



JACKSON COUNTY

Oregon

Internal Audit Report

BUDGET COMPLIANCE

Oregon Revised Statutes Compliance Audit

Current Year FY 2011-12 and Ensuing Year FY 2012-13

for

Jackson County

Urban Renewal Agency of Jackson County

White City Enhanced Law Enforcement District

White City Lighting District

October 30, 2012

Presented to the

Jackson County Board of Commissioners

By the

Internal Audit Program

Audit Team

Debbie Taylor, County Auditor

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**JACKSON
COUNTY**
Oregon

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To: Board of Commissioners
From: Debbie Taylor, County Auditor
Subject: ORS Budget Compliance Audit
Date: October 30, 2012

The attached audit report provides information concerning the adequacy of internal controls and compliance with the Oregon Revised Statutes (ORS) 294.305 – 294.565 *Local Budget Law*, ORS 294.100 *Over expending budget appropriation* and ORS 204.126 *Change in compensation of elective officers*. The Budget compliance audit included the current year budget for fiscal year 2011-12, and the ensuing year budget for fiscal year 2012-13 for Jackson County and its three component units: Urban Renewal Agency of Jackson County, White City Enhanced Law Enforcement District, and White City Lighting District. The audit was included in the fiscal year 2012-13 Internal Audit Plan, and the audit work was performed in support of the County's annual external financial audit.

The audit results were 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 County staff throughout the audit process.

cc: Audit Committee
Harvey Bragg, Senior Deputy County Administrator
Moss Adams, LLP

BUDGET COMPLIANCE AUDIT

Audit Authority We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was included in the Fiscal Year 2012-13 Internal Audit Plan as part of the work performed annually in support of the County's external audit.

Audit Background Jackson County is subject to Municipal Audit Law, Oregon Revised Statute (ORS) Chapter 297, which requires an annual audit of the financial statements by an independent audit firm. The audit must be conducted in accordance with Oregon Administrative Rule (OAR) Chapter 162 *Minimum Standards for Audits of Oregon Municipal Corporations*, which includes OAR 162-010-0260 *Budget*. Furthermore, the County must comply with ORS 294.305-294.565 *Local Budget Law*; ORS 294.100 *Over expending budget appropriation* and ORS 204.126 *Change in compensation of elective officers*.

The last comprehensive update to the *Local Budget Law* was in 1963. In 2009, a workgroup convened to address problems of duplication and inconsistencies that had crept into ORS Chapter 294 (statute). The workgroup focused on changes to clarify policy and make the statutes easier to follow. They also recommended reordering existing statutes to make the progression more logical. The result was HB 2425, passed in 2011, which took effect January 1, 2012. Of the 53 current statutes, three were repealed, three were added, 15 retained their existing numbers, and 38 were renumbered.¹ As such, the local budget publications produced by the Oregon Department of Revenue have fairly extensive revisions from earlier editions.

The budgeting process has four parts, which are as follows: 1) prepared, 2) approved, 3) adopted, and 4) executed. 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.

ORS 294.321 *Purposes* summarizes several important objectives of the *Local Budget Law*, which are to:

- Establish standard procedures for the preparation, presentation, administration and appraisal of budgets of municipal corporations;
- Provide for a brief description of the programs of a municipal corporation and the fiscal policy which is to accomplish these programs;
- Provide estimates of revenues, expenditures and proposed taxes;
- Provide specific methods for obtaining public views in the preparation of fiscal policy;

¹ Oregon Department of Revenue *Local Budgeting Manual*, 150-504-420 (Rev. 5-12)

- Provide for the control of revenues and expenditures for the promotion of efficiency and economy in the expenditure of public funds; and
- Enable the public, taxpayers and investors to be apprised of the financial policies and administration of the municipal corporation in which they are interested.

