



**PORTLAND DEVELOPMENT COMMISSION  
INTERNAL CONTROLS:**

Policies are in place, but authorizations and documentation are often lacking

A REPORT FROM THE CITY AUDITOR  
September 2005



Office of the City Auditor  
Portland, Oregon





CITY OF  
**PORTLAND, OREGON**

OFFICE OF THE CITY AUDITOR  
Audit Services Division

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September 16, 2005

TO: Mayor Tom Potter  
Commissioner Sam Adams  
Commissioner Randy Leonard  
Commissioner Dan Saltzman  
Commissioner Erik Sten  
Bruce Warner, Executive Director, Portland Development Commission

SUBJECT: Audit of Portland Development Commission Internal Controls, Report #321

Attached is Report #321 containing the results of our audit of the Portland Development Commission's internal controls. A written response from the Executive Director of the Commission is attached to the report.

We ask that the Executive Director of the Portland Development Commission prepare a status report in one year detailing steps taken to address the recommendations contained in our report.

We appreciate the cooperation and assistance we received from personnel in the Portland Development Commission.



GARY BLACKMER  
City Auditor

Audit Team: Drummond Kahn  
Kristine Adams-Wannberg  
Amoy Williamson

Attachment



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# PORTLAND DEVELOPMENT COMMISSION

## INTERNAL CONTROLS:

Policies are in place, but authorizations and documentation are often lacking

**Summary** The Portland Development Commission's (PDC) purpose is to serve as the City of Portland's urban renewal agency. Its principal activities are economic development, housing, redevelopment, and job creation. This audit was conducted to review internal controls at PDC – identifying whether policies were in place and the agency was following them. To accomplish this objective, we identified and audited several key functions within PDC's operations:

- internal audit function
- procurement cards
- travel expenditures
- fixed assets
- human resources
- ethics
- timesheets

We assessed the controls by examining agency policies, interviewing PDC Commission staff, and testing whether agency policies were followed by staff. Specifically, we selected and tested 642 purchase card transactions, 36 travel claims, 24 computers on an inventory list, 44 personnel files, and 45 timesheets. We conducted our work in accordance with generally accepted government auditing standards.

Our review of selected PDC functions indicates that controls are largely in place and there is generally an appropriate level of oversight over the organization. Further refinement in policies in some

areas, however, is warranted. PDC's ethics policies, for example, currently do not clearly outline the process available to employees for reporting and/or resolving ethical issues. These policies, however, are in the process of being reviewed by management to provide more comprehensive guidance.

While most of PDC's policies appear adequate, we found staff compliance could be improved and better practices could be adopted. Particularly in the areas of purchase cards, travel expenditures, and human resource controls, we found a lack of documentation for some purchases and salary adjustments as well as a lack of authorizations.

We make several recommendations to PDC that will help improve the agency's controls and limit risk to the City.

**Introduction**

This report describes the results of our review of key internal controls of the Portland Development Commission (PDC). The audit topic was on our FY 2005-06 audit schedule, and resulted in part from City Council interest in internal controls at PDC.

The Portland Development Commission was created in 1958 as the City of Portland's urban renewal agency. Its purpose is to achieve the City's housing, economic development, and redevelopment objectives, as well as to connect citizens with jobs. The agency's FY 2005-06 Adopted Budget is approximately \$269 million, with Tax Increment Debt Proceeds supporting a significant amount of the budget.

The Commission is governed by a five-member board that is appointed by the Mayor and approved by the City Council. In addition, the City Auditor has broad authority in the City Charter to conduct audits of City departments.

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**Audit objectives and methodology**

Our objective was to assess the current oversight environment at PDC and to determine whether selected internal controls were in place and were being followed. We focused on current controls in place as of June 2005. These specifically included the following functions at PDC:

- internal audit function
- procurement cards
- travel expenditures
- fixed assets
- human resources
- ethics
- timesheets

We assessed the controls by examining agency policies, interviewing PDC Commission staff, and testing whether agency policies were being followed by staff. We also reviewed the work of Talbot, Korvola, and Warwick, LLP, an independent public accounting firm, which conducted the financial statement audit of PDC for the prior two years. This was done to determine if any management issues found during the last financial statement audit were unresolved. We performed our survey and fieldwork from June through August of 2005. We conducted our work in accordance with generally accepted government auditing standards.

We note that our review was to provide a timely, initial assessment of selected internal controls at PDC. The review was not exhaustive, and as such does not provide absolute assurance that other internal control issues are not present. In addition, we did not review controls related to contracting, since PDC's external financial auditor was performing work in that area.

**Current PDC oversight structure and activities**

Our review of selected PDC functions indicates that controls are largely in place and there is generally an appropriate level of oversight over the organization. However, we found that controls in some areas could be improved.

