August 5, 2004

Administrative Hearings Division
Public Utility Commission of Oregon
Docket UM 1158
PO Box 2148
Salem, Oregon 97308-2148

Dear Sir or Madam:

This letter provides comments from the Board of Directors of the Energy Trust of Oregon, Inc. on the proposed Oregon Public Utility Commission Energy Trust benchmarks, including the issues raised in Judge Grant's July 26, 2004 memorandum.

The Board would like to begin by thanking the OPUC for the process it has followed in developing these proposals and for the quality of the product. The benchmarks, especially those for financial integrity, management audits, savings targets and equitable distribution of programs, generally do an excellent job of assuring that the OPUC's oversight will benefit from effective interaction with the Energy Trust Board. While we suggest some refinements, we find the proposed benchmarks to be thoughtful and well-crafted. We particularly appreciate the extra time the Commission has allowed to explore these issues.

To provide context for our comments, we offer a general observation about Energy Trust's role in meeting the objectives of SB 1149. The relationship between the OPUC and Energy Trust is premised on the idea that a non-government, non-profit corporation can use its agility to work creatively and flexibly with non-government entities in unpredictable markets to encourage conservation and renewable energy development. This organizational agility is a fundamental part of the OPUC-Energy Trust relationship. We agree that this principle should be coupled with high expectations for public accountability, including OPUC oversight of Energy Trust operations. It is entirely appropriate, then, for the OPUC to use specific benchmarks to guide its oversight. At the same time, the Board exercises a different, more immediate level of oversight. These roles should be mutually supportive, respecting the values of organizational flexibility and accountability.

We see the benchmarks as just one of the ways the OPUC can judge Energy Trust's performance. Other mechanisms are in place. Energy Trust provides the OPUC with quarterly reports of revenues, expenses and performance. Energy Trust's executive director and the president and the chief financial officer meet with the OPUC quarterly to review these reports and discuss mutual concerns. Energy Trust provides the OPUC with an annual report detailing revenues, expenses and performance. Every year Energy Trust provides the OPUC a financial audit, conducted by an outside auditor in accordance with generally accepted accounting principles (GAAP), in response to the OPUC– Energy Trust Grant Agreement. Energy Trust also periodically provides the OPUC with a management audit in accordance with the Grant Agreement. Energy Trust posts all of these performance reports on the Web as public information. Pursuant to a Memorandum of Understanding between our organizations, we meet regularly with representatives of the OPUC and the Oregon Department of Energy to coordinate efforts and discuss concerns. The Energy

Trust Board includes an OPUC representative (currently Commissioner John Savage), who provides an important perspective throughout our deliberations.

We have tried to accomplish these functions while maintaining a leanly-staffed organization. As an operational principle, while we in no way question the OPUC's right to issue a notice of concern under the Grant Agreement or the OPUC's need for information on which to decide whether to do so, we suggest that the benchmarks should complement efforts of our staffs. If that can be achieved, we could supplant one or more of the above oversight mechanisms and, as a result, staff will have more time and energy to focus on cost-effective energy efficiency and above-market renewables delivery.

Our specific comments follow:

1. <u>The OPUC benchmarks should be a bookend</u>. The Board agrees with the premise underlying the staff proposal that benchmarks should represent "minimum expectation[s] for ETO performance." (OPUC July 6, 2004 Staff Report, page 1). The benchmarks define the conservative end of the range of acceptable performance. It is appropriate for the OPUC benchmarks to be conservative because they must account for the possibility of unfavorable market conditions, state or national policies that impinge on energy efficiency and renewable energy development and other factors. In contrast, the Energy Trust Board understandably establishes goals at the more aggressive end of the range. The Board's goals for energy savings and renewable energy development, for example, may not be achievable because they depend in part on the behavior of markets and state and national policy. Nevertheless, the Board uses these "stretch" goals to push Energy Trust as far and fast as practicable. These two bookends provide an effective way to focus and coordinate the policy and oversight roles of the OPUC and the Energy Trust Board.

