



Sponsorship expenditures:
Strengthen oversight and clarify procedures

June 2014
A Report by the Office of the Auditor

Suzanne Flynn
Metro Auditor



Knighton Award for Auditing

Audit receives recognition

The Auditor's Office was the recipient of the Bronze Award for Small Shops by ALGA (Association of Local Government Auditors). The winning audit is entitled *"Tracking Transportation Project Outcomes: Light rail case studies suggest path to improved planning."* Auditors were presented with the award at the ALGA conference in Tampa Bay, FL, in May 2014. Knighton Award winners are selected each year by a judging panel and awards presented at the annual conference.

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SUZANNE FLYNN

Metro Auditor

600 NE Grand Avenue

Portland, OR 97232-2736

Phone: (503)797-1892 Fax: (503)797-1831

MEMORANDUM

June 18, 2014

To: Tom Hughes, Council President
Shirley Craddick, Councilor, District 1
Carlotta Collette, Councilor, District 2
Craig Dirksen, Councilor, District 3
Kathryn Harrington, Councilor, District 4
Sam Chase, Councilor, District 5
Bob Stacey, Councilor, District 6

From: Suzanne Flynn, Metro Audit 

Re: Audit of Sponsorship Expenditures

This report covers our audit of Metro's practices regarding sponsorship expenditures. The audit objectives were to determine if the decisions to purchase sponsorships were transparent, related to Metro's goals and objectives, and Metro received a benefit. This audit was not included in our FY 2013-14 Audit Schedule but was added because of work done in our audit of MWESB Procurement.

While expenditure on sponsorships is relatively small, the decision to support one event over another should be based on established criteria to ensure that it is made without bias or favoritism. Metro created procedures in 2008 to guide and coordinate these decisions. However, we found these procedures were not followed consistently. We also recommended that Metro increase transparency by making the decision-making criteria available to the public and reporting on the sponsorships that were awarded.

We have discussed our findings and recommendations with Martha Bennett, COO and Ina Zucker, Council Policy Manager. A formal follow-up to this audit will be scheduled within 2 years. We would like to acknowledge and thank management and staff who assisted us in completing this audit.

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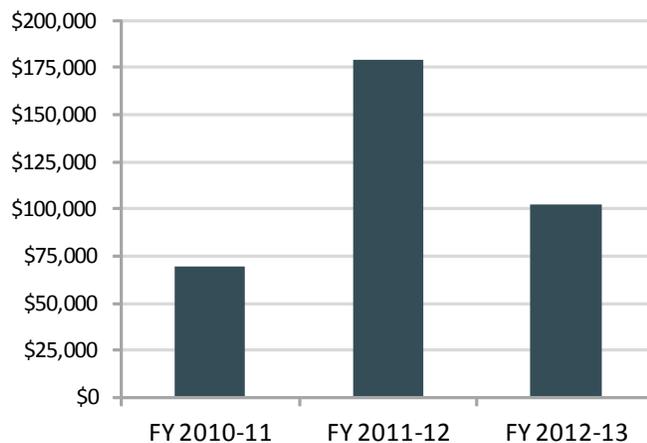
Background

A sponsorship expenditure is one that supported an entity or activity independent of Metro and for which Metro derived a benefit that supported its goals and objectives. These expenditures do not include grants, dues or memberships paid to other organizations. Some examples of sponsorship expenditures are:

- Informational table at a swap meet.
- Contribution to the annual convention of the Asian Pacific American Network of Oregon and Metro logo placement on event signage.
- Metro-hosted table at the annual Native American Youth and Family Center auction and gala with Metro's name and logo featured in event program, newsletter and Power Point presentation and recognition in the event program.

Metro accounts for expenditures by assigning codes in the financial tracking system. Expenditures coded as sponsorships totaled \$344, 047 over the last three fiscal years and fluctuated from year to year. There was a sharp increase in FY 2011-12 due to two large sponsorships, one in the Council Office and the other in the Sustainability Center (Exhibit 1).

Exhibit 1
Sponsorship expenditures as
coded in the financial system
FY 2010-11 to FY 2012-13
(adjusted for inflation)



Source: Metro Auditor's Office analysis

During the three-year period, payments ranged from very small (\$7.58) to the largest payment of \$68,000. Of the 96 organizations that received sponsorship payments in the last three fiscal years, nine received an amount in each fiscal year. Average expenditure was about \$2,586.

Scope and methodology

The purpose of this audit was to determine if procedures were in place to ensure that decisions made to purchase sponsorships were transparent and related to Metro's goals and objectives, and that Metro received a benefit from them. The audit scope included expenditures made from FY 2010-11 to FY 2012-13.