According to the Committee of Sponsoring Organizations of the Treadway Commission, internal controls are policies, procedures, and activities designed to help an organization achieve its management objectives, safeguard resources, report reliable information, and comply with applicable laws. Regardless of how well planned and implemented, however, internal controls systems cannot provide absolute assurance that an agency is meeting all of its objectives. Controls can be circumvented by the collusion of two or more people, and employees and managers may choose not to follow established procedures. In addition, the design of the control system may reflect resource constraints and the benefit of the controls must be weighed against their implementation costs. While internal controls cannot completely eliminate the risk of error or of inappropriate actions, well-conceived procedures and a good control environment can minimize the potential for abuse.

PDC has a control structure in place, and overall the structure is well-documented and subject to a number of levels of oversight. The agency has a number of policies in place, and its policies and finances are reviewed and approved by the Commission members and/or the Executive Director. In addition, PDC is also subject to review by many entities, including PDC's Internal Audit Manager and PDC committees, external financial auditors, and the U.S. Department of Housing and Urban Development. As a City agency, PDC is also subject to review by the Portland City Council and City Auditor, in addition to the Tax Supervising and Conservation Commission, which also provides a level of oversight. PDC is also subject to state laws governing public jurisdictions.

**Review of selected control activities**

We reviewed seven agency activities to determine if there were significant control weaknesses. We generally found that although the agency had adequate policies in several areas, agency personnel did

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not always comply with the policies. In particular, we noticed a lack of required signatures authorizing expenditures and explanations of some costs. In addition, the agency's internal audit function needs to be strengthened. Our findings in these areas are below.

**Internal audit function**

PDC established an internal audit function in 2001 to address internal control matters. The Internal Audit Manager was tasked with developing a large variety of policies and procedures to improve controls in the agency, in addition to performing management reviews and analysis. PDC also established an audit committee to address issues raised by the external financial auditor.

The audit function, however, needs to be stronger, particularly in two areas. First, the Internal Audit Manager reports directly to the Executive Director, rather than to the Commission. This creates an independence concern, because the Internal Audit Manager is not independent from agency management. This issue has been noted by the agency's external financial auditors<sup>(1)</sup>. Second, while the internal audit function is required by agency policy to perform work according to, "professional and government auditing standards and ethics, and utilizing best practices of the profession," the policy does not state which specific professional standards are adopted (either the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors, or Government Auditing Standards, promulgated by the U.S. Government Accountability Office), and PDC staff acknowledged that no particular standard is being followed. This creates a significant issue, because it could call into question the credibility of the work performed. Following a specific national standard would further enhance the function's credibility and allow external parties to rely on the work of PDC's internal audit function.

If management feels the value of the Internal Audit Manager is in the consulting services and analysis provided (more than in conducting audits in accordance with professional standards), then the agency should consider clarifying the position title and classification to reflect those responsibilities.

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<sup>(1)</sup> Talbot Korvola Warwick LLP, the PDC's external financial auditor, noted that in the future the Commission would likely revise the organizational structure so that the Internal Auditor function reports to the Board.

### **Procurement cards**

Our review of procurement card (P-card) purchases found that there were policies and procedures in place, but there were several weaknesses in monthly reports reviewed. In addition, some of the recurring problems indicate a need for more training and/or better supervision or approval of the reports.

P-card systems provide a low-cost, efficient method of purchasing. The objective of our review was to determine whether the internal controls of PDC's procurement card system were reasonable and adequate to prevent misuse or abuse of the credit cards, and whether P-card transactions are in compliance with current policies.

As part of our fieldwork, we randomly selected for review the transactions of 11 P-card holders out of 42 total cardholders in the agency for FY 2004-05. The 11 cardholders had about \$66,000 worth of transactions. This sample represents 16 percent of the total dollar value of \$404,000 in P-card transactions for the fiscal year. Purchases were reviewed for the following:

- Was the purchase allowable by PDC policy and adequately documented?
- Was the purchase approved by a supervisor and/ or director?
- Were receipts present and adequate?
- Did the purchase exceed the purchaser's card limit?
- Were there any split purchases? (i.e. improperly splitting a single purchase into two or more smaller purchases to avoid exceeding a user's per purchase limit)
- Were cards used by someone other than the cardholder?

In total, we tested 642 purchases made by 11 cardholders. In an overwhelming majority of the transactions, we found that cardholders provided supporting documentation, supervisors approved monthly reports, and procurement card purchases were allowable. However, we found a few instances of non-compliance that could lead to misuse of PDC resources if not corrected. The results of our analysis are shown below:

**Figure 1 Procurement card compliance**

Testing Criteria	Total # of instances of non-compliance
Per purchase limit exceeded	7
Documentation missing <sup>(2)</sup>	11
Split purchases made	1
Questionable purchases	88 <sup>(3)</sup>
Approvals missing (on monthly reports)	5 <sup>(4)</sup>
Use of P-card by staff other than cardholder	1

Source: Audit Services review of 642 transactions by 11 cardholders.

Although several purchases met the criteria of the purchase being a benefit to PDC, such as lunch with an outside business, some purchases lacked adequate documentation. Other purchases without an explanation were small, for example buying a picture entitled, "Couple Snowshoeing Across Landscape". On the other end of the spectrum, we found some more significant purchases that had no explanation of the benefit to the agency. For example, there were questionable charges totaling \$127.40 on one hotel receipt for bar beverages which were paid by PDC.