Based on the same logic, we do not support the idea of OPUC benchmarks that provide upper and lower bounds for Energy Trust performance. We believe we can more appropriately accomplish the same thing by taking the "bookends" approach we've suggested here.

2. <u>Developing energy benchmarks based on cost-benefit analysis</u>. The Board concurs in the recommendation that the benchmarks be revisited a year or so after they are adopted. The Board recommends that during the coming year, the Energy

Trust and PUC staffs explore the use of a utility system cost-benefit ratio to measure energy program performance. Such a ratio could do a better job of capturing the life of savings measures than a $/aMW or $/therm measurement. At the same time, we appreciate the logic of using $/aMW or $/therm pending the development of a clear and appropriate cost-benefit methodology.

3. <u>Consequence of failing to reach a benchmark</u>. Judge Grant's Memorandum raises a question whether some benchmarks ("pass-fail" benchmarks) should trigger automatic issuance of a notice of concern (not meeting other benchmarks would only cause the Commission to "consider issuing a Notice of Concern pursuant to the Grant Agreement." (July 7 Staff Report, p. 1). As a general matter, we agree that some things are more important and the automatic notice of concern mechanism would be a legitimate way to treat serious non-compliance issues. However, we have two concerns about this suggestion. First, it is unclear how would such an event would actually be triggered. Take, for example, the issue whether Energy Trust was investing 80% of public interest funds in the service territory of origin. We agree that failing to achieve this requirement would be a serious matter because it is a legislative requirement. But how would non-compliance be demonstrated? By a year-long measurement? A multi-year rolling average? In other words, if the OPUC takes this approach in principle we suggest that we discuss further how a determination would be actually be made. Our second concern has to do with distinguishing the relative importance of various benchmarks. It is clear that failing to meet a legislative requirement is serious. However, we are not sure that non-legislative requirements (e.g., an unqualified audit letter) are of the same stature or what rationale should be used to draw such distinctions.

In short, the Board agrees that some failures are more serious than others. We do not object to the idea that noncompliance in these areas should automatically trigger a notice of concern. However, if the OPUC adopts this approach, we would tie automatic triggers to legislative requirements, and would like to discuss further how such noncompliance would be determined.

4. <u>Administrative costs</u>. The recommended benchmarks propose that Energy Trust administrative costs should be the minimum necessary to ensure effective program delivery, considering: (1) GAAP-defined administrative costs at no more than 7.5% of revenues; and (2) administrative costs not included in program management, incentive, payroll, call center and program-outsourced service

accounts at no more than 3% of revenues. We agree that GAAP definitions should be the measure of administrative costs and that revenues should be the point of reference. However, we would modify this benchmark in two respects: first, we suggest administrative costs as we have defined them since our inception be capped at 10% of revenues, and second, we would eliminate the 3% limitation.

Our suggestion that 10% rather than 7.5% of revenues be used as a limit is based on two factors: First, we think the OPUC could more productively focus on other measures of Energy Trust's performance such as cost per unit of savings, and organizational issues addressed by management audits and customer surveys. Administrative costs will figure into these measurements and evaluations, but given Energy Trust's need for agility, we suggest accountability for administrative costs can be achieved at the 10% level. Second, in a June, 2004 survey (see Peters and Moran memorandum, attached), our contractors found a wide range of approaches to administrative costs, almost all of which allow more flexibility than would the recommended benchmarks. Efficiency Vermont has no administrative cost cap; Wisconsin Focus on Energy caps administrative costs at 10%; NYSERDA's cap is 7% plus evaluation costs; Pew Trusts uses 15% as a target; Technical Assistance for Community Service suggests an administrative cost range of 10-25%. Thus, 10% of administrative costs of revenues is relatively low and 7.5% is at the very lowest end of the range. It might or might not be appropriate for the Board to adopt such a limit, but 7.5% is clearly not the kind of "alarm bell" indicator that characterizes the other OPUC benchmarks.

