

County Financial Policies: Guiding principles should evolve to reflect complex funding and needs

December 2023



Kristine Adams-Wannberg, CIA, CGAP
Washington County Auditor

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**Kristine Adams-Wannberg
Washington County Auditor**

December 19, 2023

Dear Washington County Community Members:

This report contains the results of our audit on County financial policies. These policies are important for the County to have a strategic, long-term approach to managing the public's money and resources.

We found the County needs a comprehensive set of policies to better manage its finances. We reviewed the five countywide financial policies and compared these to best practices from the Government Finance Officer's Association. One of the County's policies compares well with best practices, and the remainder need improvement. There are also several financial areas where no policies exist. For a government Washington County's size and complexity, these need to be addressed to ensure consistent approaches throughout the organization and for the government to achieve its financial goals.

Management can improve documentation of the calculation of the General Fund's fund balance. Management should also develop a written policy over access permissions to the Budget Office's software.

The County's Chief Financial Officer (CFO) requested this review in order to improve the County's financial policies and overall internal controls. We appreciate the CFO's desire for an independent review and thank County staff for their cooperation and assistance throughout the audit.

Thank you,

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

Kristine Adams-Wannberg, CIA, CGAP
Washington County Auditor

Report Highlights

Why this Audit is Important

Financial policies are needed for a thoughtful, long-term approach to managing the County's money and resources. Approved, written policies help:

- Establish good, long-lived management practices.
- Clarify the organization's financial management approach.
- Identify the limits on actions staff may or may not take.
- Support good bond ratings, thereby lowering the costs to borrow money.
- Encourage strategic thinking.
- Manage risks to the government's financial health.

- Source: Government Finance Officers Association (GFOA) Best Practices - Adopting Financial Policies

What We Found

The County needs a complete set of policies that would help the government better manage its finances:

- The County has five Countywide financial policies and many supporting procedures. The County's investment policy is well developed, but policies about reserves, grants, budget, and accounting and financial reporting need improvement. There are seven other areas where no policies are in place.
- The County's General Fund calculation of its reserve meets current policy, and the information used in the calculation was reasonable. However, the methodology details and the process for the calculation was not documented, and the source data was not retained.
- We reviewed the policies over access to the County's accounting and budgeting systems. We found there were no written policies over access permissions to the software.



What We Recommend

We make the following recommendations:

- Improve financial policies and develop new ones that reflect GFOA recommended criteria.
- Document the General Fund reserve calculation methodology and process.
- Develop a written user access policy for software the Budget Office uses, ensuring access only for what users require to perform their job. Management should review and give approval of access.

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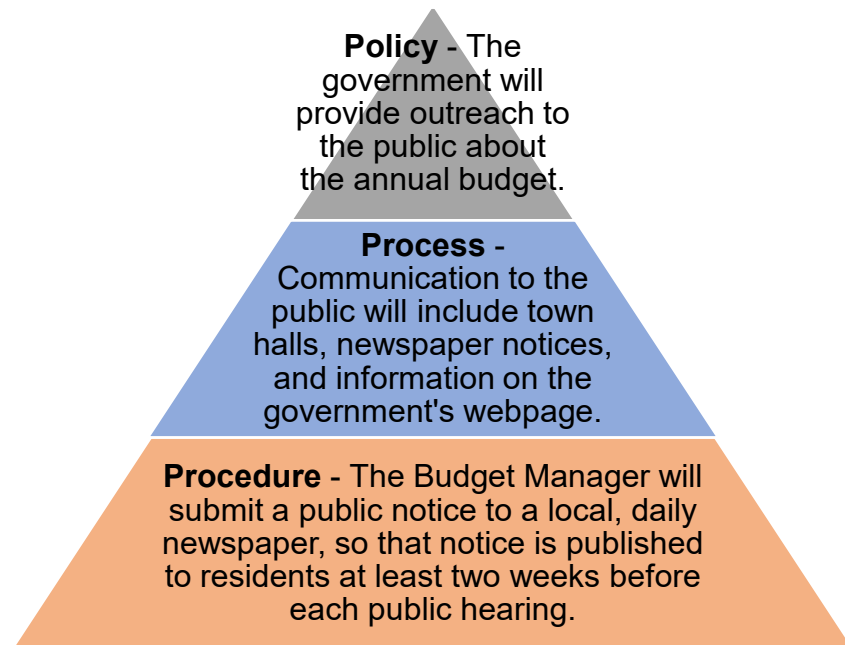
Background

Good financial policies promote thoughtful, long-term support of a government's programs and services. The more a government spends and the growing diversity of the different types of funds that government uses, the more financial policies are needed to guide how the government will best manage the public's resources.