It was unclear the degree to which these weaknesses were the result of poor oversight or a need for training.

Lack of adherence to good controls in this area poses a risk that the agency may be paying for services or supplies that are not authorized or are not benefiting the organization. We found that cardholders continued to make the same mistakes repeatedly, such as lack of explanations or adequate receipts, and that these mistakes were not corrected.

<sup>(2)</sup> These figures represent transactions that did not have complete documentation.

<sup>(3)</sup> A majority of the questionable purchases were for office supplies. PDC staff are first supposed to use in-house stores of office supplies or order from PDC's main suppliers prior to directly purchasing office supplies at retail. Our review could not determine whether these 88 transactions fully followed the policy.

<sup>(4)</sup> After conclusion of our review and testing, PDC provided documentation of approval for three monthly reports.

### **Travel**

Our review of travel expenditures showed that there were adequate policies in place, and that PDC has a high level of compliance in documenting pre-authorizations for travel. Improvement is needed, however, in completing post-travel reconciliation forms by obtaining the appropriate signatures.

PDC's travel and meal policies require pre-authorization and reconciliation of travel expenses. Most travel expenses, such as airfare and hotel costs, are paid for using P-cards, which helps limit the amount of funds actually going directly to an employee. Some expenditures, however, such as daily meal allowances, are paid to employees.

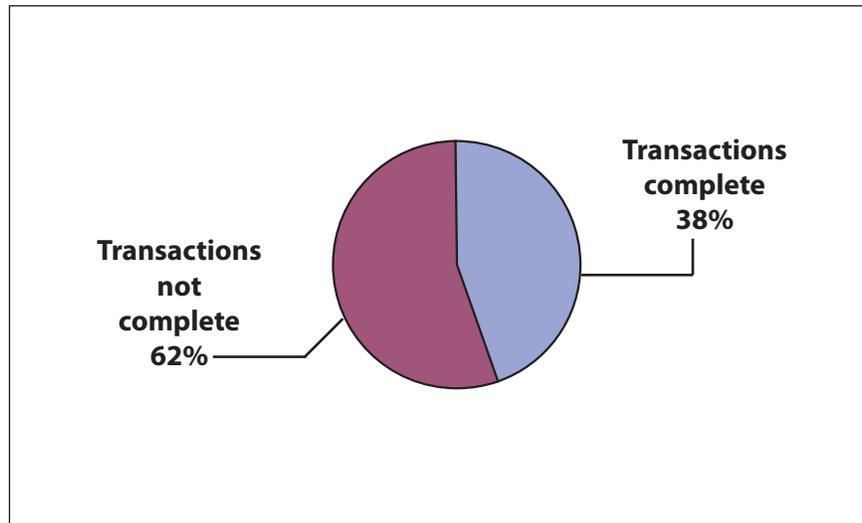
As part of our fieldwork, we reviewed a sample of PDC's travel expenditures for FY 2004-05, focusing on the Economic Development and Executive Departments. These departments' expenditures represented about 32 percent of the agency's out-of-town travel expense<sup>(5)</sup>. In total, we reviewed \$50,542 in out-of-town travel claims, representing 79 percent of these departments' claims, and accounting for 26 percent of the agency's total travel claims for the year. We found those departments were largely compliant in following the policies for pre-authorization for travel. They were also fully compliant in using the prescribed methodology of calculating meal allowances.

PDC was less successful in documenting complete authorizations on travel reconciliations. We reviewed 36 travel expenditure claims, including all claims for \$100 or more from the two PDC departments. Only 16 of the 36 transactions we sampled were complete (less than 45 percent). Complete transactions should include filling out the Out of Town Travel Form – Expense Reconciliation or Request for Payment form and having all required signatures present. Of the remaining 20 transactions, 18 had a form but lacked complete signatures, and two transactions were missing the form entirely.

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<sup>(5)</sup> Year end, unaudited financial figures show that these departments comprised 32 percent of Commission expenditures. We decided to sample these departments based on the FY 2004-05 Revised Budget figures, in which these expenditures represented a majority of budgeted expenditures.

**Figure 2 PDC travel reconciliations and signatures**



Source: Audit Services review of 36 travel claims.

The forms and signatures are important, because they show that travel expenses were reviewed, reconciled in accordance with agency policies, and that the final expenditure was authorized. When interviewed about missing signatures, agency personnel told us that some staff did not feel their signatures on forms, such as vendor payments, were important. In addition, staff told us that the Budget Analyst signature was often recorded on a reconciliation spreadsheet that is separate from the official travel form. This is not in line with the current policy, and PDC should consider modifying its rules if this practice is deemed preferable. The lack of required signatures, however, generates doubt as to whether the expenditures were adequately reviewed and authorized. The 18 payments missing signatures totaled about \$13,000 – approximately 26 percent of the expenditures in the sample.

