



## **Audit Committee**

Friday, December 6, 2024

3:00 p.m.

Via Zoom: <https://us02web.zoom.us/j/84270141447?pwd=S1WK0CGOEezvuApa1zzSgvzohB9swh.1>

Meeting ID: 842 7014 1447 Passcode: 101502

Allen Room

Deschutes Services Building

1300 NW Wall St Bend, OR

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- I. **Call to Order**
- II. **Discuss Audit Budget Proposal**
- III. **Closing & Adjourn**



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**TO: Deschutes County Audit Committee**

**FROM: Nick Lelack, County Administrator**

**RE: Administrative Services Budget (Fund 625)**

**DATE: Friday, December 6, 2024**

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The purpose of this special Audit Committee meeting and memorandum is to share information about the Administrative Services Budget (Fund 625) as it relates to the Internal Audit Office. I will also share information about the County's FY 2026 budget development framework and the limited growth constraints required of the General Fund and Internal Service Fund departments (including Administration) to achieve financial sustainability.

I have made the difficult decision to reduce the Performance Auditor FTE from 1.0 to .5 effective January 1, 2024. This will result in the office maintaining a 1.0 Internal Auditor and a .5 Performance Auditor.

The Audit Committee may seek to provide feedback to me and/or the Board on this reduction of the Internal Audit program budget.

## **BACKGROUND**

The General Fund is structurally imbalanced, meaning expenditures are growing at a faster rate than revenues with a projected budget shortfall occurring by Fiscal Year 2027 (FY27), unless corrective action is taken.

The County's Finance and Administration Departments are implementing a budget framework for FY26 with the goals of resetting the expenditure curve by lowering the projected growth rate ("Limited Growth") and targeted savings ("Focused Savings") to ensure financial sustainability of the County.

The projected FY26 General Fund Budget, including all estimated staffing-costs and increases (wages, COLA, step increases, PERS, health insurance, etc.), must be reduced by approximately \$2.5 million; the County overall must reduce expenses by over \$3 million.

Finance staff has developed modeling scenarios along with several strategic modifications and realignments identified to achieve sustainability of the General Fund. Together, this Limited Growth and Focused Savings initiative includes strategies to help achieve a structural balance and financial sustainability within the General Fund for the next nine (9) years. A cross-departmental workgroup has been meeting to review and provide feedback on the approach and implementation strategy.

On Monday, Dec. 2, the Board approved \$1 million in savings from the General Fund by re-aligning current General Fund expenditures, including moving debt service to the Video Lottery Fund, moving two Health Services positions to the Behavioral Health Fund, increasing fees for some services, and reducing transfers to the Assessor/Clerk/Tax Reserve Fund for the replacement of the Assessment and Taxation software, among other minor adjustments.

In FY 2026, the Limited Growth and Focused Savings framework will limit the growth of General Fund supported departments to 3.3% and Internal Service Fund departments to 8%.

### **ADMINISTRATIVE SERVICES FUND 625 SUMMARY**

The Administrative Services Department (9.75 FTE) provides general oversight and direction, both in terms of planning for the County's long-term financial and organizational health and managing day-to-day operations of one of Central Oregon's largest employers. The County's Internal Audit Office is included in Administrative Services. The Department also provides oversight of the Video Lottery, Economic Development, Taylor Grazing and Coordinated Houseless Response Office Funds. In addition to these funds, the Department provides staff support for communications and community engagement for County departments and offices, support several BOCC appointed Committees, including the Audit Committee, manages legislative affairs, applies for grants and manages contracts, etc.

The Department's FY25 budget is \$2,491,433. Administrative Services' FY26 budget will be limited to 8% growth – which is higher than the limited growth allowed for departments in the General Fund. Developing a budget that meets this target will require reductions of more than \$130,000. Achieving this savings will begin with reduced spending in FY25, which will result in a larger FY26 Beginning Fund Balance.

### **INTERNAL AUDIT OFFICE PARTIAL REDUCTION**

Administrative Services is reducing costs to achieve the limited growth target by implementing the following measures immediately:

1. Utilization of both Deputy County Administrators to cover the vacant Human Resources Director and Manager roles and billing HR for these services.
2. Utilization of Communications staff to cover the Audio Visual system for Board of Commissioners meetings in lieu of using on-call staff.
3. Removing funding to support retreats and meetings.
4. Reduction of a public information program funding.
5. Elimination of software to manage social media.
6. Cancellation of the website project to minimize future year cost increases and limit costs to departments/offices.

However, saving \$130,000 in FY26 can only be achieved by reducing a full or partial FTE.