Washington County has a total Fiscal Year (FY) 2023-24 Adopted Budget of \$1.7 billion and is supported by about 90 individual funds. Of the \$1.7 billion, approximately \$347 million is General Fund, which can be used on a broad range of services, such as the Board of County Commissioners and the County jail. The \$1.4 billion remaining is restricted by law or directed by policy to support particular programs and services. Two examples are transportation services and public housing programs.


Policies are different than procedures or processes. Policies are standards approved by County leadership by which the government manages its work. They can, for example, prescribe or prohibit actions to advance the County's mission,

Figure 1: Example of the difference between policy, process, and procedure. *Source: County Auditor's Office.*



follow legal requirements, ensure coordination with other governments, and improve efficiency in the organization. This is different than procedures, which describe specific ways of doing things to implement the policy. They normally do not require executive leadership approval. Several of these tasks together create a process.

The County has five Countywide policies that govern its finances and several processes and procedures to support those policies. Some individual funds also have department-specific policies that govern just a single fund. The five Countywide policies are:

 A “fund” is a stand-alone bookkeeping set of accounts governments use to track and report on financial resources and expenses for specific activities.

- *Administrative Policy 404 – Budget:* This policy gives an overview of how the annual County budget is adopted and modified, as well as public hearings that must take place. It has some general guidance on budgeting practices for the General Fund and other funds.
- *Administrative Policy 405 – Fund Balance Targets and Reserves:* This policy has some specific requirements for the level of fund balance for the General Fund. For other funds, reserves or specific targets are determined based on the needs of each fund.
- *Administrative Policy 406 – Comprehensive Financial Management Policy Overview:* This policy sets financial goals and objectives for the County’s fiscal sustainability and asset protection. This policy is more like a strategic plan.
- *2012 Fiscal Policy* – This includes a few policies, such as banking services, cash handling, and audits. This document, however, is a set a procedures for the County’s financial functions.
- *2022 Investment Policy* – This policy requires compliance with all state and federal regulations and

sets the expectation that investments should generate reasonable returns with minimum risk. This policy is not on the County website.

These policies provide some direction to managers and staff on financial standards County leadership expects.

Finding 1

The County lacks an updated, complete set of Countywide financial policies

We compared the County’s financial policies against recommended practices from the Government Finance Officers Association (GFOA). The purpose was to determine where the County has adequate policies and where there are areas for improvement.

GFOA is a long-standing organization of local, state/provincial, and federal public finance officials in the United States and Canada. It works to advance excellence in public finance.

We reviewed 13 financial areas where GFOA recommends governments have policies. We found the County’s Investment Policy is well aligned with GFOA recommendations. Additionally, we found five County policies that need improvement and seven areas where the County has no policies.

Figure 2. GFOA best practices compared to Washington County financial policies



















GFOA Basic Financial Policies	Policy Description	How do Washington County policies compare?
 General Fund Reserves	Policies about the amount of resources held in reserve and the conditions under which reserves can be used.	Needs improvement
 Reserves in Other Funds	Policies for other funds that serve a similar purpose to General Fund reserve policies.	Needs improvement
 Grants	Policies that deal with administration and grants process.	Needs improvement
 Debt	Policies that govern the use of government debt, such as types of debt, conditions when debt may be used, and debt levels.	No policies in place