### **Fixed assets and vehicles**

Our review of PDC non-capital fixed assets included a review of the use of office equipment. In addition, we reviewed controls over PDC's fleet of vehicles. Overall, we found that controls governing both appear to be adequate.

A non-capital item is defined as property with a purchase price of \$5,000 or less and having a useful life of more than two years. We concentrated our review specifically to the areas of computers and vehicles.

PDC owns four vehicles which it uses for local travel. The agency also contracts with Flexcar for additional use. We reviewed both the process and monthly reports regarding assignment and record keeping of PDC vehicles and Flexcars. We found that controls over record keeping of the usage of PDC fleet and Flexcar programs is adequate. However, we found that PDC employees generally did not obtain prior management approval for keeping vehicles overnight. In April 2005, PDC employees used Flexcars 182 times. About 32 times, or 18 percent of the time, the vehicles were kept overnight without management pre-approval. For a corresponding period, PDC's fleet of vehicles was used on 34 occasions. The vehicles were kept overnight 16 occasions, or 47 percent of the time. We found that pre-approval was obtained on only one occasion.

The Information Services (IS) unit is responsible for the purchase, safeguard, maintenance, and recordkeeping of some of PDC's fixed assets. Some of these items include telephones, cellular phones, computers, copiers, printers, and fax machines. We restricted our review to the area of computers, including laptops. Generally, laptops are requested from Information Services in writing and loaned to employees for specific periods of time for local and out of town work. The return of these short term loans is monitored by the IS unit and followed up to ensure that the items are returned. When not in use, laptops are maintained in a secured area within the unit.

As part of our review, we tested a sample of 24 desktop computers from PDC's inventory listing of 235 computers and traced these items to the assigned employee and locations. We also traced computers from random locations (employee desks) and ensured that the

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computers were tagged, and that the tags agreed to the inventory list and to the assigned employee and location. From our tests and discussion with management and staff within Information Systems, we determined that controls over the record keeping of computers assigned to staff at PDC are generally adequate.

### **Human resource controls**

PDC has a number of policies governing Human Resource issues, and PDC generally follows those rules. The agency, however, needs to be more vigilant in obtaining the necessary signatures for some personnel actions and documenting assignment of fixed assets in the personnel files.

Human Resource controls are important to any organization, because they can help agencies achieve their management objectives by communicating with staff, setting goals, and assessing employee progress. One way PDC does this is through its employee evaluation process. The agency's evaluation process takes a performance-based approach in tying individual performance to department and agency goals. PDC's compensation strategy for those evaluations is a pay for performance system that also allows for bonuses.

As part of our fieldwork, we reviewed a sample of PDC's current personnel files. In total, we reviewed a sample of 44 personnel files out of 177 current employees, for a 25 percent sample. We reviewed each file for the following:

- Were all limited term positions' expiration dates documented and were all positions within their expiration date?
- Were receipts for fixed assets present in the files?
- Were annual and mid-year employee performance evaluations present and were six month evaluations present for new hires?
- Were all evaluations completely signed by the employee and all appropriate managers?
- Were new appointments placed at mid-point of the compensation range or lower? If not, was there an explanation why?

- Were salary adjustments the result of performance evaluations documented through a Salary Adjustment Form and were the forms completely signed by all appropriate managers?

**Figure 3 Personnel files in compliance with human resources controls**

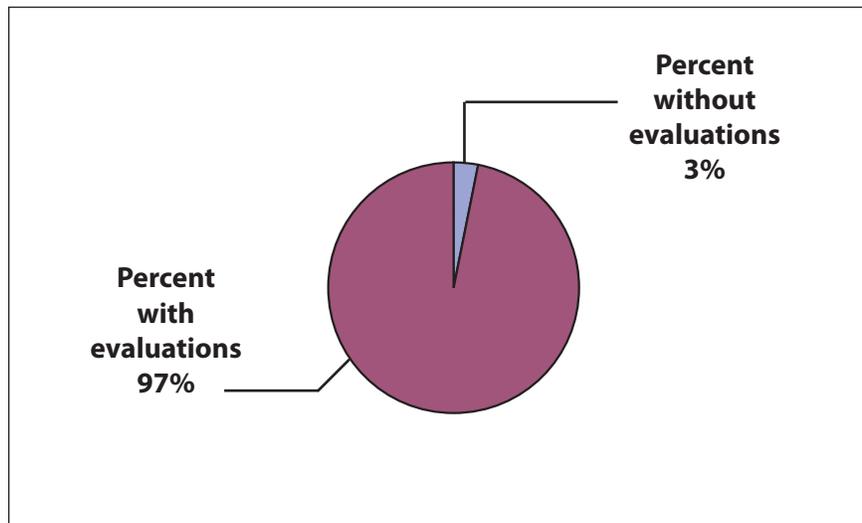
<b>Review Category</b>	<b># of files in compliance</b>	<b># of files not in compliance</b>	<b>Total # of <sup>(6)</sup> applicable files</b>
<b>Limited Term positions</b>			
Limited Term positions w/documented end date	5	0	5
Limited term positions within expiration date	5	0	5
<b>Fixed Assets - No receipts in any files</b>			44
<b>Performance Management</b>			
<i>Annual Evaluations</i>			
Employee Self Assessments present in file	26	7	33
Performance evaluations present in file	32	1	33
Performance evaluations completely signed	8	24	32
<i>Mid Year Evaluations</i>			
Employee Self Assessments present in file	27	6	33
Performance evaluations present in file	32	1	33
Employee self assessments completely signed	2	25	27
Performance evaluations completely signed	1	31	32
<i>Six month Evaluations</i>			
Employee Self Assessments present in file	3	5	8
Performance evaluations present in file	6	2	8
Employee self assessments completely signed	0	3	3
Performance evaluations completely signed	1	5	6
<b>Compensation System</b>			
New hires appointed to mid range or lower	5	3	8
Documentation of new hires appointed above mid range	0	3	3
Salary adjustment form present for annual pay increases	34	1	35
Salary adjustment form completely signed	0	34	34