We would also like to be clear about the GAAP-defined administrative costs we include in this 10% category. We understand GAAP administrative costs to include general management and administration costs not ascribable to particular programs. Thus, the 10% category should exclude costs attributable to particular energy programs. We term these "program support costs," and they currently include such expenses as supplies, postage, shipping, telephone, printing, publications, occupancy expenses, insurance, equipment, travel, meetings, training, conferences, interest expense, bank fees, depreciation, amortization, dues, licenses and license fees, trade allies and IT services insofar as they are attributed to particular energy programs.

We are also concerned about the 3% element of the recommended benchmark, which is meant to encompass the "program support costs" identified in the prior paragraph. First, as a general matter, an accounting limit at this level of detail seems unwarranted. The OPUC is justifiably concerned with Energy Trust's cost per unit of savings or generation. If that cost is attractive, the extent to which it is composed of administrative costs is not an important "alarm bell." These costs follow the patterns of other direct cost spending in the program areas. Moreover, an additional limit beyond the 7.5%/10% overall limit on administrative costs would create another layer of accounting and reporting. One source surveyed in the Peters and Moran study, the City of Portland's auditor, pointed out that reporting limits like these tend to drive up administrative costs. Again, we suggest the OPUC leave the administrative cost limit at 10% and leave it to Energy Trust to determine what level of support for programs is appropriate. We are concerned that 3% would leave us too little room to respond to appropriate program needs.

5. Customer satisfaction. The recommended benchmarks propose a 75 percent approval rating to measure Energy Trust performance. While 75 percent appears to be a reasonable target for a survey of program participants, we know of no data that would allow us to set a reasonable target for other populations (e.g., interested parties who ended up not being served or people who were denied service because they were ineligible). Methodology and satisfaction indices are closely related, and we would like to work with you more closely on this issue to ensure that the approach we take is practical and appropriate.

6. Energy savings targets. Generally, we agree with the energy savings targets in the staff proposal. We offer one caution, however, regarding energy savings in start-up years. Our experience is that programs save less energy in start-up years than ensuing years. We are in the middle of such a year with our gas programs for Northwest Natural, for example, and preliminary data suggest that we will not meet a $5 per therm benchmark. Accordingly, we suggest that energy savings benchmarks apply after a start-up year.

7. Benchmarks for particular programs. We recommend the OPUC not establish benchmarks for particular programs. Energy Trust programs are of three basic types: energy efficiency, renewable energy and market transformation. Each type has a different statutory test and policy rationale. The Energy Trust Board establishes objectives for each program. In our view, asking the OPUC to engage in the same level of detail would duplicate and, likely, complicate this effort, simultaneously straining the OPUC's resources and undermining Energy Trust's flexibility.

8. Should benchmarks be incorporated into the grant agreement? We think it would be appropriate for the grant agreement to recognize that the OPUC will establish benchmarks for Energy Trust. However, we suggest that the OPUC not incorporate benchmarks themselves into the grant agreement, so that the grant agreement need not be reopened every time a benchmark issue arises. In our view, the benchmarks should be revisited at regular intervals so they can be adapted to growing experience. The grant agreement, in contrast, establishes more fundamental parameters of our relationship and should not be reopened often.

Again, thank you for the opportunity to comment on the proposed benchmarks.

Very truly yours

Steven R. Schell
President of the Board
Energy Trust of Oregon, Inc.

Enclosure: June 9, 2004 Memorandum to Ben Bronfman from Jane Peters and Dulane Moran re: Performance Measures and Benchmarks

## ENCLOSURE

**June 9, 2004**

**To:** **Ben Bronfman**
**From:** **Jane Peters and Dulane Moran**
**RE:** **Performance Measures and Benchmarks**

To provide a framework for the benchmarks proposed by the Oregon Public Utility Commission (OPUC) for the Energy Trust of Oregon, we interviewed those knowledgeable of practices in similar energy organizations, at local government organizations and in the nonprofit community. We also obtained a document on electric utility customer satisfaction studies and reviewed that to understand the basis for customer satisfaction measurement in the electric utility industry.