Figure 2. Continued

GFOA Basic Financial Policies	Policy Description	How do Countywide policies compare?
 <p>Investment of Public Funds</p>	<p>Policies on the investment of public funds, including allowed investments, standards of care for invested funds, and the role of staff and professional advisors.</p>	<p>Compares well</p>
 <p>Economic Development</p>	<p>Policies that address a local government's use of subsidies or other incentives to encourage private development.</p>	<p>No policies in place</p>
 <p>Accounting and Financial Reporting</p>	<p>Policies that establish and guide the use of an audit committee, set key accounting principles, and that ensure external audits are properly performed.</p>	<p>Needs improvement</p>
 <p>Long-Term Financial Planning</p>	<p>A policy that commits the organization to taking a long-term approach to financial health.</p>	<p>No policies in place</p>
 <p>Structurally Balance Budget</p>	<p>Policies that offer a distinction between the legal definition of a balanced budget and achieving a structurally balanced budget. For structural balance, on-going revenues support on-going programs. One-time revenues support one-time expenditures.</p>	<p>No policies in place</p>
 <p>Capital</p>	<p>Policies that cover the lifecycle of capital assets, including capital improvement planning, budgeting, project management, and asset maintenance.</p>	<p>No policies in place</p>
 <p>Expenditures</p>	<p>Policies addressing a range of issues around how the money is spent, including personnel, outsourcing, and funding long-term liabilities.</p>	<p>No policies in place</p>
 <p>Revenues</p>	<p>Policy guidance about designing efficient and effective revenue systems that guarantee adequate public resources to meet spending obligations.</p>	<p>No policies in place</p>
 <p>Operating Budget</p>	<p>Policies that describe essential features of the budget development process as well as principles that guide decision-making.</p>	<p>Needs improvement</p>

For the five policies that needed improvement, we found the following limitations:

Figure 3. Limitations of the five Washington County policies needing improvement

Five County Policies Needing Improvement	Current Limitations
 <p>General Fund Reserves</p>	<ul style="list-style-type: none"> The reserve calculation includes money from the Strategic Investment Program¹ (Fund 204). This is not an on-going revenue source and should not be considered part of the General Fund's fund balance calculation, which focuses on on-going programs. The policy is unclear. It lacks definitions. There is also no direction on what should happen if the reserve balance calculated falls above or below the target range. The Stabilization Reserve² (Fund 105) is no longer holding money for FY 2023-24, so the policy should be updated.
 <p>Reserves in Other Funds</p>	<ul style="list-style-type: none"> Current policy leaves the need for reserves or targets to be determined by each fund. There are neither requirements to document reserve policies for all other funds, nor direction on how policies should be approved. Central Finance's role on policy change is not clear.
 <p>Grants</p>	<ul style="list-style-type: none"> There is no direction as to what types of grants the County feels are/are not acceptable to pursue. For example, should the County apply for grants that require the County fund the grant-supported services once the grant is complete?
 <p>Accounting and Financial Reporting</p>	<ul style="list-style-type: none"> The 2012 Fiscal Policy is more of a procedures manual than a policy document, and it is over 10 years old.
 <p>Operating Budget</p>	<ul style="list-style-type: none"> The budget policy lacks the support of a set of policies for expenditures, revenues, capital planning and budgeting, and ensuring the budget achieves structural balance.

¹ The Strategic Investment Program is a property tax reduction program to promote economic development.

² The Stabilization Reserve was established to ensure the continued delivery of County services to address emergencies, address significant revenue or cash shortfalls, or provide stability during economic cycles.

In recent months the Finance Department has been working on updates to some of the Countywide policies. We inquired why the County had not adopted new policies or improved any prior to Finance's most recent work this year. Management indicated the County has changed from being managed by a few long-term, knowledgeable people in the County Administrator's Office (CAO), to a new County Board and people in the CAO's office. In addition, during the prior administration, the finance function was buried deep in the organization and did not play a policy role.

The County needs to update the current policies and establish some new policies that will help the County administer the public's resources. Without them, managers and staff will not have clear direction on what principles and actions are or are not appropriate. Lack of updated policies discourages a long-term focus on the government's financial health, can increase costs, and decrease efficiencies.

Finding 2:

The County calculated the General Fund's fund balance target according to policy. The methodology, process, and data used should be documented

We reviewed how the General Fund's fund balance target was calculated against County policy. The fund balance is like a reserve that can be used for emergencies or overspending. Per Policy 405: Fund Balance Targets and Reserve Policy, the fund balance target should be between 15 percent and 20 percent of net revenues.