Source: Audit Services review of 44 PDC personnel files.

<sup>(6)</sup> Although we reviewed 44 files, not all files could be judged against our criteria. For example, depending on when an employee was hired, they may not have been eligible for an annual, mid year, or six month review.

Our analysis of the sample found that all position end dates for Limited Term Employees were documented and all positions were within their expiration dates. FY 2004-05 annual and mid year performance evaluations were done for nearly all employees and almost all salary adjustments, based on those evaluations, were documented.

**Figure 4 Annual performance evaluations completed**

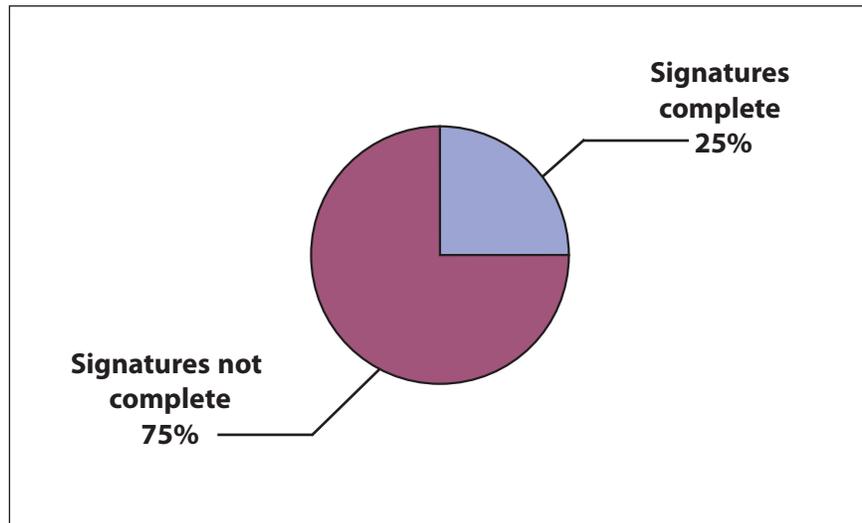


Source: Audit Services review of 33 personnel files.

In addition, slightly over half of the new hires sampled were placed at the mid point or lower in their pay range. Newly hired employees appointed above mid point salary were authorized by the Executive Director, in accordance with policy.

The agency needs improvement, however, in ensuring all appropriate authorizations on its forms are present, that receipts for fixed assets are in the personnel files, and that compensation appointments above mid-range for new hires are justified. Based on the sample reviewed, only 25 percent (8 out of 32 applicable files), 3 percent (1 out of 32 applicable files), and 13 percent (1 out of 5 applicable files) of the personnel files we reviewed had been completely signed off by employees and management for the annual, mid year, and six month evaluations, respectively.

**Figure 5 Evaluations with complete signatures**



Source: Audit Services review of 32 PDC personnel files.

Similarly, while 97 percent of the files had a form documenting a salary adjustment as the result of a positive performance review, none of the forms were completely signed by all required managers. Also, we found no receipts for fixed assets in the files and no memos justifying the pay for three newly hired employees appointed to positions with salaries above mid point.

Staff indicated that lack of signatures was an oversight by managers. We heard that in spite of the signature blocks being on the forms, some managers did not sign the forms because they were not specifically told to do so. This is a situation that needs to be remedied, because the lack of signatures could indicate that evaluations and salary adjustments were not reviewed or authorized. This could open the agency up to risk should an employee want to dispute an evaluation. PDC staff indicated that they are remedying the situation this year by indicating that evaluations are not official until all signatures are present.

PDC's personnel rules do not specifically require written justification when newly hired employees are appointed to positions with pay above the mid point of the compensation range. However, PDC's

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policies imply that this should be a rare occurrence. We feel it would be useful to document the justifications for salaries above mid point of the compensation range, should a question arise.

The Human Resources Manager indicated that PDC's Information Systems unit tracks fixed assets. Human Resources checks that assets are turned in when an employee is terminated. This is an activity that PDC is currently reviewing.