Risk Management's Claims Coordinator will retire on December 31, 2024, creating a vacancy. However, this essential Risk Management position must be filled to process claims and perform other necessary functions. Also, the Risk Management budget does not receive any General Fund support, it is funded by internal service charges to departments.

I made the difficult decision to reduce the County's Performance Auditor position to .5 FTE, effective January 1, 2025. The overarching reasons for this decision, including the timing of this decision, is to offer the Performance Auditor the opportunity to maintain full-time employment with the County by moving to the Risk Management program, and overlapping/training with the retiring Claims Coordinator for at least a few weeks. In addition, the savings generated for 50% of the fiscal year would contribute to Administrative Services' meeting the necessary savings with the least impact to County operations.

As some Audit Committee members may recall, the Performance Auditor position was approved by the Budget Committee in 2021 as a limited duration position. In the special request for the position, former County Internal Auditor David Givans highlighted succession planning as one of the needs for adding the position. The position was converted to a regular FTE after the Internal Audit Office could not fill it.

During the Audit Committee meeting on Friday, Dec. 6, I will not address options to reduce fully or partially any other Administrative Services positions both due to the sensitive nature of the topic and because it is not within the Audit Committee's purview.



## Memo

**To:** Deschutes County Audit Committee Members  
**From:** Elizabeth Pape  
**Date:** December 4, 2024  
**Re:** Proposed Audit Budget Cuts

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The committee is convening on Friday December 6 to discuss changes the County Administrator is proposing to the Audit Office budget. The proposal is to cut the current budget from 2 full-time employees to 1.5 employees starting in January. Deschutes County Code section 2.15.010 (3) gives the Audit Committee authority to advise the Board of County Commissioners and the County Administrator on significant audit matters including increases and decreases to the requested budget for the internal audit program.

Since 2016, the audit committee has recognized that the demand for audit work has outpaced Office staffing. At the time, the Board of County Commissioners authorized funding to allow the Office to hire contract staff. However, this arrangement was never successful. There is a limited pool of people in Central Oregon with performance auditing skills. Contract staff proved to be unreliable with frequent schedule conflicts. There are also significant continuing education requirements associated with government auditing which increases the cost for using contract staff who don't work full-time.

In 2021, a limited duration performance auditor position was added to the Fiscal Year 2022 budget. According to the staff report, the decision to make this a limited duration position was to allow for discussion about the position during the next budget period. However, it proved difficult to fill a limited duration position and in

October 2021, the position was changed to a regular position. In March 2022 the position was filled, and the same person remains in the position today.

I will do my best to fill the part-time position that remains with the Office. But given the difficult hiring history for this position, I consider this to be a cut of a full position.

The additional position has been invaluable to the office. This proposal will have serious impacts on the amount of work the Office can produce, the quality of the work, and the independence of the audit function. Additionally, the cut will take staffing back to the level that was first identified in 2016 as being too low while the county has continued to grow even more since then.

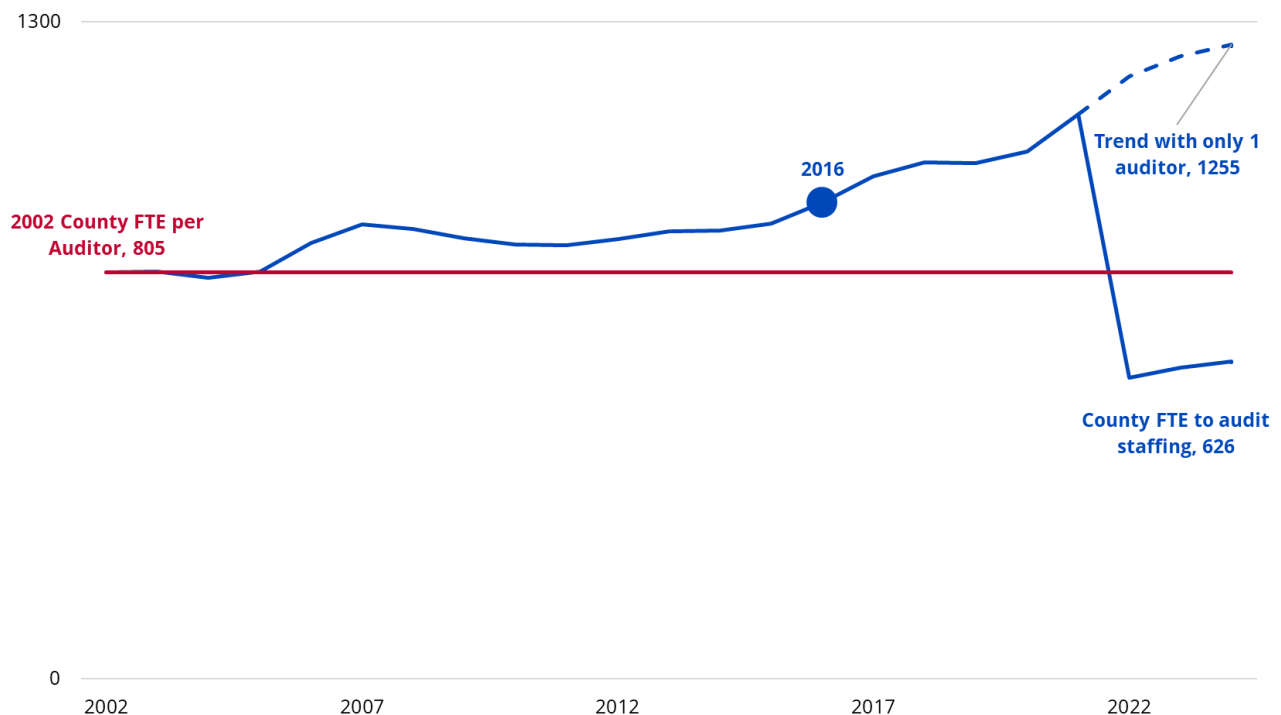
There is no doubt we will lose audit coverage with the loss of staff. Even with two full-time staff we were not able to address all the important topics the audit committee tasked us with auditing. We amended the audit work plan to remove important topics such as personnel data entry, fairgrounds food and beverage concessions, and a review of computerized procedures. There are four audits remaining on the schedule to be completed including recruitment and retention, election controls, the houselessness response, and Sheriff's Office body cameras. With the loss of a position we will have to choose which of these important topics to remove from the plan.

