



# JACKSON COUNTY

*Oregon*

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## **Internal Audit Report**

**ORS Budget Compliance  
Current Year FY 2009-10 and Ensuing Year FY 2010-11**

**for  
Jackson County  
Jackson County Urban Renewal Agency  
White City Enhanced Law Enforcement District  
White City Lighting District**

**November 3, 2010**

**Presented To The  
Jackson County Board of Commissioners  
By The  
Internal Audit Program**

### **Audit Team**

**Debbie Taylor, County Auditor  
Kathryn Finwall, Senior Auditor**



**JACKSON  
COUNTY**  
*Oregon*

**MEMO**  
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**CAO**  
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**To:** Board of Commissioners  
**From:** Debbie Taylor *Debbie Taylor*  
**Subject:** ORS Budget Compliance Audit  
**Date:** November 3, 2010

The attached audit report provides information concerning the ORS Budget Compliance Audit, covering the Current Year FY 2009-10 and Enacting Year FY 2010-11 for Jackson County, Jackson County Urban Renewal Agency, White City Enhanced Law Enforcement District, and White City Lighting District. The audit was included in the fiscal year 2010-11 Internal Audit Plan, and the work was performed in conjunction with the county's annual external financial audit.

The audit results have been shared with the county's Audit Committee and Senior Deputy County Administrator, Harvey Bragg, who oversees the County's budget process.

The Internal Audit Program appreciates the cooperation and assistance it received from budget staff throughout the audit process.

cc: Audit Committee  
Kenneth Kuhns & Co  
Harvey Bragg, Sr Deputy County Administrator

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**for**  
**Jackson County**  
**Jackson County Urban Renewal Agency**  
**White City Enhanced Law Enforcement District**  
**White City Lighting District**

**Audit Authority**

The audit was conducted in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the fiscal year 2010-11 Internal Audit Plan as part of the work we perform annually in support of the county's external audit.

**Audit Background**

Oregon Revised Statute (ORS) Chapter 297, Audits of Public Funds and Financial Records, require Jackson County to have an annual financial audit conducted by an independent audit firm. The audit must be made in accordance with Oregon Administrative Rule (OAR) Chapter 162, Minimum Standards for Audits of Oregon Municipal Corporation, which includes OAR 162-013-0010, Budgetary Control, and OAR 062-010-0260, Budget. Furthermore, the county must comply with ORS 294.305 – 294.565 which are collectively known as Local Budget Law.

The budgeting process has five parts. The budget is: 1) prepared, 2) approved, 3) adopted, 4) executed, and 5) reviewed by audit. The budget must be prepared far enough in advance so that it can be adopted before July 1st of the current fiscal year. By adopting the budget, the governing body makes the necessary appropriations and certifies the tax to be imposed to the county assessor. Oregon's Local Budget Law has two important objectives: 1) it establishes standard procedures for preparing, presenting, and administering the budget, and 2) it provides for citizen involvement in preparing the budget and public exposure of the budget before its formal adoption.

The total adopted budgets for Jackson County and its three component units<sup>1</sup>, including all funds and unappropriated fund balances for the current (FY 2009-10) and ensuing (FY 2010-11) years are summarized below:

<b>Original Adopted Budgets</b>		
	FY 2009-10	FY 2010-11
Jackson County	\$324,503,652	\$335,897,562
<i>Component Units:</i>		
White City Urban Renewal Agency	\$19,693,000	\$14,138,874
White City Enhanced Law Enforcement District	\$1,760,300	\$1,809,728
White City Lighting District	\$541,029	\$803,755

In conjunction with approving the budget, the lay members of the Budget Committee, who comprise the County's Elected Officials Salary Review Committee, recommend changes to the compensation of elected officials. Recommendations are reviewed and approved by the County's Budget Committee.

<sup>1</sup> A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable.

## **Audit Objectives**

The objectives of our audit were to determine if:

- The internal controls over the budget process were adequate to reasonably ensure compliance with Oregon Local Budget Law;
- The county and its component units complied with Local Budget Law contained in ORS 294.305 - 294.565, and related ORS 294.100 pertaining to over-expenditures of budget appropriation for the current year budget (FY 2009-10) and the ensuing year budget (FY 2010-11);
- The county complied with ORS 204.126 relating to changes in compensation of elective officers.

## **Scope & Methodology**

The audit included the current year budget FY 2009-10, and the ensuing year budget FY 2010-11 for Jackson County and its three component units: White City Urban Renewal Agency, White City Enhanced Law Enforcement District, and White City Lighting District.