Although not a significant area of review during our fieldwork, we noticed that PDC's Training Authorization Form requires the approval of the Deputy Executive Director at times. This is when the requested training is not identified in an approved Individual Development Plan for the employee. While the additional review given is valuable, we feel that it would be more appropriate for the Human Resources Manager to perform that function. This is based on the position's expertise in the subject area and need to coordinate training resources agency-wide.

### **Ethics**

PDC has policies related to ethical standards, in addition to being subject to the City's regulations in Chapter 1.03 in the City Code and Chapter 244 of the Oregon Revised Statutes. We found that the agency's current ethics policy does not clearly outline the process available to employees for reporting and/or resolving ethical issues.

PDC's policy on Professional Conduct and Ethics requires its employees and Commission to conduct themselves in a professional manner with other PDC employees, clients, the general public, and at all times when representing PDC and the City of Portland. Although the policies of both the Professional Conduct and Ethics and the PDC Personnel Policy outline what is expected of the employees it does not clearly indicate the process available to an employee who may be concerned about an ethical issue. These functions may rest with department managers, but it is unclear what those specific responsibilities are and if departments are addressing issues in a consistent manner. Without such options, employees are unaware of expected procedures and may adopt or implement measures which may not be appropriate.

During our review, we were told that PDC management in the Internal Audit and Human Resources areas are currently rewriting some of the Personnel and Professional Conduct and Ethics policies.

### **Timesheets**

PDC's timekeeping system appears effective in tracking time worked by employees, and there was a high degree of compliance in obtaining approvals for hours worked. Overtime controls, however, could be improved.

PDC's timekeeping controls are through an electronic timekeeping system, with oversight provided by supervisors and a payroll analyst. Timesheets provide accountability in reporting and recording the number and type of employees' work and leave hours. They provide a safeguard to ensure that employee records are accurate, timely, and secure. In addition, timesheets allow employees and supervisors to review the amount of staff resources and expenses being spent on different agency projects.

As part of our fieldwork, we reviewed a sample of PDC's timesheets, focusing on employee and supervisor signatures. We reviewed timesheets for 45 out of 181 staff on the PDC payroll for two pay periods -- one starting on January 30, 2005 and the other starting on May 8, 2005. This represented a 25 percent sample of employees on the payroll during those two pay periods. We selected the first 45 employees on an alphabetical list provided by the Payroll Analyst. This was done to get a different sample of employees than were selected in other work we performed during the audit.

We found that PDC had a high rate of compliance in authorizing timesheets. The agency was compliant in having both the employee and supervisor sign timesheets 94 percent of the time. In addition, there were no variances in the percent of time employees signed their timesheets versus the percent of time supervisors signed.

Pre-approval of overtime appears to be a weakness in the agency. Overtime expenditures are small in comparison to the agency's total budget -- approximately \$29,000 in FY 2004-05, compared to a

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Revised Personal Services Budget of \$17 million. Some approvals for overtime take place verbally and some occur by e-mail between an employee and supervisor. There appears to be no consistent documentation for approving overtime.

**Recommendations** In order to improve PDC's internal controls, we recommend that the agency take the following actions:

**1. Change the audit function's reporting structure**

We recommend the Internal Audit Manager report directly to the Commission. Changing the reporting structure will strengthen the Commission's oversight and enhance the Internal Audit function's independence.

**2. Adopt formal audit standards**

The Board needs to identify which standards will guide audit work. This may be Government Auditing Standards (GAS) or standards established by the Institute of Internal Auditors (IIA). Fully following standards will require time and financial commitment on the part of the Commission. Specifically, standards require 80 hours of continuing professional education every two years for internal audit employees, as well as a time-consuming external quality control review every three years (GAS) or every five years (IIA).

If PDC's internal audit function follows either set of professional standards, other auditors can rely on the function's work. This reliance can end up saving money by avoiding duplication of PDC Internal Audit's efforts by other auditors and will enhance the credibility of the work. Without following standards, PDC's internal audits may not be relied on by other oversight bodies, including the external auditor, the City Auditor, and other federal and state audit organizations.

**3. Provide training and strengthen supervision over P-card purchases**

There appeared to be consistent weaknesses with P-card purchases. We noticed this particularly with documenting the purpose of the purchase and benefit to PDC as well as having original receipts. Employees should receive regular training on P-card use and managers need to ensure that PDC's policies are followed.

**4. Complete travel expense reconciliation forms and request for payment forms**

An adequate control structure appears to be in place for the review, authorization, and calculation of travel expenditures, but the documentation cycle is not always completed. Some efforts have been started in the Accounting unit to better record the financial reconciliation. While this is valuable, PDC needs to ensure that the Out of Town Travel Form – Expense Reconciliation and the Request for Payment forms, in the case of a vendor, are filled out and signed by all the necessary parties, in accordance with PDC policy. This ensures that an appropriate level of review is being performed and decreases the risk of the agency paying for inappropriate expenditures.

**5. Complete documentation of personnel actions, including required signatures**

Evaluations and pay adjustments need to be well documented and all signatures present, or the personnel action should not be considered complete and official. These actions are important because they limit the agency's risk by documenting managements' communication to employees. The lack of signatures could open up the agency to risk if an employee wanted to dispute a poor performance evaluation.

