



CITY OF
GRESHAM, OREGON

OFFICE OF THE CITY AUDITOR

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MEMORANDUM

September 11, 2006

To: Charles J. Becker, Mayor
Shane Bemis, Council President
Shirley Craddick, Councilor
Karylenn Echols, Councilor
Jacqueline McIntire, Councilor
Paul Warr-King, Councilor
David Widmark, Councilor

Subject: City Auditor's Annual Report

The purpose of this memo is to provide you with an annual report for Fiscal Year 2006, as required by Section 2.78.120 of the Gresham Municipal Code.

I. History of Auditing in the City of Gresham

On September 2, 2004, Gresham voters approved amending the City Charter to establish the position of City Auditor. The amendment was effective on January 1, 2005. The City initiated a recruitment process and filled the position on May 9, 2005. The position reports directly to City Council and duties include: planning, conducting, evaluating city offices and programs; developing an annual audit plan; determining appropriate audit methods; conducting surveys of potential audit areas; auditing city operations to determine if established objectives are being achieved; and making presentations to City Council, the Executive Management Team, advisory committees, and other city staff and the public. The Office of the City Auditor consists of one individual, David Dean, City Auditor. A native Oregonian, his previous experience includes more than 14 years in performance auditing and program evaluation. David is a graduate of the University of Oregon and Pacific University. In 2003, he completed a Master's Degree in Public Administration at Portland State University.

II. Authority and Responsibilities

Article 2 of the Gresham Revised Code establishes the Office of the City Auditor and specifies how the Office will function. The Code amplifies City Charter Section 21B which states:

The City shall have a City Auditor and such Assistant City Auditors and other staff members as the Council deems necessary.

The City Auditor and City Auditor's staff (shall) be appointed and removed by a majority of the entire council.

As required by City Code, the auditor prepares an annual audit plan listing departments, and programs scheduled for audit, reports irregularities to City Council, and receives an external quality control review. In conducting performance audits of City departments and programs, the auditor may address a wide variety of audit objectives, including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, and compliance with legal or other requirements. The auditor may also conduct performance audits that provide prospective analyses, best-practice guidance, cross-functional or organizational evaluation, or summary of issues already studied or under study. Performance audits may entail a broad or narrow scope of work, apply a variety of methodologies, and involve various levels of analysis, research, or evaluation. Performance audits generally provide findings, conclusions, and recommendations, and usually result in the issuance of a report. The auditor may also conduct special audits in response to requests from city council. This work is conducted in accordance with performance audit standards or is considered routine technical assistance or advice consistent with section 3.15 of Government Auditing Standards. As required by City Code, the City Auditor does not perform non-audit (consulting) services.

III. Mission of the City Auditor's Office

The mission of the City Auditor's Office is to help City Council improve the performance and ensure the accountability of city government for the benefit of the citizens of Gresham. The City Auditor's Office achieves its mission by reporting independent assessments of City services and activities to City officials and citizens, and by recommending actions for achieving greater efficiency and effectiveness. The City Auditor's Office provides services in an objective, timely, professional, and productive manner. Under Gresham's Municipal Code, the City Auditor has authority to conduct performance audits or other audits of all departments, offices, activities, functions, programs, and subcontractors of the City. The Code provides unrestricted access for the City Auditor to information and records necessary conduct audits or otherwise perform audit duties. In general, performance audits are intended to answer one or both of the following questions: Is management performing its duties economically and efficiently? Are programs achieving their intended purpose?

IV. Goals and Objectives

To address its mission, the City Auditor's Office pursues the accomplishment of four overarching goals. These goals are:

- To help city government be accountable for public resources;
- To improve the efficiency, effectiveness, and economy of city programs and activities;
- To promote compliance with laws and regulations; and
- To provide objective, timely, productive, and effective audit services.