Our audit procedures included:

- Performing work steps as listed on the Local Budget Law Compliance Program Checklist for the current year budget process including reviewing and documenting the County's policies and procedures for modifying the FY 2009-10 budget, obtaining documentation for all supplemental budgets adopted during the year and reviewing them for compliance with ORS 294.480, verifying that accounting records were updated to reflect changes approved in the supplemental budget process, selecting a sample of transfer resolutions approved during the year, verifying compliance with ORS 295.450, and verifying that accounting records were updated by the approved transfer resolutions; verifying that transfers of general operating contingency did not exceed 15% of the total appropriations of the fund unless a supplemental budget was adopted as per ORS 294.450, and examining year-end financial statements and preparing a listing of over-expenditures of budget appropriations if applicable;
- Performing work steps as listed on the Local Budget Law Compliance Program Checklist for the ensuing year budget process including: examining the budget preparation and adoption process for FY 2010-11 to verify compliance with the requirements of Local Budget Law, reviewing laws and discussing the budget process with the budget manager, documenting budget committee members, reviewing publication notices and meeting dates for compliance with budget law, verifying that tax rates agreed to the amount approved by the budget committee, and verifying that adopted expenditures in any fund were not increased by more than \$5,000 or 10% of the estimated expenditures, whichever is greater, from the total approved by the budget committee;
- Verifying that changes in compensation of elective officers complied with ORS 204.126; and
- Other activities as considered appropriate.

## **Audit Criteria**

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. The criteria we used for the

audit consisted of ORS 294.305 – 294.565 pertaining to Local Budget Law, related ORS 294.100, and ORS 204.126 - Change in Compensation of Elective Officers.

### **Internal Controls**

"Internal Control" is a process affected by an entity's governing body, management, and other personnel-designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Reliability in financial reporting;
- (b) Effectiveness and efficiency of operations; and
- (c) Compliance with applicable laws and regulations.

We gained an understanding of internal controls by reviewing the Oregon Department of Revenue's Local Budgeting Manual, and discussing the budget revision process with the Senior Deputy County Administrator who oversees the county's budget. In addition, we reviewed applicable Local Budget Law contained in ORS 294.305 – 294.565, ORS 294.100, and ORS 204.126.

### **Compliance with Government Auditing Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Privileged and Confidential Information**

We did not withhold from this report for privileged or confidentiality reasons.

### **Audit Findings**

#### ***Adequacy of Internal Controls***

We found that internal controls over the budget process were adequate to reasonably ensure compliance with Oregon's Local Budget Law. The Senior County Deputy Administrator reviews and monitors budget activity throughout the year and takes appropriate action when necessary to ensure compliance with budget law.

#### ***Compliance with Local Budget Law***

We found that the county and its component units complied with Local Budget Law contained in ORS 294.305 - 294.565, and related ORS 294.100 pertaining to over-expenditures of budget appropriation for the current year budget (FY 2009-10) and the ensuing year budget (FY 2010-11); however, we noted the following items during our testing:

- 1) Due to an oversight, the School Fund was not included in the original FY 2009-10 budget. It was included as part of Supplemental Budget No. 1 for FY 2009-10, Order No. 268-09, dated September 16, 2009.
- 2) Due to a clerical error, when adopting Supplemental Budget No. 1 for FY 2009-10 the increase for the Recreation Enterprise Fund was shown as \$1,943,556 (the current budget) in the second paragraph of the

Order; however the correct amount (\$5,953,980) was reflected in the attached Exhibit A which was also referenced in the Order and used for the adoption of Supplement Budget No. 1.

- 3) Two permanent funds<sup>2</sup> associated with the Library (Ted Gerlock and Dorothy Houlihan), were closed during FY 2009-10. Although there was sufficient budget to close the funds, the funds were originally budgeted as unappropriated ending fund balance, which technically is not an appropriation. After consulting with the county's external auditors regarding the appropriate process for closure of the funds, it was determined they could be closed via a Board resolution rather than through a supplemental budget. Although not required, the funds to transfer and close the two permanent funds were included in Supplemental Budget No. 3. The Dorothy L. Houlihan Trust Fund was closed by Board Order 39-10 and the funds were transferred to the Jackson County Library Foundation. Board Order 40-10 transferred the balance of the Ted Gerlock Fund to the Jackson County General Fund and the funds will be managed as a County project.

### ***Compensation of Elected Officials***

We found that the county complied with ORS 204.126 relating to changes in compensation of elective officers. On April 29, 2010 the Budget Committee accepted and approved the Elected Officials Salary Review Committee's recommendation for elected officials' compensation for fiscal year 2010-11.

### **Recommendations**

None

### **Management Response**

Senior Deputy County Administrator Harvey Bragg, who oversees the budget process, stated he had reviewed the Auditor's comments and agrees with their findings.

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<sup>2</sup> Formerly, but still commonly referred to as trust and agency funds