We identified similar energy organizations by reviewing a recent report by the American Council for an Energy Efficient Economy (ACEEE).[1] Of the twenty states that have policies that require or encourage public benefit energy efficiency programs, 18 have energy efficiency programs in operation. Of these 18 states, 12 use public benefits charges or system benefits charges as the funding mechanism. Only four of these states have an energy efficiency administrator outside of the public utility commission or utility structures: Vermont, Wisconsin, New York and Oregon. We focused only on the three states with organizational structures most similar to Oregon, and contacted staff at Vermont Energy Investment Corporation, the Wisconsin Department of Administration, and at the New York Department of Public Service – all of whom had knowledge of benchmarks.

Since the Energy Trust is a nonprofit responsible for allocating public funds, we also contacted several local officials responsible for auditing the expenditure of public funds at county, city or regional governments. We also spoke with representatives of not-for-profit organizations, and included their comments for additional context.

**Customer Satisfaction**

An April 2004 Report by Chartwell[2] documents the purpose and direction of measuring customer satisfaction for utility customers, noting that customer satisfaction is a transaction based issue, revolving around situations such as billing, call centers, field services, and service reliability. Electric utilities are unique among industries and even other utilities in that they are literally involved in transactions with each customer every minute, conducting millions of transactions every day. In that each kWh consumed is depended upon by the customer and when it is not present customer satisfaction is reduced. The electric utility industry has historically “held within a tight range of a 73-75” ACSI score [a 0-100 point tracking system of the American Customer Satisfaction Index], dropping to 69 in 2001. These historical ranges have changed little over time according to the Chartwell report, but represent a value below the 80% satisfaction rate proposed by the OPUC in the draft benchmarks. (4 on a scale of 1-5)

It is worth noting that several of the contacts we spoke with described the need to measure customer satisfaction on a transaction level, but scaled for the relatively fewer transactions public benefits organizations have with their customers. Only those that have had direct contact with the organization are likely to provide meaningful responses to questions about satisfaction, and those with direct program experience through participation are likely to provide the best measure of satisfaction. Similarly, the Energy Trust’s PMC model means that it is likely that customer satisfaction ratings in one program are unrelated to satisfaction ratings in another program.

**William Saxonis, New York Department of Public Service (NYSERDA)**

---

[1] Kushler, M. and D. York. (2004) =========

[2] *Customer Satisfaction in the Utility Industry 2004*. Chartwell inc. Atlanta GA. www.charwellinc.com.

In general, the NYDPS does not have formal, institutionalized benchmarks for measuring the performance of the public benefit funds administrator the New York State Energy Research and Development Authority (NYSERDA). Bill described the implementation language as establishing general goals and objectives within which Department of Public Service (DPS) and NYSERDA staff work to establish and evaluate program activities and priorities, generally through reviewing individual program evaluations. He described the current approach as contrasting starkly with the previous oversight of DSM programs, in which DPS had "floors of people fighting with the utilities" about specific measures such as free ridership rates, snapback and realization rates.
Most of the regulatory oversight and verification simply doesn't exist anymore in New York. He called it "regulation lite" and described working cooperatively with NYSERDA without formal, commission-established criteria. Instead, DPS staff relies on annual and quarterly reports, using them to track progress to NYSERDA's goals. They also participate in advisory groups and include staff representation on technical evaluation panels (TEP) that are used to select contractors, projects, and to develop programs. He described the Commission as clearly having a role, stating they are "not totally out of the loop or reactive," rather it's simply not the same type of detailed, commission-driven agenda as that which drove DSM regulation before public benefits funding.

- Customer satisfaction: No stated criteria or benchmark.

- Administrative costs: Fixed administrative costs are established through an MOU between the Public Service Commission, DPS and NYSERDA (DPS staff work for the PSC). The MOU was developed and signed in December of 2001. It specifically states in Part 5 "Compensation"[3] that the administrative costs will not exceed 7%, *not* including 2% for evaluation. The percentage is considered "off-the-top" – applied across the whole organization, not program by program. In the Revised Operating Plan, NYSERDA proposed to administer the SBC funded programs at an administrative rate not to exceed seven percent of SBC funds.

- Savings targets: DPS has no cost per MWh established.

- Equity: No stated criteria or benchmark.

