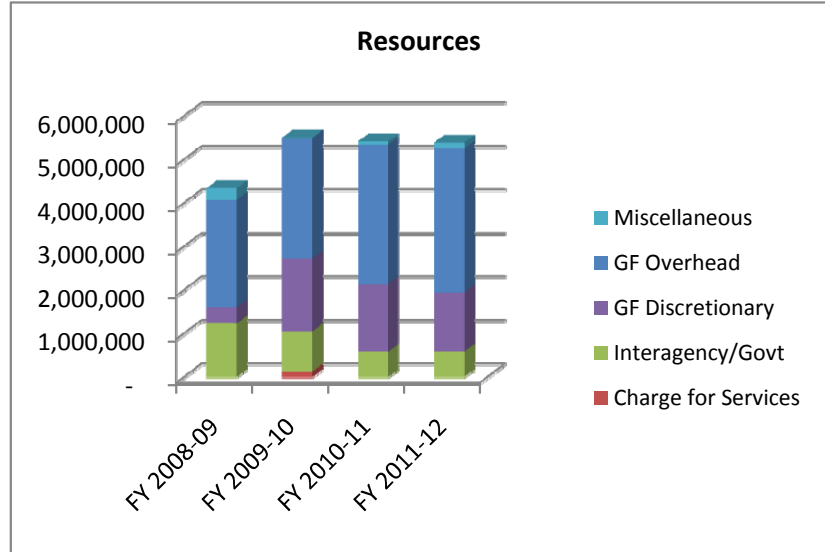
| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Resources | | | | |
| Beginning Fund Balance | 17,977,967 | 18,848,696 | 18,900,074 | 18,303,000 |
| Interagency/Govt | 4,105,281 | 3,907,609 | 3,982,206 | 3,725,725 |
| Fund Transfers | | 127,126 | | |
| Miscellaneous | 764,860 | 508,332 | 198,862 | 315,173 |
| Resources | 22,848,108 | 23,391,763 | 23,081,142 | 22,343,898 |
| Expenditures | | | | |
| Personal Services | 894,309 | 904,370 | 949,221 | 1,005,579 |
| External M&S | 2,318,903 | 2,772,434 | 3,066,188 | 2,440,846 |
| Internal M&S | 461,692 | 491,169 | 563,716 | 668,448 |
| Fund Transfers | 278,509 | 323,717 | 228,532 | 183,732 |
| Unappropriated/ Contingency | 18,848,696 | 18,856,465 | 17,967,787 | 17,810,462 |
| Capital Outlay | | | 257,000 | 182,000 |
| Bond Expense | 45,999 | 43,610 | 48,698 | 52,831 |
| Expenditures | 22,848,108 | 23,391,763 | 23,081,142 | 22,343,898 |
| FTE | 10 | 9 | 9 | 9 |



Procurement

FY 2008-09 FY 2009-10 FY 2010-11 FY 2011-12

| Resources | | | | |
|----------------------------|------------------|------------------|------------------|------------------|
| Charge for Services | 186 | 132,975 | - | - |
| Interagency/Govt | 1,233,790 | 921,054 | 589,456 | 587,887 |
| General Fund Discretionary | 368,071 | 1,669,232 | 1,558,060 | 1,361,232 |
| General Fund Overhead | 2,473,062 | 2,775,125 | 3,198,018 | 3,306,909 |
| Miscellaneous | 269,594 | 7,084 | 75,741 | 135,000 |
| Resources | 4,344,703 | 5,505,470 | 5,421,275 | 5,391,028 |
| Expenditures | | | | |
| Personal Services | 3,324,397 | 3,448,916 | 3,871,449 | 4,203,390 |
| External M&S | 548,446 | 1,006,010 | 1,062,524 | 646,000 |
| Internal M&S | 441,312 | 458,009 | 487,302 | 541,638 |
| Expenditures | 4,314,155 | 4,912,935 | 5,421,275 | 5,391,028 |
| | | | | |
| FTE | 38 | 37 | 37 | 37 |



APPENDIX H

SAP SUMMARY INFORMATION

OVERVIEW

In an effort to understand the City's implementation of its new Enterprise Resource Planning (ERP) system, SAP, AKT collected documentation about the system's history within the City, timeline, stakeholders, and end users. It quickly became apparent that the implementation of SAP was a large undertaking for the City, involving and consuming the time and effort of many City employees. There has been a necessary and valuable a body of work dedicated to making SAP's implementation a success, including the development of Enterprise Business Solutions (EBS), the formation of voluntary advisory committees, and the designation of trainers to ensure smooth deployment of the software throughout the City. The following section provides background information regarding SAP's implementation, along with the context to frame our recommendations. It includes extracts from the City Auditor's November 2010 report entitled, *Business System Software Implementation: Expensive, Late and Incomplete*. This report provides objective information that details, not only, the history of the SAP project, but also, describes the formation of EBS and the reference point for our analysis.