More specifically, the objectives related to the goals of the auditor's office are to:

- Issue at least one audit report each year for every full-time equivalent audit position. Audit reports help provide information to decision makers and citizens about the performance of their city government. While the number of audit reports issued each year can vary depending on the size and complexity of individual projects, these public reports help improve public accountability.
- Identify cost savings and/or increased revenues equal to at least half of the city auditor's annual operating budget every year. An important measure of the value of audits is the financial benefit derived from implementation of audit recommendations that improve efficiency, increase revenues, or avoid cost.
- Ensure that at least 85 percent of audit recommendations are addressed/resolved. The implementation of audit report recommendations indicates that city departments and offices are taking action to address conditions that negatively affect city effectiveness, efficiency, controls, and compliance. Audit impact or effectiveness can be measured by the percent of audit recommendations that are addressed by city departments.
- Receive a full compliance opinion from an external peer review team once every three years. Pursuant to Gresham Revised Code, the City Auditor's Office undergoes a peer review by external audit professionals every three years. The reports indicate the degree to which the auditor's office complies with Government Auditing Standards in conducting audit work.
- Attain a cost per audit hour rate that is approximately equal to the average cost per audit hour of other comparable government audit organizations. One measure of the efficiency of audit work is the cost of an audit. In computing cost per audit hour, the auditor's office includes all direct and indirect costs associated with doing audits.
- Attain a customer service/user satisfaction rate of at least 85 percent from City Council and other report users. To help determine the degree to which users (including City Council members) of our reports find them useful, fair, and accurate, the City Auditor will conduct reader satisfaction surveys for each report issued.

V. Performance Measures

Just as the City Auditor's Office assesses the performance of City Departments, the City Auditor's Office should be held accountable for its performance in achieving its goals. The following are key performance measures used by the City Auditor's Office to assess the degree to which its mission and goals are met. Data on each of these indicators is collected throughout the year and performance results are reported annually to the Council. In addition, some of these indicators are reported in conjunction with the City's annual budget process.

- Number of reports issued. Data source: Annual count by the City Auditor prepared in July of each year of the number of reports issued during the past twelve months. *During Fiscal Year 2006, the City Auditor issued two reports. An informational audit responding to City Council questions about the feasibility of starting a Municipal Court in Gresham was released in August 2005. Also, in December 2005, the City Auditor*

released a report reviewing the use and management of overtime in the Fire Department. A summary of the audits worked on during FY 2006 is included in Part VI of this report.

- **Financial benefits of audit recommendations.** Data source: Calculation by the City Auditor in a memorandum filed in the Job File for each audit. The total annual financial benefits are calculated by the City Auditor from memorandums for all audit reports issued during the year. *The objective of the Municipal Court report was to respond to specific questions from City Council and no recommendations were made. Thus, no financial benefits resulted from audit recommendations in this report. The Fire Department overtime audit estimated the City could save at least \$200,000 per year by hiring six new firefighters instead of paying overtime to existing staff.*
- **Percent of audit recommendations addressed.** Data source: Rolling average of recommendations addressed/resolved, updated on an on-going basis by the City Auditor. *Data not available for FY 2006 (the first year that audits were released in Gresham). There were no recommendations included in the Municipal Court informational audit, thus no follow-up is scheduled. In accordance with Government Audit Standards, the City Auditor will ask the City Manager and/or Fire Department to submit a written status report on the actions taken to address the audit findings and recommendations in December 2006, one year following issuance of the audit report.*
- **Comply with Government Auditing Standards.** Data source: Obtain a "full compliance" opinion from an external peer review team once every three years. *The City Auditor has taken preliminary steps to arrange a peer review of Gresham's new audit function, tentatively scheduled for early summer 2007.*
- **Audit Cost per total hour.** Data source: ALGA Benchmarking Survey and annual calculation made by the City Auditor in accordance with ALGA's methodology. *Gresham's cost per hour for audits was \$57.95 for FY 2006. This compares to an inflation adjusted rate of \$57.05 for other small audit organizations reporting on the ALGA survey.*
- **Customer/user satisfaction.** Data source: Running average of ratings from returned reader surveys. Cards and calculation maintained by the City Auditor. *Running average of ratings indicated 100 percent user satisfaction (readers rating reports as either "good" or "very good" in the following six areas: significance of the topic; clear and concise; convincing; objective and fair; useful; and overall report quality). All seven members of City Council completed reader surveys for both the Municipal Court report and the Fire Overtime report. The average score for both audits released in FY 2006 was 4.8 on a five-point scale (1=very bad to 5=very good).*