- Management or Performance Audits: There is no management audit requirement. Financial data are reported at the Advisory Council level. The evaluation budget for the entire organization is established by the DPS.

**Chris Neme, Vermont Efficiency Investment Corporation. (Efficiency Vermont)**
EVT is implemented under a performance contract by the Vermont Energy Investment Corporation (VEIC). VEIC has won two three-year contracts and implements programs under performance goals established by the Public Service Board. Performance contracting is central to VEIC's management of EVT. The budget is fixed and MWh targets are established in the contracting process, with a certain amount of the payment held back pending achievement. The combination of financial holdbacks or bonuses contingent on meeting performance targets and the fact that the implementation contract will be competitively bid every three years creates adequate incentive for

[3] The actual text of the Second Amendment to the MOU reads: *"NYSERDA shall be entitled to compensation from SBC funds for the cost of services actually provided in fulfillment of its responsibilities under this MOU, in an amount not to exceed seven percent (7%) of all SBC funds that are unencumbered and available for programs administered by NYSERDA. In addition to such compensation, NYSERDA shall be entitled to reimbursement from SBC funds for all expenses incurred for one or more Independent Program Evaluators up to a level of 2% of SBC funds to evaluate SBC programs regardless of whether the programs evaluated are administered by NYSERDA, including any expenses incurred for contractor assistance in metrics development, data gathering, and analysis for such purpose."*

VEIC to implement EVT efficiently, with low administrative overhead and good values in terms of $/MWh.

- Customer satisfaction: No stated criteria or benchmark.

- Administrative Costs: No stated criteria or benchmark. Administrative cost percentages are not relevant because the contract is based on performance goals and a fixed budget. How VEIC meets its goals is up to them. [Chris noted that "administrative costs are in the eyes of the beholder." A more important question to him is: what is Vermont is getting for the money?].

- Savings Targets: Established in the contract, but not in a set dollar amount per MWh. VEIC has three main goals: (1) total achieved and committed annual incremental MWh savings, (2) total resource benefits of the net present value of total electric, fossil fuel and water savings (lifetime), and (3) co-incident summer peak demand savings. All of the goals are established as totals. The costs are not explicitly stated ($X/MWh) rather, they are implicit in the fact that the budget and the goals are fixed.

- Equity: Geographic equity goals are established. VEIC must return $1.70 in total resource benefits for each $1 spent in each county. For example, if a county contributes $1 million in SBC funding, VEIC must return $1.7 in benefits. Additionally, specific sector targets are established. VEIC must distribute SBC funding so that approximately 58% is available for the commercial and industrial sector and 42% is tagged residential. A 5% variance is allowed on the sector percentages without approval. There are also targets for low income spending (15%) and non-residential accounts with 40,000 kWh/year or less (40% of total non-residential participants).

- Management or Performance Audits: Not required. As long as the savings are achieved, the DPS stays out of the internal management. There are internal quality assurance mechanisms set up, and evaluation work done by the DPS may identify potential areas for improvement in efficiency or effectiveness.

**Oscar Bloch and Pat Meier, Wisconsin Department of Administration (Focus on Energy)**
The Department of Administration relies on two sets of metrics established in their contracts, one related to energy savings (kW, kWh, therm), another related to "market preparation" metrics related to participant/nonparticipant effects (both note that establishing valid, measurable, short term metrics for these has been more challenging).

- Customer Satisfaction: Not specifically established for the entire portfolio. These are not measured the way they were by the utilities; rather they are established internally for each program and tracked over time by the program contractors or subcontractors, as a part of internal quality control, program management and/or regular program evaluation. Staff explained that utilities tend to track customer satisfaction for public relations reasons, and because the Commission tracks overall customer satisfaction with electricity service. Theoretically, if customer satisfaction numbers are low, the Commission may sanction the utility in some way. Public benefits are different, only affecting a portion of a customer's electric service, so general surveys are a poor proxy for these programs. If customer satisfaction is tracked, it is by individual contractors or subcontractors through questions about specific services a customer received. These efforts likely focused on issues that might affect sustained participation in the program. There are no set of questions asked by all programs, nor are there efforts to combine these results into a portfolio-wide value. Instead, this as a tracking activity potentially helping with overall quality control and management of program activities.[4]

- Administrative Costs: Unclear. The DOA likely relies on the Government Accounting Standards Board (GASB) or similar organization, but the general goal for administrative costs is 10% or less. Oscar noted that there was no standard accounting approach, but that the rigorous reporting requirements ask that the information be standardized in reports.