HISTORY AND BACKGROUND

In 2004, the City of Portland embarked on a \$14 million project to select and implement a new ERP system to replace its aging financial software (IBIS) before it became non-functional. During the first phase of this project, the City selected Systems Applications and Products (SAP) for Data Processing as its ERP and hired a contractor to help with implementation. In the second phase, the City and the contractor worked to implement the new system within 14 months. The project was designed to improve access to information, reduce duplicate data entry, and standardize City processes.

Instead of a \$14 million, 14-month implementation as planned, the reported project costs exceeded \$47 million and took over 30 months to implement. These costs do not include the payroll and related costs for many city employees formally assigned to the project full-time because these costs were absorbed by the Bureaus the employee was assigned to. Although the implementation project has ended, the City continues to work to improve and add new functions to the system and plans to add new features to match the original intended use of SAP.

The continuous demand to update and upkeep the new ERP resulted in the formation of EBS. EBS implements, maintains and continuously improves the City's SAP integrated resource planning system. The division currently supports 1,500 financial system end-users and at least 1,200 human resources/payroll end-users in 28 business groups. EBS supports the overall City-wide goal of delivering efficient, effective, and accountable municipal services and the OMF goals of strengthening the organization's leadership and stewardship of the City's human, technological, financial, and capital resources.

The SAP system for Financial Management, Procurement, and Materials Management at the City of Portland has been live since December 2008 and the system for Human Capital Management was added in 2009. The City of Portland also acquired the Business Objects reporting (BOBJ) and analytics solutions in 2010 to enhance the level of reporting but has developed a minimal number of reports to date.

Two modules of SAP are used City-wide and are considered to be the mission critical functions needed for the SAP implementation to succeed. These two modules are the Financial Accounting and Logistics (FILO) and the Human Capital Management (HCM). The following functions are currently available within these two modules.

| Financial Planning Module (FILO) | Human Capital Management Module (HCM) |
|----------------------------------|---------------------------------------|
| General Ledger | Payroll |
| Materials Management | Personnel Administration |
| Project Accounting | Time Management |
| Controlling | Organizational Management |
| Accounts Receivable and Billing | |
| Funds Management | |
| Accounts Payable | |
| Grants Management | |
| Fixed Assets | |
| Cash Management / Treasury | |

When the City went live with the new system in 2009, it did not fully meet its goal of implementing certain SAP functions for several reasons. Most of the scope reductions occurred when the City changed consultants to simplify the project’s complexity to meet the project schedule and as the City more fully comprehended the magnitude of the change. The high priority items are listed in the table below; the lower priority functions are being added as time permits.

Two functions in the HCM module considered critical to SAP’s success have been purchased, but have yet to be implemented City-wide. The first is the Employee Self-Service Function (ESS), which allows employees to create, view and change their own timekeeping data. While ESS is live in some Bureaus, other Bureaus continue to use the pre-SAP process of designated timekeepers for data entry. One of EBS’s high priority projects is to deploy this functionality in a stable format to OMF and the City.

The second function currently in queue for implementation is the Manager Self Service function (MSS) which allows electronic approval of employee time. The HCM module does not currently require electronic manager approval of employee time before issuing a paycheck and as a result Bureaus are using various manual methods to address this gap. The City has not yet adopted an interim city-wide policy to ensure consistent documented review. .

SAP REVIEW METHODOLOGY

AKT reviewed the following documents to get a clearer picture of SAP, the issues concerning the implementation of SAP, and documented trouble spots. AKT used this information to formulate questions, discussion items and follow up ideas to understand why many OMF Bureau managers are still frustrated with SAP. AKT reviewed the following documents:

| SAP Documents Reviewed | | |
|------------------------|----------------------------------|--|
| Year | Title of Document | Summary of Document |
| 2011 | SAP Workarounds for FILO and HCM | This is a list of current workarounds that are creating inefficiencies within OMF as it relates to SAP. Most of items in this document list additional business processes or extra work required either to input or access data within SAP |