VI. Summary of Reports Issued

Municipal Court Feasibility Analysis, August 2005. On June 7, 2005, City Council requested the City Auditor reevaluate the 2003 Municipal Court Task Force Report to determine: financial start-up costs, which would include current facilities and usage; staffing levels, number of operational hours, and overall cost of operation; potential revenue generation from code enforcement and minor traffic violations; and possible net gain in revenue generation over an annual basis. The auditor's review of the two-year old report of the Municipal Court

Task Force found the information presented was well researched and supported. Even so, new financial data obtained from the circuit court suggested that a Gresham Municipal Court would most likely produce more revenues than were predicted by the task force. Also, the auditor's report identified some areas where start-up costs might be reduced below the level identified in the task force report. Based on this updated information, the report concluded it was likely that a Gresham Municipal Court would at least pay for itself. Yet, there were several unknowns identified in that could affect the fiscal equation and should be considered during the process of deciding whether to start a municipal court. These unknowns include: the additional revenues that might be generated by assessing fees and costs over and above base fines for violations; the potential to reduce police court overtime by reducing travel time and more effectively coordinating officer and court schedules; the jurisdiction chosen for a Gresham Municipal Court which would affect both revenue potential and associated costs; and incidental expenses to other parts of city government due to the operation of a municipal court. The objective of this audit was to provide information only. There were no recommendations included in this audit, thus no follow-up is scheduled. The complete report is available to all interested parties on the City's website at: http://www.ci.gresham.or.us/mayorcouncil/auditor/pdf/mc_memo.pdf.

Fire Department Overtime, December 2005. This audit found personal services costs for Gresham's Fire and Emergency Services Department were higher than necessary because the Department relied too heavily on overtime, primarily to meet requirements for minimum staffing and training. Although the Department had reduced overtime in its Administration and Life Safety Divisions, most overtime was occurring in the Fire Operations Division where its use had increased by 19 percent over the previous four years. During FY 2005, overtime cost more than \$1.0 million and use averaged about 2,500 hours per month. The audit found personal services costs could be reduced by hiring additional firefighters as "floaters" to fill in for other firefighters when they are on vacation, in training, attending meetings, or away on other types of leave. By increasing the number of floaters and implementing new controls designed to help manage overtime, the Department could realize savings in excess of \$1.0 million over a five-year period. In accordance with Government Audit Standards, the City Auditor will ask the City Manager and/or Fire Department to submit a written status report on the actions taken to address the audit findings and recommendations in December 2006, one year following issuance of the audit report. The complete report is available to all interested parties on the City's website at: http://www.ci.gresham.or.us/mayorcouncil/auditor/pdf/gfes_ot.pdf.

Police Department Overtime, August 2006. This audit concluded that overtime is an inevitable part of police work and all police organizations rely on it to some extent to meet service requirements; however, Gresham's reliance on overtime has been excessive. A comparison of police overtime use in Gresham and six other similar-sized cities in our region found the Gresham Police Department relies on overtime to a greater extent than do these other cities. Overtime amounted to 15.8 percent of all hours worked by sworn personnel in Gresham's Police Department. That was nearly double the average rate of 8.2 percent for the other six cities. A second comparison of overtime, focusing on hours per full-time sworn position, also shows higher than average overtime use in Gresham. This comparison shows sworn personnel in the other six similar-sized cities averaged 153 hours of overtime per FTE during Fiscal Year 2005. At 274 hours, Gresham averaged 79 percent more overtime per sworn FTE than the other six cities. Best practices in police overtime management provide insights into the actions that will be necessary to control police overtime. The combination of more officers and additional controls should enable the Department to bring its overtime usage more in line with overtime use in other cities in the region, resulting in savings of about \$1.5 million over a five-year period.