- Savings Targets: Each administrator has a contractually established goal for energy, demand and therm savings as well as participant/non-participant effects. In the implementation contracts, annual energy savings goals are established that match the contract term. At the point of evaluation, assumptions are rolled in and a lifetime MW/kWh value is determined. These savings are ultimately reported as total kWh (annual value in dollars and lifetime savings in dollars) and in lifetime MW savings. The only firm benchmark related to cost is that all programs must have a minimum B/C ratio of 1. This ratio is described as purposefully low to allow for flexibility and innovation. The goals are established with a portfolio wide perspective and research, considering the longer term objectives and the underlying program logic. Wisconsin has evolved toward a portfolio approach, wanting to avoid providing incentives for programs that only focus on the cheapest megawatts or lowest hanging fruit, thereby neglecting the longer term goals. Oscar mentioned several aspects of this issue:

  - The net benefits and benefit cost ratios tend to improve as programs mature. They expect to see the cost per kWh decline with program maturity (primarily due to start up costs and stabilizing a program in the market).

  - Focusing on the cheapest megawatts increases the likelihood of high free-ridership rates, ultimately skewing the net-to-gross ratio, and decreasing overall cost effectiveness.

  - Embedded costs fluctuate over time. The program's evolution (administratively and organizationally) may not actually reflect the true price per MWh, making the ultimate $/MWh somewhat arbitrary.

- Equity: No stated percentage floor or ceiling. The Public Service Commission mandates that services must be offered in all market sectors. A specific benchmark that would have offered services proportionally relative to SBC payments was considered but rejected due to feelings that it undermined the nature of public benefits. While there are no hard, fast rules, the funding is informally divvied up 50/50 between residential and nonresidential sectors.

- Management/Performance Audits: Handled informally by contract managers and administrators who review quarterly reports. The only audits required are financial compliance audits. Performance criteria are established in contracts.

**Others:**

[4] Oscar Bloch suggested contacting Monica Nevius at CEE. CEE has been compiling performance metrics as a resource for efficiency organizations and Monica will be presenting a paper this summer at the ACEEE summer study. She was out of her office the week of June 7-11. but will return on June 14th

We spoke with staff involved in audits for local government, asking them about administrative cost percentages, customer satisfaction and performance auditing. Firm administrative cost percentages and valid, reliable customer service measures were for the most part elusive – none of the contacts we spoke with could name a firm target or number that they expected departments or bureaus to reach. Performance auditing for local government generally involved targeting efforts in light of scarce resources – contacts described focusing their efforts on department activities where:

- There were reasons for concern, or signs of low performance
- The activity represented risk either due to large sums of money (as in capital projects) or public safety
- There were likely opportunities for cost saving measures or streamlined processes
- The organization was in flux, due either to increases or decreases in funding or management changes – something viewed as an opportunity to re-assess the organization's processes or services.

**Gary Blackmer, Auditor, City of Portland**

We asked Gary about customer satisfaction, administrative cost and management auditing generally and specifically in his office, where relevant. Gary is the independently elected auditor for the City of Portland. He is responsible for financial and performance audits for city bureaus and for the city's annual Service Efforts and Accomplishments (SEA) reporting. As a government auditor, he relies on the GAO's Yellow Book for guidance in audit content. Gary described metrics as having to be established program by program by discussing the mission and objectives of the organization, then asking how one would know if they were achieved. When asked about performance auditing, Gary suggested adding an extra aspect to each annual financial audit – cycling the components through over time as a cheaper way to approach performance audits in an on-going way. He felt annual performance audits for the entire organization might be too frequent, but every two years might be manageable. Once an aspect is audited, as long as the organization is not dramatically changing what it does or how it is done, that aspect should not need to be looked at again. The idea is to build up a cache of good practices within an organization.