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**6. Justify compensation for hires placed above the mid-point of the compensation range**

PDC's Personnel policies indicate that this type of compensation appointment should be a rare occurrence and should be based on the employee's ability to immediately perform in the position. While documentation of this appointment is not required by the current policy, justifying the action would be a good practice and would limit the risk to the agency, should a dispute arise.

**7. Re-evaluate which unit should be responsible for keeping receipts for fixed assets**

PDC policies require that receipts for fixed assets, such as cell phones, be included in the personnel files. Agency staff indicated, however, that the Information Systems unit tracks fixed assets, and Human Resources checks that assets are turned in when an employee is terminated. If tracking assets through a unit other than Human Resources is preferable, then the Personnel policy needs to be updated.

**8. Comply with PDC procedures for reservation of overnight vehicles**

PDC employees are not consistently obtaining pre-authorization for keeping vehicles overnight. Management needs to monitor use of vehicles and ensure that pre-authorizations are taking place.

**9. Revise the Training Authorization Form to give signature authority to the Human Resources Manager**

Currently, when a training request is initiated and the training is not identified on the employee's Individual Development Plan, the Deputy Executive Director's approval is required. This is in addition to other signatures on the authorization form, such as the Department Director and Budget Analyst. We feel

the authority given to the Deputy Executive Director is more appropriately placed with the Human Resources Manager because of the position's knowledge of human resources practices and training expertise. In addition, placing this authority with the Human Resources Manager would allow better coordination of training needs and resources agency-wide.

**10. Develop procedures for addressing ethical issues and/ or conflicts**

While PDC has an ethics policy it is not clear who is responsible for administering the policy and what procedures are available to resolve ethical issues. These matters need to be better defined and explained to staff.

**11. Develop a consistent procedure for approving overtime**

Pre-approval of overtime needs to be improved so that it is consistently documented in the agency. Lack of a consistent, documented method could open the agency to risk if staff time were charged inappropriately

# RESPONSE TO THE AUDIT



Eric E. Parsons  
*Commission Chair*

**DATE:** September 9, 2005

Douglas C. Blomgren  
*Commissioner*

**TO:** Gary Blackmer, City Auditor

Bertha Ferrán  
*Commissioner*

**FROM:** Bruce A. Warner, Executive Director

Sal Kadri  
*Commissioner*

**SUBJECT:** PDC Internal Controls Audit Report

Mark Rosenbaum  
*Commissioner*

Thank you for the opportunity to review and respond to the report on the Portland Development Commission (PDC) internal controls audit prepared by your office. PDC management recognizes the importance of having an effective system of internal controls and welcomes this report.

Tom Potter  
*Mayor*

The information contained within this audit will assist PDC in making improvements to our policies and business processes to increase efficiencies and minimize risks to PDC and the City.

Bruce A. Warner  
*Executive Director*

PDC's response to the audit findings, including the actions we intend to take for each of the ten recommendations you made, are described within this correspondence.

Wyman Winston  
*Deputy Executive Director*

Overall, PDC agrees with your summary findings "that controls are largely in place and there is generally an appropriate level of oversight over the organization" and that "staff compliance could be improved." As we have reviewed your findings further, we believe the majority of exceptions identified in the audit are a result of lacking readily available documentation and/or misunderstandings about a policy. These findings have not resulted in any material financial loss to the agency.

With respect to the reported findings and PDC's subsequent testing of our internal controls, you are being provided with additional background and clarification relative to the following items:

- **Purchasing Cards** — The report indicates that testing of purchase card transactions found 88 "questionable items" and according to your footnote, "a majority of the questionable purchases were for office supplies" but your "review could not determine whether these 88 transactions fully followed the policy." We have reviewed these transactions further and are satisfied that they did comply with our policies which permit staff to purchase, with a purchasing card, non-standard supplies not stocked in the central supply room.

www.pdc.us

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The report also indicates approvals were missing on five monthly purchasing card billing statements. We have reviewed these statements and are satisfied that proper approvals were obtained prior to payment. We do, however, acknowledge that confusion during testing may be the result of an unsigned data entry copy of the statement also being present in the file.

- **Travel** — Your review of travel expenditures reported that a high percentage of travel reconciliation or payment forms were out of compliance due to lack of signatures. We have reviewed these expenditures and are satisfied, that in most all cases, the signature of the authorizing manager was present. We do, however, acknowledge that in many instances the form lacked the preparer's signature or that of the budget analyst. Our research shows the majority of these exceptions were the result of a recent process change which moved the budget analyst sign-off from the original reconciliation form submitted by the traveler to a new reconciliation report used by finance staff for settling the transaction. This process change actually instituted a tighter internal control than was present previously. As a result, the travel form will be changed.
- **Human Resource Controls** — Your review of Human Resource controls concluded that we "*need to be more vigilant in obtaining the necessary signatures for some personnel actions.*" We have reviewed these records and are satisfied they have been signed by the appropriate final approving authority but agree intermediate reviewers have not always signed certain forms.