The adopted budgets for Jackson County and its three component units², including appropriations, and unappropriated and reserve amounts for all funds, for the current (2011-12) and ensuing (2012-13) fiscal years are summarized below:

Original Adopted Budgets		
	FY 2011-12	FY 2012-13
Jackson County	\$347,005,157	\$316,219,068
Component Units:		
<i>Urban Renewal Agency of Jackson County</i>	\$8,190,078	\$6,022,034
<i>White City Enhanced Law Enforcement District</i>	\$1,925,700	\$1,985,000
<i>White City Lighting District</i>	\$900,832	\$1,000,473

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.

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 ORS 294.305-294.565 *Local Budget Law*;
- The County and its component units complied with ORS 294.305-294.565 *Local Budget Law* for the current (2011-12) and the ensuing (2012-13) fiscal year budgets, and related ORS 294.100 *Over expending budget appropriation* for the current (2011-12) fiscal year budget; and
- The County complied with ORS 204.126 *Change in compensation of elective officers*.

² A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable.

Scope & Methodology

The audit included the current year budget for fiscal year 2011-12, and the ensuing year budget for fiscal year 2012-13 for Jackson County and its three component units: Urban Renewal Agency of Jackson County, White City Enhanced Law Enforcement District, and White City Lighting District.

Our audit procedures included:

- Reviewing ORS 294.305-294.565 *Local Budget Law*, ORS 294.100 *Over expending budget appropriation*, ORS 204.126 *Change in compensation of elective officers*, and the Oregon Department of Revenue's local budget publications.
- Verifying that any amendments to the current year budget for fiscal year 2011-12 complied with post-adoption statutes within ORS 294.305-294.565 *Local Budget Law* and ORS 294.100 *Over expending budget appropriation*, as determined applicable. Such as, (1) obtaining and reviewing supplemental budgets; (2) obtaining and reviewing resolution transfers; (3) verifying if there were any interfund loans and reviewing loans as necessary; (4) and examining year-end expenditure balances to determine if there were any over-expenditures of budget appropriations.
- Verifying that the preparation and adoption of the ensuing year budget for fiscal year 2012-13 complied with ORS 294.305-294.565 *Local Budget Law*. Such as, (1) reviewing publication notices and meeting dates for compliance; (2) verifying that tax rates agreed to the amount approved by the Budget Committee and the County Assessor was notified of the tax to be imposed; (3) and verifying that if adopted expenditures in any fund were increased by more than the greater of \$5,000 or 10% of the total approved by the Budget Committee a revised notice of a budget hearing was published and the hearing was held.
- Verifying that the County financial records were updated or revised to reflect amendments to the current year budget for fiscal year 2011-12 and the approval and adoption of the ensuing year budget for fiscal year 2012-13.
- Verifying that changes in compensation of elective officers complied with ORS 204.126 *Change in compensation of elective officers*.
- Performing other procedures as determined 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 *Local Budget Law*, ORS 294.100 *Over expending budget appropriation*, ORS 204.126 *Change in compensation of elective officers*, and the Oregon Department of Revenue's local budget publications.

Internal Controls

Internal controls relate to an organization’s system of controls that are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control comprises the plans, policies, methods, and procedures used to meet the organization’s mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management’s system for measuring, reporting, and monitoring program performance.

We gained an understanding of internal controls by reviewing the Oregon Department of Revenue’s Local Budgeting Manual, and discussing the budget process with the Senior Deputy County Administrator who oversees the County’s budget. In addition, we reviewed ORS 294.305-294.565 *Local Budget Law*, ORS 294.100 *Over expending budget appropriation* and ORS 204.126 *Change in compensation of elective officers*.

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.

Sensitive & Confidential Information

We did not withhold information from this report that was considered sensitive or confidential in nature.

Audit Results

Adequacy of Internal Controls

We found that internal controls over the budget process were adequate to reasonably ensure compliance with ORS 294.305-294.565 *Local Budget Law*, ORS 294.100 *Over expending budget appropriation* and ORS 204.126 *Change in compensation of elective officers*. However, we did identify opportunities to enhance the budgetary process, as described below.