In accordance with Government Audit Standards, the City Auditor will ask the City Manager and/or Police Department to submit a written status report on the actions taken to address the audit findings and recommendations in August 2007, one year following issuance of the audit report. The complete report is available to all interested parties on the City's website at: <http://www.ci.gresham.or.us/mayorcouncil/auditor/pdf/policeOTAuditFinalReport8-21.pdf>.

VII. Other Activities and Accomplishments

Auditor's Code Amendments. Worked with City Council on provisions of an audit charter, which was adopted as a part of Gresham's Municipal Code. These code amendments are consistent with Government Auditing Standards promulgated by the Comptroller General of the United States and guidelines endorsed by the Association of Local Government Auditors. The auditor's amendments provide the ground rules for audits in Gresham and provide a basis for quality reports that meet professional standards.

Policies and Procedures. Developed a comprehensive audit policies and procedures manual to comply with audit standards and established criteria. The purpose of this manual is to establish internal policies and procedures for the Gresham City Auditor's Office. The manual serves as a reference and guide for audits and helps ensure that work is conducted in accordance with professional standards. In addition, the manual helps explain the City Auditor's work to interested parties. To show compliance with these policies and procedures, internal quality control steps will be documented for each audit undertaken as described in this manual. This manual reflects changes made in the 2003 Revision of Government Auditing Standards (GAS) published by the Comptroller General of the United States. As required by Government Auditing Standards and the Gresham Revised Code, City Auditor's Office is subject to a review by external audit professionals to assess its compliance with these standards.

Knighton Award. In May 2006, the City of Gresham, Office of the City Auditor, received the 2005 Gold Knighton Award for the best audit report issued by a small local government audit shop for its performance audit entitled: Gresham Fire and Emergency Services Overtime: Actions Recommended to Reduce Costs. Each year, the Association of Local Government Auditors recognizes the best performance audit reports from around the United States and Canada in three award categories. Gresham won the gold in the small shop category (one to five auditors). In making the award, reviewers commented "Gresham tackled the overtime issue head on with very clear analysis of the current state and developed recommendations that were very effective. Their focus on payroll analysis, effective use of graphics, and recommendations that were easily grasped presented a solid case for change. Their engaging, clear, and concise writing style held the reader's attention. They defined their project scope clearly and ensured that their report did not stray from the purpose they wished to accomplish. Implementation of their recommendations is expected to result in direct savings of over \$200,000 per year. Of special note is the fact that this was the first full audit report produced by the new audit office."

Peer Review. In October 2005, the City Auditor participated on a peer review team that assessed compliance with Governmental Auditing Standards in the Deschutes County Internal Audit Program. In preparation for this activity, the City Auditor completed training provided by the Association of Local Government in Milwaukee, Wisconsin. The City Auditor also has taken initial steps to arrange for a peer review of the Gresham City Auditor's Office, which is tentatively scheduled for the Summer of 2007.

Auditor's Budget. Worked with City budget staff to develop a budget for audits. To protect the independence of the audit function, Section 2.78.010 of the Gresham Municipal Code requires the Office of the City Auditor to be provided a separate budget sufficient to carry out the responsibilities and functions established in the code. The City Auditor worked with budget staff to establish the office as its own department in City government and presented the budget during budget hearings on the FY 2006/2007 City budget.

Training. Government Auditing Standards require auditors to complete 80 hours of continuing professional education every two years. Accordingly, during FY 2006, the City Auditor completed training sponsored by the Association of Local Government Auditors and ACL of Vancouver, British Columbia, totaling 41 hours.