

Board Decision

Energy Trust Management Audit

June 9, 2004

Purpose

The Audit Committee proposes that the board direct staff to issue a request for proposals for a management audit.

Budget impact

An estimated \$50,000.

Background

The OPUC Grant Agreement calls for a management review to review costs, cost allocations and programs:

- Review the administrative and operational costs of ETO and provide recommendations to improve its efficiency and effectiveness;
- Analyze cost allocations between administrative, management and programs and offer suggestions for appropriate changes; and
- Review programs operated by ETO, compare them to programs operating elsewhere and offer suggestions for improvement.

The review is to be completed within three years of the effective date of the agreement (March 31, 2002).

In our discussion of this subject, we reviewed Government Accounting Office (“GAO”) standards,¹ which cover many subjects. We also looked at the Northwest Energy Efficiency Alliance (“NEEA”) 1998 “performance review.” The NEEA audit addressed a narrower subset of the subjects described by the GAO, focusing more on the programs and procedures and less on costs and efficiency.²

Analysis

The scope of a management audit is based on the needs of those requesting the audit. We had a preliminary conversation with Janet Fairchild at the OPUC about this. She expressed interest in the GAO standards, and explicitly mentioned the following:

- Compliance with law and the grant agreement
- Financial issues and internal controls

- Program performance, e.g.:
 - Do Energy Trust policies & procedures accomplish the goals set out in grant agreement efficiently?
 - Does the right level of detail filter up to Board from Advisory Councils?
 - Does Energy Trust solicit information from the right stakeholders?
- Administrative costs compared to other, similar organizations
- Customer satisfaction (this was just a suggestion)

Below, we offer a list of audit subjects for purposes of an RFP. We can refine a scope of work once we have proposals in hand, and we suggest that we involve Janet in reviewing the scope of work.

Recommendation

We recommend that the Board direct staff to:

1. Issue a request for proposals (RFP) to retain a firm to complete a management audit by October 31, 2004;
2. In the RFP, ask proposals to focus the audit on whether Energy Trust:
 - Is meeting the legislature's objectives for the public purpose charge?
 - Is operating efficiently? If not, in what areas can it trim costs without affecting results?
 - Is the budget allocated effectively among different functions?
 - Has open, transparent and inclusive decision-making processes? Obtains and makes appropriate use of information from advisory committees and the general public? Should it rely more on outside experts in designing its programs?
 - Has well-designed, effective programs achieving conservation and renewable resources at cost-effective levels? If not, how can the programs be improved? Are there more efficient and effective ways to achieve conservation and renewable resource development?

We also suggest that the initial draft of the RFP be submitted to the Audit Committee for review in an executive session (as meetings of the committee generally are), that the Audit Committee participate in the selection of the management audit firm/firms, and that the firm/firms be responsive to Audit Committee suggestions for clarification. The Audit Committee will arrange suitable coordination with the OPUC.

Resolution

RESOLUTION DIRECTING STAFF TO SCOPE, ISSUE A REQUEST FOR PROPOSALS AND IMPLEMENT A MANAGEMENT AUDIT

WHEREAS:

(1) The OPUC Grant Agreement calls for a management review of the Energy Trust of Oregon to consider costs, cost allocations and programs:

- (A) Review the administrative and operational costs of ETO and provide recommendations to improve its efficiency and effectiveness;**
- (B) Analyze cost allocations between administrative, management and programs and offer suggestions for appropriate changes; and**
- (C) Review programs operated by ETO, compare them to programs operating elsewhere and offer suggestions for improvement.**

The review is to be completed by **March 31, 2005.**

(2) The Energy Trust has consulted with the Oregon Public Utility Commission staff and reviewed Government Accounting Office (“GAO”) standards and performance reviews of comparable organizations.

It is **RESOLVED** that:

(1) Staff shall, in cooperation with the Audit Committee, issue a request for proposals (RFP) to retain a firm to complete a management audit by October 31, 2004;

(2) The RFP shall specify that the audit should focus on whether Energy Trust:

- **Is meeting the legislature’s objectives for the public purpose charge?**
- **Is operating efficiently? If not, in what areas can it trim costs without affecting results?**
- **Is the budget allocated effectively among different functions?**
- **Has open, transparent and inclusive decision-making processes? Obtains and makes appropriate use of information from advisory committees and the general public? Should it rely more on outside experts in designing its programs?**
- **Has well-designed, effective programs achieving conservation and renewable resources at cost-effective levels? If not, how can the programs be improved? Are there more efficient and effective ways to achieve conservation and renewable resource development?**

(3) Staff shall submit the initial draft of the RFP to the Audit Committee for review in an executive session (as meetings of the committee generally are). The Audit Committee shall participate in the selection of the management audit firm/firms, and firm/firms be responsive to Audit Committee suggestions for clarification. The Audit Committee will arrange suitable coordination with the Oregon PUC.

Moved by: _____ Seconded by: _____

Vote: ___ in favor ___ opposed ___ abstained

Adopted on _____, by the Energy Trust of Oregon, Inc., Board of Directors.

¹ Here is how the GAO describes performance audits:

A performance audit is an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

- (1) Performance audits include economy and efficiency and program audits.
 - a. Economy and efficiency audits include determining (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations on matters of economy and efficiency.
 - b. Program audits include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with significant laws and regulations applicable to the program.
- (2) Economy and efficiency audits may, for example, consider whether the entity:
 - a. is following sound procurement practices;
 - b. is acquiring the appropriate type, quality, and amount of resources at an appropriate cost;
 - c. is properly protecting and maintaining its resources;
 - d. is avoiding duplication of effort by employees and work that serves little or no purpose;
 - e. is avoiding idleness and overstaffing;
 - f. is using efficient operating procedures;
 - g. is using the optimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;
 - h. is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources;
 - i. has an adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency; and
 - j. has reported measures of economy and efficiency that are valid and reliable.
- (3) Program audits may, for example
 - a. assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;
 - b. determine the extent to which a program achieves a desired level of program results;
 - c. assess the effectiveness of the program and/or of individual program components;
 - d. identify factors inhibiting satisfactory performance;

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- e. determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost;
 - f. determine whether the program complements, duplicates, overlaps, or conflicts with other related programs;
 - g. identify ways of making programs work better;
 - h. assess compliance with laws and regulations applicable to the program;
 - i. assess the adequacy of the management control system for measuring, reporting, and monitoring a program's effectiveness; and
 - j. determine whether management has reported measures of program effectiveness that are valid and reliable.

² NEEA's request for proposals called for a performance review to:

- Reflect an understanding of the genesis and purpose of NEEA's governing documents;
- Evaluate how well NEEA operates to achieve its purposes, including:
 - how well the board and staff make and implement decisions
 - appropriateness of staffing levels
 - capacity to weed-out under-performing programs
 - processes to adjust funding
 - whether NEEA has operated in a public and responsive way
 - whether its process is fair and perceived to be fair
 - whether it is operating consistent with the reasons for its existence
 - whether benefits being spread appropriately across its territory
 - whether decisions based on goals or are there divisive issues (?)
 - whether it has appropriate accounting and audit procedures
 - whether conflict of interest rules are adequate
 - how is it perceived by its organizational members, user groups, the general public, regulators and state and local government
- Suggest ways to improve the operation and perceptions of NEEA in the future, including:
 - to what degree can NEEA continue to provide market transformation?
 - what additional barriers and opportunities are there for its sustainability?
 - what questions should be addressed to follow up on the performance review?