One-person shops are not common because quality auditing requires collaboration and review. We would be the only one-person shop among Oregon peers. Having a second person in Office exponentially expands the value of the function. It doesn't just allow us to do more work. The quality of the work is improved. Auditing standards require extensive review for quality control. Audits are better quality because of the second set of eyes. In a single person shop, there is no opportunity for collaboration. The audit function must remain independent and so can't share ideas with other county employees. Without a second employee there is not an opportunity to bounce ideas around or brainstorm.

This proposed cut impacts the independence of the audit function. Since I was hired in August 2023, the County Administrator and the Audit Committee have made strides to increase the independence of the office, notably by changing the annual performance review process for the Internal Auditor. This proposal highlights another structural problem impacting audit independence. The County

Administrator can make this change in January outside of the normal budget process and without the approval of the Board of County Commissioners because the audit function operates within the Administration line item in the budget. The Administrator is treating this position as if it were any other position in the department. Deschutes County Code section 2.14.001 (D) tasks the Auditor with selecting, appointing, directing, supervising, disciplining and dismissing all Office of County Internal Audit staff. This would be clearer if the Office had a separate budget line item.

Finally, the Audit Committee has been trying to expand the Office since 2016 to provide adequate audit coverage. This proposal doesn't just take staffing back to where it was in 2016, it makes it significantly worse.



Given the significant impacts of this proposal on both the quantity and quality of audit work and the impact on independence, I would like to request that the Audit Committee recommend that the Deschutes County Board of County Commissioners not cut the performance auditor position and look for other places to make necessary budget cuts.



**Kristine Adams-Wannberg  
Washington County Auditor**

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Daryl Parrish  
Deschutes County Audit Committee Chair  
2730 NW Witworth Way  
Bend, Oregon 97703

December 4, 2024

Dear Chair Parrish,

My name is Kristine Adams-Wannberg, and I am the elected Washington County Auditor.

I wanted to express my concern at an effort to reduce the Deschutes County Internal Audit budget. My understanding is that this would decrease one of the two, full-time positions in the audit organization to half time.

Deschutes County adds great value to the County. The audit function examines programs for economy, efficiency, transparency, and compliance. The audit recommendations help the County identify corrective actions that reduce County risk long-term, run more effectively, and make it more accountable to the public.

Having sufficient funding is critical in an audit function. Reducing the Internal Audit unit's staffing would have a detrimental impact the County in limiting its capacity to audit and the knowledge, skills, and abilities on staff. Internal Audit has always run very lean and given great impact for the small amount of resources it uses. Having this cut also compromises the function's independence in that the audit function is being controlled, though the budget, by managers that are subject to audit.

The Deschutes Internal Audit unit is well-regarded organization in the internal audit profession. It is an award-winning organization, has members active in the leadership in the profession, and has passed multiple external quality assessment reviews.

I urge you to communicate to the Board of Commissioners and the County Administrative Office in opposing these cuts. They will end up doing lasting damage to the County and the minor, short-term savings the County would see would be negligible.