The Oregon Department of Revenue (DOR) *local budget booklet*³ for 2012-13 noted that there were changes to ORS 294.305-294.565 *Local Budget Law* and that the local budget publication forms had changed significantly. For example, the DOR 2012-13 instructions for completing the LB-1 form, *Notice of Budget Hearing* moved “reserves” and included it with the “unappropriated ending balance” instead of on a line with “special payments”, which is more consistent with other DOR guidance⁴.

³ 150-504-073 (Rev. 11-11)

⁴ DOR’s *Local Budgeting Manual* (Version June 2010 and May 2012) states, “Since the initial intent when the budget is adopted is not to spend the amount reserved for future expenditure, do not include it in the resolution or ordinance making appropriations. If the need arises during the fiscal year to spend this money, a supplemental budget may be adopted to appropriate the expenditure.”

The Senior Deputy County Administrator sent out two emails in April 2012 to the County's "budget group" (personnel responsible for County department budgets). The first email summarized the changes regarding "reserves" and the second clarified the difference between "reserves" and "contingencies"⁵. In summary, the emails outlined that if a budgeted "reserve" was intended to be used during FY 2012-13 it needed to be moved to a specific designation or moved to a "contingency" account. Nevertheless, if the balances remained in "reserves" and the need arose to spend the reserves, a supplemental budget process could be used.

According to the Senior Deputy of Administration and based on DOR 2012-13 publications, "reserves" were not going to be appropriated. During review of Jackson County's adopted budget for FY 2012-13, "reserves" were included in appropriations for one program⁶ (Self-Insurance Health Plan) within the Internal Services Fund for the amount of \$3,289,958. \$455,800 of the \$3,289,958 was related to "unforeseeable claims" that could occur in FY 2012-13; therefore, it seems reasonable that this amount was appropriated. However, it appears the remaining \$2,834,158 in "reserves" was not supposed to be appropriated.

Furthermore, the Board Order (resolution) adopting the FY 2012-13 budget includes a line for the "unappropriated amounts for all funds"; however, the title of the line does not include clarification that the balance also includes "reserves". The DOR local budget publications suggest that this clarification should be made.

Compliance with Oregon's Local Budget Law

We found that the County and its component units complied with ORS 294.305-294.565 *Local Budget Law* for the current (2011-12) and the ensuing (2012-13) fiscal year budgets, and related ORS ORS 294.100 *Over expending budget appropriation* for the current (2011-12) fiscal year budget.

Compensation of Elected Officials

We found that the County complied with ORS 204.126 *Change in compensation of elective officers*. On April 19, 2012 the Budget Committee approved the Elected Officials Salary Review Committee's recommendation for elected officials' compensation for fiscal year 2012-13.

⁵ The amount which may be transferred from contingency by resolution is limited to 15 percent of the total appropriations in the fund [ORS 294.463(2), renumbered from 294.450(2)]. Transfers of contingency which in total exceed 15 percent in a year may be made only after adopting a supplemental budget for that purpose. If there is no existing appropriation in the category in which the desired expenditure falls, a supplemental budget is required to create the new appropriation.

⁶ There were two other programs (Risk Management-General & Auto Liability and Workers' Compensation) within the Internal Services Fund that had similar "reserve" accounts which were not appropriated.

**Audit
Recommendations
and Management
Response**

Recommendations

1. Reevaluate the “reserve” accounts and determine if the categorization for budgetary purposes should be changed to a specific designation or “contingency”, to ensure consistency on the resolution adopting the budget.
2. Clarify that the “unappropriated amount for all funds” line includes “reserves” within the resolution approving and adopting ensuing Jackson County budgets.

Management Response

According to the Senior Deputy County Administrator, there was a change in personnel which impacted the fiscal year 2012-13 budgetary process, as such the “reserve” accounts will be reevaluated during the next budget year.

In addition, “reserves” will be added to the “unappropriated amount for all funds” line on the resolution approving and adopting ensuing Jackson County budgets.