The following responses are offered to the specific recommendations contained within the audit report:

***Recommendation #1 - Restructure the audit function***

We agree the independence and reporting relationship of the Internal Audit function are very important to its effectiveness. The PDC Board established an Audit Committee in March 2004. The Audit Committee and Executive Director will review your recommendations and other options to improve the internal audit function, including staffing and professional development needs.

- This will be completed within 90 days.

***Recommendation #2 - Adopt audit standards***

We agree and will recommend the Board Audit Committee adopt specific professional auditing standards which guide PDC internal audit work.

- This will be completed within 90 days.

***Recommendation #3 - Provide training and strengthen supervision over purchasing-card purchases***

We agree additional training and stronger supervision over purchasing card transactions is warranted and proper documentation is necessary. Finance will review policies in this area and make necessary changes. Training will be given to all card users.

- This will be completed within 90 days.

***Recommendation #4 - Complete travel expense reconciliation forms and request for payment forms***

We agree with the recommendation, and as stated in the report, we have already begun an effort to improve the reconciliation process and help travelers comply with our policies. We have recently held training sessions and have added a new verification step in Finance for all travel expense reconciliation forms. Finance will review related policies and update as needed.

- This will be completed within 90 days.

***Recommendation #5 - Complete documentation of personnel actions, including required signatures***

We agree it is very important to maintain complete documentation of personnel actions, including required signatures. The Human Resources Manager will perform an immediate review of the current process for documenting personnel actions, particularly specific to getting all required signatures and revising policies and procedures as necessary. We have already reinforced this particular internal control as part of PDC's recently completed performance evaluations of all employees by communicating to managers that an evaluation is not final unless all signatures are present – and Human Resource staff specifically reviewed for completeness.

- This will be completed within 30 days.

***Recommendation #6 - Justify compensation for hires placed above the mid-point of the compensation range***

We agree justification of compensation for hires placed above the mid-point of the compensation range is a critical step in maintaining consistency and fairness in our salary administration process. The Human Resources Manager will immediately review the current process for ensuring adequate documentation is created during the hiring process and exists prior to offer letters being signed. Policies and procedures will be revised, as necessary.

- This will be completed within 30 days.

***Recommendation #7 - Re-evaluate which unit should be responsible for keeping receipts for fixed assets***

We agree PDC policies should clarify and differentiate the respective responsibilities of Human Resources and Information Systems departments with regard to receipts for fixed assets. The Business Process Manager, Human Resources Manager, and Information Systems Manager will work together to determine which department is responsible for collection and maintenance of this information. The current policy will be revised and changes will be implemented, as necessary.

- This will be completed within 60 days.

***Recommendation #8 - Comply with PDC procedures for reservation of overnight vehicles***

We agree. We have already updated our forms to address this issue. Staff using fleet vehicles will be reminded of this requirement to obtain pre-approval.

- This will be completed within 30 days.

***Recommendation #9 - Revise the Training Authorization Form to give signature authority to the Human Resources Manager***

We agree the Training Authorization Form should include all appropriate approvals confirmed by appropriate signatures. The Executive Director will review the current delegation of authority for training and determine if changing this to the Human Resources Manager is appropriate. If the policy is changed, revisions to the policy and to appropriate forms will be completed and implemented.

- This will be completed within 30 days.

Mr. Gary Blackmer  
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***Recommendation #10 - Develop procedures for addressing ethical issues and/or conflicts***

We agree this is an important matter, and in fact are working on developing a fraud and ethics violation reporting system which has been underway for several months (at the direction of the Board Audit Committee) and is nearing completion. In addition to updating our existing Code of Conduct, a “safe haven” reporting mechanism will be established for employees wishing confidentiality in reporting suspected violations.

- The “Safe Haven” will be in place within 30 days.
- The updated Code of Conduct will be brought to the Board within 90 days.

***Recommendation #11 - Develop a consistent procedure for approving overtime***

Though we believe this is not a significant area of risk (overtime expense in FY 2005 was only \$28,508), we agree better controls could be developed. The Internal Audit Manager, Human Resources Manager, and Finance staff will determine what changes to current policy and practices might be effective in this area. Based on this review, appropriate changes to policy, procedures, and forms will be developed.

- This will be completed within 60 days.

**Conclusion**

We appreciate the work you and your staff have done and believe this will result in more effective and efficient internal controls.

tag





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*Portland Development Commission Internal  
Controls: Policies are in place, but authorizations and  
documentation are often lacking*

Report #321, September 2005

Audit Team: Kristine Adams-Wannberg  
Amoy Williamson

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Gary Blackmer, City Auditor  
Drummond Kahn, Director of Audit Services

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(#314B, September 2005)*

*Parks Bureau Softball: Operating agreement for the  
softball program should be revised as it nears self-  
sufficiency (#323, August 2005)*

*Percent for Art Program: Financial allocation process is  
informal, inconsistent, and may not fulfill requirements for  
public art (#317, August 2005)*