We analyzed financial data on sponsorship expenditure from the financial accounting system (PeopleSoft). We selected a sample of 66 purchases completed either by issuing a check or using a Metro issued credit card. In addition to using the sample to understand the process that was used to approve these expenditures, we also designed this sample to address potential risks of higher level of expenditure than planned or favoritism. The scope of the audit did not include the venues, Oregon Convention Center, Portland Center for the Performing Arts (Portland's) and Expo Center because the audit was initiated as a result of practices found in departments outside of the venues. We also analyzed whether the expenditure fit Metro's criteria for sponsorship.

We interviewed Metro employees who were involved with the transactions we selected to determine how decisions were made and whether Metro's procedures were followed. We interviewed key Metro employees who had been involved in the design of sponsorship tracking procedures or were responsible for maintaining them. We spoke to managers at Multnomah County and the City of Portland and reviewed access to information about other sponsorship programs in cities and counties in Oregon, as well as the State of Oregon.

This audit was not included in the FY 2013-14 audit schedule. It was added to the schedule because of work done in the MWESB Procurement audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

Results

Managers and officials in government are responsible for providing reliable and useful information to ensure accountability and transparency of programs and their operations. The public needs to know how well government resources are managed and how decisions are made. In order to be accountable and transparent, information must be reliable. There needs to be strong procedures that ensure information is consistently collected, categorized and reported.

Although Metro developed a procedure to manage requests for sponsorships, these were not consistently followed. Further, data in the financial accounting system was miscoded at times, causing the information to be unreliable. As a result, Metro's sponsorship program lacked accountability and transparency.

Data reliability needs improvement

To qualify as a sponsorship expenditure, a purchase must meet four financial accounting criteria. It must:

- be payable to an entity, activity or event.
- be independent of Metro or MERC.
- bring indirect or direct public benefit.
- support Metro's goals and objective.

We examined a sample of purchases to determine whether they were defined correctly. Applying the four criteria, we found that out of a total of 38 recipients, 11 might not completely meet the criteria (Exhibit 2). Inclusion of these items when reporting sponsorship expenditure distorted the results. If these purchases had been excluded, it would have resulted in \$28,000 less expenditure in FY 2011-12 and \$4,300 less in FY 2012-13. This reduced Metro's ability to be accountable and transparent.

Exhibit 2
Expenditures difficult to link to criteria FY 2011-12 and FY 2012-13

Purchase	FY 2011-12	FY 2012-13	TOTAL
Children's Book Bank		\$100	\$100
De La Salle North Catholic High School	\$25,000		\$25,000
J Cafe	\$94		\$94
New Seasons		\$250	\$250
Northwest Public Employees	\$1,000	\$2,500	\$3,500
Oregon Public Broadcasting		\$750	\$750
Portland Observer	\$900	\$600	\$1,500
Safeway		\$8	\$8
Starbucks		\$100	\$100
Tina Farrelly	\$998		\$998

Source: Metro Auditor's Office analysis of records in financial accounting system (PeopleSoft) and employee interviews.

Procedures not followed consistently

Recognizing the need, Metro developed procedures intended to manage the requests received for sponsorship and ensure that criteria were met. Three years ago, Metro determined these procedures were not followed and identified some barriers. Many sponsorship purchases occurred outside of the process.

In 2008, a Metro committee developed procedures to manage requests for sponsorship funding. The committee developed criteria to guide decision-making and a process to manage the requests. The responsibility for reviewing and approving requests fell on the departments. All requests, whether approved or not, were to be tracked in an agency-wide database. If the request exceeded \$1,000, the Council was to be notified and allowed an opportunity (7 days) to respond with questions or concerns.

The effectiveness of the program was reviewed in 2011. Five barriers to successful implementation were identified. Among them were a lack of ownership, oversight and administrative resources to support, monitor and guide the practice and a lack of awareness about the practice.

We were unable to identify if action was taken upon the 2011 report. Procedures continued to be inconsistently followed. We compared expenditures that had been coded as sponsorships in the financial accounting system with Metro's sponsorship tracking database. The number of recipients in the financial accounting system was larger than that found in the tracking database. Based on these results, it appeared that many higher valued sponsorship expenditures were awarded without consideration and review by the Metro Council, as provided by the 7-day notification procedure.

Transparency could be improved

Metro's procedures and practices could be more transparent. Those responsible for oversight and the public need to know that management is using its authority properly and in compliance with rules. Without transparency, there is a higher risk of improper use or undue influence.

As described above, there was a weak system for ensuring that decisions were based upon criteria. Some acknowledged that factors outside of selection criteria could influence a decision. If other factors were considered, this could increase the risk of an unfair process. However, we found no direct evidence in the sample we reviewed of this happening. One way to reduce this risk would be to increase the transparency of the process.

