



CITY OF

PORTLAND, OREGON

OFFICE OF CITY AUDITOR

Jewel Lansing, City Auditor
1220 S.W. 5th, Rm. 202
Portland, Oregon 97204
(503) 248-4078

July 10, 1986

TO THE COUNCIL

FROM: Jewel Lansing, City Auditor

RE: Attachment to Council Agenda Item

The attached Ordinance is a "companion" measure to ballot measure #51 approved by the voters May 20 regarding the Auditor's duties. This Ordinance clarifies the specifics of how the internal audit function will be conducted under the new Charter provisions. The Ordinance is based on model legislation prepared by the Local Government Auditors Group of the National Intergovernmental Audit Forum.

Except for the addition of a new paragraph 3.05.030 B, and an additional phrase at the end of 3.05.080, this Ordinance is virtually identical to the draft circulated with the February 12, 1986 Charter amendment proposal. The new section 3.05.030 B simply clarifies audit selection authority. The added phrase in the Peer Review section 3.05.080 recognizes that local government auditors do not yet have an organizational framework in place to perform such reviews. When we drafted that Code section in February, we understood that the National State Auditors Association planned to include us in their peer review process. However, since that time the NSAA Executive Board has decided that because they have a waiting list of state audit agencies wanting peer reviews, NSAA cannot include any local governments at this time. The phrase we added to Code section 3.05.080 states that peer review will be conducted "provided that the services of a nationally recognized body are available to perform such a review."

ORDINANCE NO.

158760

AN ORDINANCE amending Title 3, Administration, by adding a new Chapter, 3.05, entitled "City Auditor's Internal Audit Function," in accordance with Charter changes approved by the voters at the May 20, 1986 election setting forth the specifics under which the Internal Audit Division of the City Auditor's Office shall function and declaring an emergency.

The City of Portland ordains:

Section 1. The Council finds:

1. Accountability is inherent in the governing process of this nation. Officials and employees who manage public programs are obligated to justify to the public their methods and purposes in appropriating, applying, and using public resources.
2. Public officials, government managers, and private citizens want and need to know not only whether government funds are handled properly and in compliance with laws and regulations, but also whether public programs are achieving the purposes for which they were authorized and funded, and, whether they are doing so efficiently and economically.
3. An independent internal auditing function can provide objective information on the operations of government programs, assist managers in carrying out their responsibilities, and help ensure full accountability to the public.
4. An effective internal auditing function requires that audit results be accepted and used by public officials. Acceptance requires that the audit function be understood and recognized as valid, and that it be established on a firm foundation of professional competence.
5. Standards for the conduct and practice of governmental auditing have been developed by the Comptroller General of the United States in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.
6. The internal audit function in the City of Portland, approved by the voters through Charter amendment on May 20, 1986, should adhere to these standards in order to ensure that public officials and employees understand the role and function of internal auditing, to lend consistency and credibility to ongoing audit work, and to provide a basis for monitoring and evaluating the work of audit staff.

NOW, THEREFORE, the Council directs:

- a. The Council hereby establishes a new Chapter in Title 3, Administration, of the Code of the City of Portland, adding a new Chapter to be numbered, titled and read as follows:

Chapter 3.05

CITY AUDITOR'S INTERNAL AUDIT FUNCTION

Sections:

- 3.05.010 Independence.
- 3.05.020 Scope of Audits.
- 3.05.030 Annual Audit Plan.
- 3.05.035 Special Audits.
- 3.05.040 Access to Records and Property.
- 3.05.050 Bureau Response.
- 3.05.060 Audit Reports.
- 3.05.065 Report of Irregularities.
- 3.05.070 Contract Auditors, Consultants and Experts.
- 3.05.080 Peer Review.