Figure 4. How the General Fund's (GF) fund balance target is calculated

Step 1: GF's fund balance = fund balances for General Fund + Stabilization Fund + Strategic Investment Program

Step 2: GF Net Revenues = Total GF Revenues (minus) GF transfers for the Major Streets Transportation Improvement Program and the Washington County Cooperative Library Service

Step 3: Target = Result of Step 1 ÷ result of Step 2

We found Finance correctly calculated the General Fund’s fund balance target according to the policy. The fund balance target for the FY 2023-24 budget was at 27 percent. This was above the 15-20 percent range. Management indicated they view the range as something to aim for versus a fixed range.

We reviewed the data used to calculate the reserves and found it to be reasonable. We found there was no documentation of the overall method, process, or the data used.



Source: Microsoft photos

Written direction about the calculation, the approval process, the data sources, and any special adjustments made from year to year should be in place. This would help in comparing calculations from year to year. In addition, there has been some turnover in Finance

leadership in the last few years. Having this information would be useful for succession planning, speed, and consistent process in future years. The information and the spreadsheet should be fully available to the Chief Financial Officer and the Budget Manager for their use.

Finding 3:

The Budget Office should develop and document a user access policy for software

While reviewing the fund balance calculation, we also did a high-level review whether there were policies in place over the technology systems used. This included elements such as error detection mechanisms in the spreadsheet, whether access policies were in place for financial and budget systems, and the security of the operating systems in which the spreadsheet is located.

We found there were some controls and access policies.

There was no documented policy about access permissions to software applications including administrative accounts. The Budget Office indicated there has not been any issues with providing administrative

An administrative account for software is one where the administrator can make changes that will affect other users.

access. They have not had anyone ask for that level of access that was not already in a position that has historically had that level of access. Having a policy is a recommended practice. It would help reinforce that access should be only for what users require to perform their job responsibilities and that management has reviewed and approved that access.

Summary of Audit Recommendations



Based on our findings we recommend the following:

Recommendation 1: The CFO should update policies that are insufficient and develop new financial policies highlighted in the audit according to GFOA recommended criteria.

Recommendation 2: The CFO should document the methodology, process, source information, and any adjustments used to calculate the General Fund fund balance target. The information and the spreadsheet should be fully available to the CFO and the Budget Manager for their use.

Recommendation 3: The Budget Office should develop a written user access to software policy. This should ensure access only for what users require to perform their job responsibilities. It should also include a requirement of management review and approval of user access, and regular monitoring.

Management's response to these recommendations is included in a letter on page 13 of this document.

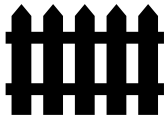
Audit Objectives, Scope, and Methodology



Objectives are the goals of the audit.

Objectives:

- Objective 1: To compare the selected financial policies against Government Finance Officers Association (GFOA) recommended practices and determine where Washington County has reasonable financial policies and where there are areas for improvement.
- Objective 2: To determine whether the method used for the FY 2023-24 budget calculation for the General Fund reserves and targets followed Policy 405 and whether the internal controls over the calculation spreadsheet and data are appropriate.



Scope identifies the audit's boundaries.

Scope:

We analyzed the three Countywide financial policies on the County's website as of August 1, 2023, as well as the 2012 Fiscal Policy and the 2022 Investment Policy. We reviewed the General Fund reserve calculation used for the FY 2023-24 Adopted Budget. We did not review risk management and internal controls or procurement policies. We did not review fund-specific policies, with the exemption of those focused on the General Fund.



Methodology describes the work we did to achieve the audit objectives.

Methodology:

To accomplish our objectives, we:

- Interviewed managers and staff from the Finance Department; the Department of Facilities, Fleet and Parks; the Sheriff's Office; the County Administrator's Office; the Office of Community Development; the Department of Juvenile Services; the Department of Land Use and Transportation; and the Department of Health and Human Services.
- Reviewed Countywide Policies 404, 405, 406; the County's Investment Policy; the County's debt management controls, and the County's 2012 Fiscal Policy.