Compared to other jurisdictions, Metro was more transparent than some, but not as transparent as others. Neither the City of Portland nor Multnomah County tracked sponsorship requests or expenditure. Multnomah County's MWESB Purchasing Program listed events and programs that the County sponsored on its website. However, the manager stated that this list did not change for several years because the program experienced budget cuts. No procedures were available to guide these decisions.

Three other governments in Oregon, the City of Eugene, Lane County and the State of Oregon, were more transparent than Metro. Each had website information available about sponsorship program goals and purpose, approval guidelines, levels of support available, application request forms, and award timelines. All three web pages were associated with equity or human rights programs. These elements all made the process in these jurisdictions more transparent although none listed on-line the sponsorships awarded. Metro did not list sponsorships awarded or make available any information about its programs.

Recommendations

To increase accountability and transparency regarding decisions to fund sponsorships, Metro should:

1. Formalize decision-making procedures and make them public.
2. Report on sponsorships that were awarded.
3. Assign administrative resources to support, monitor and guide the practice.
4. Provide clearer guidance on proper coding of sponsorship expenditure.
5. Provide training to appropriate employees on procedures and the decision-making process.

Management response



Date: June 13, 2014
To: Suzanne Flynn, Metro Auditor
From: Ina Zucker, Council Policy Manager
Cc: Martha Bennett, Chief Operating Officer
Scott Robinson, Deputy Chief Operating Officer
Senior Leadership Team
Subject: Management Response to Sponsorship Expenditures Audit

The following represents management's response to the Sponsorship Expenditures report which will be issued by your office later this month, and presented to Council in July.

COO Bennett has convened meetings of the Senior Leadership Team to discuss sponsorships at Metro, and appreciates the Auditor's thoughtful recommendations on how to improve the substance and process of sponsorship expenditures across the agency. It was reassuring that the audit found no evidence by management of improper use of authority or undue influence in oversight of sponsorship expenditures. COO Bennett has directed me to convene an interdepartmental team to create a strategic framework and process that will increase transparency and accountability regarding the agency's sponsorship consideration and decisionmaking.

Response to recommendations in the Auditor's report

The following summarizes management's response to the specific recommendations noted in the audit report.

Recommendations

1. Formalize decisionmaking procedures and make them public.

Response: Management agrees that the criteria the agency uses to evaluate sponsorship applications should be clarified and made available across the agency and to the public. Sponsorship expenditures should align strategically with the goals of the department considering the request and the agency as a whole. Further, a standardized application and schedule for consideration of sponsorship requests would improve the process. Publicizing the criteria and schedule on Metro's website will improve access and transparency, but will also result in a significantly higher volume of applications that will need to be processed and considered. (More discussion of this under recommendation #3.)

2. Report on sponsorships that were awarded.

Response: Management agrees that information on sponsorships that are awarded each year should be reported in a central location, e.g. the budget or quarterly management reports. To accomplish this objective, a single point of contact within programs with sponsorship funds for handling requests would be ideal, with an interdepartmental team considering the requests, making the decisions, and reporting all sponsorships in a single location such as a shared spreadsheet.

3. Assign administrative resources to support, monitor and guide the practice.

Response: The interdepartmental team will identify staff resources within each department, or shared resources across departments, to facilitate better support of the sponsorship process at Metro. As noted above, improving access and visibility of available sponsorship funds will most likely result in a greatly increased volume of applications for consideration. Depending on the current availability of staff resources, it may be necessary to reevaluate staff resources after a specific period of time such as six months or one year to determine whether sufficient resources are in place.

4. Provide clearer guidance on proper coding of sponsorship expenditure.

Response: As the auditor noted in the section of the report on data reliability, first there needs to be better education and understanding throughout the agency as to what type of expenditure qualifies as a sponsorship under the definition set by Finance and Regulatory Services. Then staff must perform more accurate coding of expenditures so that expenditures that do not meet the financial accounting criteria for a sponsorship are not miscoded as many were in exhibit 2 of the Auditor's report. The interdepartmental team will include this item in our workplan.

5. Provide training to appropriate employees on procedures and the decisionmaking process.

Response: As the interdepartmental team clarifies strategic goals, a common process to follow for sponsorship consideration and a common reporting system, there will be a rollout of this information to all employees via the COO's weekly message. Also, with a sponsorship representative in each department, there will be a central person to whom staff can refer for information on procedures and the sponsorship decisionmaking process.



Office of the Metro Auditor
600 NE Grand Avenue
Portland, Oregon 97232
503-797-1892
www.oregonmetro.gov