3.05.010 Independence.

- A. An Internal Audit Division is hereby created within the City Auditor's Office, answerable directly to the City Auditor in accordance with City Charter Sections 2-505, 2-511 and 7-106.
- B. The Internal Audit Division will adhere to generally accepted government auditing standards in conducting its work and will be considered independent as defined by those standards.
- C. If the Internal Audit Division conducts an audit of an activity for which the City Auditor is or was responsible, the audit scope will state that the internal auditors are not organizationally independent with regard to the entity being audited.

3.05.020 Scope of Audits.

- A. The Auditor shall conduct expanded scope audits of all bureaus, offices, boards, activities, functions and agencies of the City of Portland to independently determine whether:
 - 1. Activities and programs being implemented have been authorized by City Charter or Code, state law or applicable federal law or regulations;
 - 2. Activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by City Charter or Code, state law or applicable federal law or regulations;
 - 3. The activities or programs efficiently and effectively serve the purpose intended by City Charter, Code, state law or applicable federal law or regulations;

4. Activities and programs are being conducted and funds expended in compliance with applicable laws;
 5. Revenues are being properly collected, deposited and accounted for;
 6. Resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
 7. Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;
 8. There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management; or
 9. There are indications of fraud, abuse or illegal acts which need further investigation.
- B. Audits shall be conducted in accordance with generally accepted government auditing standards applicable to financial and performance audits.

3.05.030 Annual Audit Plan.

- A. By the beginning of each fiscal year, the Auditor shall submit an annual audit plan to Council for review and comment. The plan shall include the bureaus, offices, boards, activities, functions and agencies scheduled for audit during the year. This plan may be amended during the year after review with Council members affected by the change. Additionally, the Auditor may spontaneously initiate and conduct any other audit deemed necessary to undertake.
- B. In accordance with independence provisions of generally accepted governmental auditing standards, the authority for selection of audit areas shall reside solely with the City Auditor.
- C. In the selection of audit areas, the determination of audit scope and the timing of audit work, the Auditor should consult with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be properly coordinated.

3.05.035 Special Audits.

- A. Council members may request that the Auditor perform special audits that are not included in the annual audit plan. After consultation with Council members whose work would need to be postponed, special audits may become amendments to the annual audit plan.
- B. Special audit reports will be handled the same as regular audit reports, except that in personnel matters of a confidential nature, reporting of results may be limited to the Commissioner in Charge and the Mayor.

3.05.040 Access to Records and Property.

All officers and employees of the City of Portland shall furnish the Auditor with requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide access for the Auditor to inspect all property, equipment and facilities within their custody. If such officers or employees fail to produce the aforementioned information, then the Auditor, subject to Council approval, may, without fee, cause a search to be made and exhibits to be taken from any book, paper or record of any such official or employee, excepting personal information, and every office having the custody of such records shall make a search and forward such requested exhibits to the Auditor.

3.05.050 Bureau Response.

A final draft of each audit report will be forwarded to the audited bureau and the Commissioner in Charge for review and comment before it is released. The bureau must respond in writing specifying agreement with audit findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The response must be forwarded to the Auditor within the time frame specified by the Auditor. The Auditor will include the full text of bureau and Commissioner responses in the report.

3.05.060 Audit Reports.

- A. Each audit will result in a written report.
- B. The Auditor will submit each audit report to the Council and will retain a copy in his/her office as a permanent record.
- C. If appropriate, the audit report shall contain the professional opinion of the Auditor or the contract auditor concerning the financial statements issued by the bureau, board or agency or if the audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.
- D. The Auditor shall include in the audit reports:
 - 1. A precise statement of the scope encompassed by the audit;
 - 2. A statement that the audit was performed in accordance with generally accepted government auditing standards;
 - 3. A statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination;

4. A statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;
5. A statement that internal control systems were examined and a report of any material weaknesses found in the internal control systems;
6. Statements of response submitted by the audited bureau, board or agency relevant to the audit findings;
7. A concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;
8. Recommendations for additional necessary or desirable action.