- Compared County policies to GFOA best practices and the National Advisory Council on State and Local Budgeting recommended practices.
- Reviewed the calculations and methodological approach used to calculate the FY 2023-24 General Fund's fund balance target.
- Assessed access and general controls over the calculation spreadsheet, as well as reviewed access and controls over the County's financial and budget systems.

Compliance with Audit Standards



We conducted this performance audit in accordance with generally accepted government auditing standards, except that we have not had an external peer review. 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.



December 11, 2023

Kristine Adams-Wannberg, County Auditor
Washington County Auditor's Office
221 S First Avenue
Hillsboro, OR 97123-3901

Dear Ms. Adams-Wannberg,

This letter provides a written response to the County Auditor's final draft audit report titled: County Financial Policies: Guiding principles should evolve to reflect complex funding and needs, dated December 2023.

The County Administrative Office recognizes and acknowledges the importance of establishing, maintaining and following best practice financial policies. Over the next eighteen months, the County plans to review existing and develop new financial policies for Board consideration, per the recommendations in this audit and as defined in the Government Finance Officers Association's (GFOA) best practice guidance for policy development.

Thank you for this important analysis and audit of County financial policies. This work will lead to the establishment of policy guidance that will help insure future financial decisions are thoughtful and provide a long-term approach to managing the County's resources.

Below is our detailed response to each recommendation in the audit.

RECOMMENDATION 1

Auditor recommendation: The CFO should update policies that are insufficient and develop new financial policies highlighted in the audit according to GFOA recommended criteria.

Management Response		
Agree or Disagree with Recommendation	Target date to complete implementation activities	Name of specific point of contact for implementation
Agree	July 2025	Greg Munn, CFO 503.846.8756
Narrative response: The County Chief Financial Officer agrees with the audit recommendation and will utilize this audit report and GFOA best practices to improve and/or develop financial policies for Board consideration and adoption on or prior to July 2025.		

RECOMMENDATION 2

Auditor recommendation: The CFO should document the methodology, process, source information, and any adjustments used to calculate the General Fund fund balance target. The information and the spreadsheet should be fully available to the CFO and the Budget Manager for their use.

County Administrative Office
155 North First Avenue, Suite 300, MS 21, Hillsboro, OR 97124-3072
phone: (503) 846-8685 • fax: (503) 846-4545

Management Response		
Agree or Disagree with Recommendation	Target date to complete implementation activities	Name of specific point of contact for implementation
Agree	June 2024	Greg Munn, CFO 503.846.8756
Narrative response: The County Chief Financial Officer agrees with the audit recommendation and will utilize this audit report and GFOA best practices to document the General Fund reserve calculation methodology and process by June 2024.		

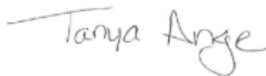
RECOMMENDATION 3

Auditor recommendation: The Budget Office should develop a written user access to software policy. This should ensure access only for what users require to perform their job responsibilities. It should also include a requirement of management review and approval of user access, and regular monitoring.

Management Response		
Agree or Disagree with Recommendation	Target date to complete implementation activities	Name of specific point of contact for implementation
Agree	December 2025	Steve Kang, Budget Manager 503.846.8818
Narrative response: The County Budget Manager agrees with the audit recommendation and will develop a written policy that defines how user access is granted to Budget Office software by December 2025.		

Please contact Tanya Ange at 503.846.8806 with any questions.

Sincerely,



Tanya Ange
County Administrator

About the Washington County Auditor's Office



The Washington County Auditor's Office conducts performance audits that provide accountability to the public and improve County programs, services, and operations. In conducting audits, the County Auditor's Office follows professional auditing standards that require a high level of independence, objectivity, sound professional judgment, and regular quality assurance reviews.

The County Auditor is elected countywide and operates independently of the Board of County Commissioners and the County Administrator. The Auditor answers directly to Washington County residents and determines the programs and services to be audited.

Our Mission



To promote better government accountability, public policy, and County services through impactful audits and analysis.

Audit Team



- Kristine Adams-Wannberg, County Auditor and Auditor-In-Charge
- Sherry Kurk, Senior Management Auditor, Supervisory Reviewer
- Fiona Howell Earle, Senior Management Auditor, Quality Control Reviewer