| SAP Documents Reviewed | | |
|------------------------|--|--|
| Year | Title of Document | Summary of Document |
| 2010 | SAP Collaborative Value Assessment for the City of Portland: Enabling Enterprise Value (Version 2.0 For Review Purposes Only) | This is a PowerPoint document that lays out a road map detailing current successes in SAP, current roadblocks and areas where SAP functions still need to be rolled out, areas of trouble for the City within SAP and an outline of potential next steps |
| 2010 | Business System Software Implementation: Expensive, Late, and Incomplete | This is a city auditor's report on the selection and implementation of SAP's Financial and HR/Payroll system. It compares the City's goals to actual results in implementing this new system |
| 2010 | EBS Lessons Learned From Concept to Go-Live: Lessons Learned from Implementing an Enterprise Business Solution (EBS) in the City of Portland | This document lists the lessons learned in the City's SAP implementation. The report is written chronologically for the three major implementation time segments and then discusses the lessons applicable to future projects |
| 2010 | High Priority Changes from EBS | This is an Excel document listing the projects EBS has queued. It includes the type of work EBS is handling (change request, business process assistance, new functionality), the bureau they are servicing and SAP area of focus for the particular project |

In addition to reviewing these documents AKT interviewed each of the Bureau and Divisions Managers and staff. We asked them how they were impacted by the SAP implementation and if they were experiencing inefficiencies and/or workarounds because of the new system. AKT compiled the initial results and composed a follow up e-mail to Bureau and Division Managers that included the following questions:

- What are the most troublesome business operations areas with the SAP implementation?
- What are the most troublesome software areas with the SAP implementation?
 - For each of these, which entities are the big users?
 - For each of these, who do you think is having the most difficulty?

AKT also questioned Bureau and Division Managers by providing a hypothetical situation in which they had unlimited resources to resolve their issues with SAP. The intention was to understand where they believe the most pressing issues are and what they believe needs to happen to solve SAP issues. We limited the scope of the hypothetical to the following three areas and asked for a percentage of resource:

- Would you (Bureau and/or Division Manager) allocate resources towards changing your business process to meet the needs of SAP? If so, in what percentage?
- Would you allocate resources towards changing the SAP application to meet the needs of your current business processes? If so, in what percentage?
- Would you allocate resources toward buying and implementing additional SAP modules to have enough functionality to meet your business needs? If so, in what percentage?

The results from our questions were mixed; Bureau and Division Managers hesitated to allocate specific percentages to each of the questions. However, there were several consistent comments from each of the Bureau and Division Managers interviewed, which led to the following conclusions - SAP was not implemented to cut positions. One manager stated "SAP is about taking the administrative work away from staff so they can complete the higher level work they *should* be doing to make a better OMF." Different Bureaus and Divisions are impacted by SAP inefficiencies at various levels. In some areas of OMF, SAP is meeting most business needs and has led to efficiency gains. In others, some business needs are being met and some are not. In at least one case, it appears SAP meets none of the Division's business needs and is hampering the management of the Division.

EBS' ROLE IN SAP

EBS' responsibilities are to support the users of the SAP system, to encourage efficient use of the SAP system, to assist the Bureaus and Divisions in improving the execution of the operational responsibilities of the City, and to deliver the additional functionality that enhances the use of the SAP system and maximizes the City's investment.

EBS manages SAP issues in the following three ways:

- 1. Break Fix Maintenance** – These requests are the top priority of EBS and are done as quickly as possible. Bureaus and Divisions are able call in to the IT help desk to report broken functionality within SAP. EBS is charged with fixing the issue. Maintenance is primarily driven by EBS and involves update, backup, patches and other tasks to keep SAP viable.
- 2. Change-Request Maintenance** – Change-requests are directed from Bureaus to do something new in the implemented modules. One of the more common examples of a change request is when a Bureau or Division requests a new report that changes or adds new columns to an existing report. Change requests are prioritized by the Program Advisory Committee (PAC) based on criteria that include legal requirements, impact on multiple Bureaus and impact on revenues.
- 3. New Functionality** – These are new functions requested by the Bureaus and Divisions which are outside the current implemented scope. An example includes the implementation of Business Objects. With new functionality requests, EBS works with Bureau and Division managers to make a business case for implementation that includes timing and costs of implementation and maintenance. Next, a presentation is made to the PAC for review, recommendation and initial prioritization. Generally, the PAC-member sponsor presents their recommendation to the Executive Steering Committee (ESC) which is made up of eight Bureau Directors. Ultimately, the ESC decides whether or not to pursue the new functionality and determines the funding source.

EBS and the City of Portland are aware that EBS in its current form still needs improvement. In Phase II of this project it is critical to develop a City-wide strategy to ensure that the most needed SAP functions will go live, work properly and be usable in a timely manner without having to re-invest a large amount of resources in the refocus of EBS. More detail is provided in the Next Steps section of this report.