3.05.065 Report of Irregularities.

If the Auditor detects apparent violations of law or apparent instances of malfeasance or nonfeasance by an officer or employee or information that indicates derelictions may be reasonably anticipated, the Auditor shall report the irregularities to the Commissioner in Charge and the Mayor. If the irregularity is criminal in nature, the Auditor shall immediately notify the City Attorney and the District Attorney in addition to those previously cited.

3.05.070 Contract Auditors, Consultants, and Experts.

Within budget limitations, the Auditor may obtain the services of certified public accountants, qualified management consultants, or other professional experts necessary to perform the Auditor's duties. An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the governmental unit or its officers. The Auditor will coordinate and monitor auditing performed by public accounting or other organizations employed under contract by the City of Portland to assist with audit related activities.

In choosing the outside independent auditors to conduct the City's annual financial statement audit, the Auditor will convene a committee of at least three City bureau managers, including the Auditor, to prepare a request for proposal and to screen applicants. The Auditor's selection of a certified public accounting firm for the annual financial audit must be approved by Council. Normally, this contract will be for a three to five year period.

ORDINANCE No.**3.05.080 Peer Review.**

The Internal Audit activities of the City Auditor's Office shall be subject to peer review at least once every four years by a professional, non-partisan objective group utilizing guidelines endorsed by the National Intergovernmental Audit Forum, the State Auditor's Association, or the U.S. General Accounting Office, provided that the services of a nationally recognized body are available to perform such a review. A copy of the written report of any such independent review shall be furnished to each member of the City Council.

The peer review will evaluate compliance with generally accepted governmental auditing standards and the quality of audit effort and reporting. Specific peer review areas shall include staff qualifications, adequacy of planning and supervision, sufficiency of workpaper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, and presentation of internal audit reports. The cost of the peer review would be paid from funds budgeted in the City Auditor's budget. It is anticipated that three professional government auditors would be able to complete the review within one week.

Section 2. The Council declares that in order to set forth the specifics under which the City Auditor's Internal Audit Division shall operate an emergency exists, and this ordinance shall be in force and effect from and after its passage by Council.

Passed by the Council, **JUL 10 1986**

Jewel Lansing
JL:RT:cr
July 10, 1986

Jewel Lansing
Auditor of the City of Portland
By *Doris E. Oblesky*
Deputy

THE COMMISSIONERS VOTED AS FOLLOWS:		
	Yeas	Nays
BOGLE	<input checked="" type="checkbox"/>	
LINDBERG	<input checked="" type="checkbox"/>	
SCHWAB	<input checked="" type="checkbox"/>	
STRACHAN	<input checked="" type="checkbox"/>	
CLARK	<input checked="" type="checkbox"/>	

FOUR-FIFTHS CALENDAR	
BOGLE	
LINDBERG	
SCHWAB	
STRACHAN	
CLARK	

Calendar No. **1403**
ORDINANCE No. 158760

Title

AN ORDINANCE amending Title 3, Administration, by adding a new Chapter, 3.05, entitled "City Auditor's Internal Audit Function," in accordance with Charter changes approved by the voters at the May 20, 1986 election setting forth the specifics under which the Internal Audit Division of the City Auditor's Office shall function and declaring an emergency.

Filed JUL 2 1986

JEWEL LANSING
Auditor of the CITY OF PORTLAND
By Elena Cervera
Deputy

INTRODUCED BY <i>J. Lansing</i>	
Jewel Lansing, City Auditor	
NOTED BY THE COMMISSIONER	
Affairs	
Finance and Administration	
Safety	
Utilities	
Works	
BUREAU APPROVAL	
Bureau: City Auditor <i>J. Lansing</i>	
Prepared By: <i>J. Lansing</i>	Date: 7/
Budget Impact Review	
<input type="checkbox"/> Completed	<input checked="" type="checkbox"/> Not required
Bureau Head: Jewel Lansing	
CALENDAR	
Consent <input checked="" type="checkbox"/>	Regular
NOTED BY	
City Attorney	
City Auditor	
City Engineer	