Sincerely,

A handwritten signature in purple ink that reads "Kristine Adams-Wannberg".

Kristine Adams-Wannberg  
Washington County Auditor

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phone: (503) 846-8798 · e-mail: [countyauditor@washingtonty.gov](mailto:countyauditor@washingtonty.gov)  
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Daryl Parrish  
Deschutes County Audit Committee Chair  
2730 NW Witworth Way  
Bend, Oregon 97703

December 4, 2024

Greetings, Chair Parrish.

Thank you for the opportunity to advocate for continued transparency and accountability within Deschutes County. As a member of the local, state and national auditing communities for over 35 years, I have served as the Chief Audit Executive for local and state government entities, as well as chaired multiple government audit committees. I am proud of the public service and support internal auditors provide our communities.

A strong governance system helps an organization meet its objectives. Governance requires:

- A governing body – for accountability, oversight, and leadership.
- Executive management – with responsibility for direction, decision-making, and resources.
- Internal audit – for independent assurance, insight and advice.

A strong, resourced internal audit function is essential to county governments.

Internal audit speaks truth to an organization through rigorous inquiry and insightful communication. It provides advice and assurance from within the organization to help it:

- Understand the internal and external environments in which it operates.
- Make better-informed, risk-based decisions.
- Achieve its goals effectively, efficiently, ethically, and sustainably.

Internal audit is most effective when its resource level, competence, and structure are sufficient, aligned with organizational strategy, and consistent with professional standards. Its independence requires the support of an independent Audit Committee, as well as the necessary resources.

As a public organization, Deschutes County is charged with protecting and serving the public interest. To achieve this, the county has established strategic goals addressing safe communities, healthy people, service delivery, a resilient county and housing and stability.

Deschutes County has demonstrated its commitment to effective governance by establishing and supporting an independent internal audit function. The Deschutes County internal audit function was established in 2002 with one Chief Audit Executive. This function's ability to provide valuable assurance, insight and advice was determined to be insufficiently resourced. The addition of one staff auditor in March 2022 significantly enhanced the function's impact and brought the Deschutes County internal audit function closer to alignment with industry standards and resource benchmarks.

This staffing level, in addition to the time and commitment of the Deschutes County Audit Committee, supports Deschutes County's internal audit independence and success.

Thank you for considering the ongoing sufficiency of Deschutes County's internal audit resources and advocating for continued internal audit impact.

By continuing to support a strong internal audit function, the county and its audit committee reinforce the commitment to governance excellence, continuous improvement, transparency and accountability.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. Cochran".

Jodi Cochran, CPA, CIA, CGMA, CRMA

503.997.8771

[Jodi\\_Cochran@hotmail.com](mailto:Jodi_Cochran@hotmail.com)



## Association of Local Government Auditors

Daryl Parrish  
Deschutes County Audit Committee Chair  
2730 NW Witworth Way  
Bend, Oregon 97703

December 5, 2024

Dear Chair Parrish,

We recently learned about a proposal to eliminate half of a full-time position in the Deschutes County Office of Internal Audit—amounting to a 25% decrease in staffing. We are writing to you to express our concerns about this proposal. The office has produced reports that led to budget savings, more efficient city operations, and improved services to Deschutes County residents. This is evidence of an effective audit function.

Sufficient funding is vital for an audit organization. Limited funding and staffing can impede the office's work and impede benefit to the County. The effort to reduce the FTE also impairs the unit's independence in that the unit change is sought by management who are subject to audit. An independent local auditing function, operating under applicable professional auditing standards, plays a key role in effective governance and public accountability. It provides assurance to citizens and elected officials that scarce resources are protected by strong management controls and practices.

The Deschutes County Office of Internal Audit is a high-quality performance audit office headed by two experienced government auditors. The Deschutes County Office of Internal Audit has successfully passed multiple, rigorous external quality control reviews that demonstrated compliance with the demanding U.S. Comptroller General's Government Auditing Standards. The office has also won several of ALGA's Knighton Awards for its high-quality reports.

On behalf of ALGA, I would like to thank the Deschutes County Commissioners and the Audit Committee for their role in establishing, maintaining, and advocating an effective independent audit function. We ask you as the Audit Committee to continue your advocacy for sustained funding to support this important role in your government's structure.

If you have any questions about this letter or any other issues concerning local government auditing, please contact me at [anoble@atlantaga.gov](mailto:anoble@atlantaga.gov).

Sincerely,

Amanda Noble  
Atlanta City Auditor  
Chair, ALGA Advocacy Committee

cc: Ross Visscher, ALGA President