- Customer satisfaction: the Auditor's Office relies on proxy measures for customer satisfaction, since few citizens have direct contact or knowledge of the auditor's office directly. The Auditor's Office tracks the dollar impact of recommendations, the percentage of recommendations implemented, and the cost per audit hour as measures of performance. The Auditor's Office defines the general public as its customer but does not have specific benchmark numbers established, instead tracking metrics over time. Recommended methods for customer satisfaction include a mail survey – a postcard mailed in advance, followed up with a well crafted, limited set of questions, or an on-going, quick turnaround after a transaction in which customers are contacted with in 10 or 20 days with a short series of questions about their experience.
- Administrative costs: There is no clear benchmark for administrative costs in the Auditor's Office. Ironically, accountability was described as something that drives up administrative costs: federal, state or funder requirements can all drive up reporting costs, ultimately increasing overall administrative costs. Gary described struggling to define a reasonable range of overhead when he worked for Multnomah County, where admin costs typically ranged from 15-20%. According to Gary, administrative costs can also be driven by the complexity of services offered.

- Management or Performance Audits: Performance Audit requirements are driven by the organization, in his case the city bureaus. The scope or requirements of the audit will depend upon the complexity of organization and/or its activities. He noted that organizations that are open, with clearly stated policies and procedures, good internal controls and continual efforts in internal process improvements make themselves easy and inexpensive to audit.

**Doug U'Ren, Senior Auditor, Metro.**

Alexis Dow was unavailable for the month of June, so we spoke to Doug U'Ren at Metro about benchmark issues.

- Customer Satisfaction: The Auditor's Office does not have specific performance indicators; however the areas of Metro with more clear interaction with the public are more likely to have these measures. He did not know of specific customer service benchmarks.

- Administrative Costs: Unaware of any firm percentage ceiling or floor. Noted that it depended heavily on how the costs are defined and the activities of each area – some Metro departments are inherently administrative (like planning) while others have significant fee-for-service or other revenue (like the Zoo).

- Management or Performance Auditing: At Metro, the Auditor's Office does this full time, looking at the organization's activity from the public's standpoint. Metro auditors try to look at something in every department every two to three years with no set frequency or plan. They focus their efforts on those aspects with the biggest risk, best opportunity for cost savings or those that are in the public interest/awareness. Doug described focusing on different aspects every year, noting that once they review an area and make recommendations they don't look at it again "unless there are indications of a problem."

**Suzanne Flynn, Multnomah County Auditor.**

We spoke briefly with Suzanne Flynn, the Multnomah County Auditor about benchmark issues:

- Customer Satisfaction: The County relies on an annual Service Efforts and Accomplishments (SEA) survey and report to assess citizen satisfaction with various aspects of life in Multnomah County. Other customer satisfaction measurement activities occur at the department level (for example, the library may contact card holders about their satisfaction with library services). There is no set benchmark level.

- Administrative Costs: There are no fixed percentage benchmarks. The County consulted with United Way, but Suzanne did not remember the exact percentage they advocated. She personally feels the departments should keep their administrative costs under 20%.

- Management or Performance Audits: No clear departmental requirements. Suzanne noted that the County simply did not have the resources to routinely or regularly review every program on a cycle. Instead, the annual audit cycle involves scheduling performance audits based on a judgment of risk, opportunity (leverage funding), significant changes, and whether or not the department serves a vulnerable population. Changes in a department (increases or decreases in revenue, changes in management) could trigger a review, as could signs of problems or low levels of control. Suzanne said there was no "ideal frequency" – noting that the auditor's office also spreads the audit efforts across departments because of the impact of the audit activities on the subject organization.

**Not-For-Profit Contacts:**

**Lester Baxter, Pew Charitable Trusts**

There are no industry-wide benchmarks that Lester is aware of. According to a colleague in finance, a very general guideline for large private foundations is that administrative costs should not be more than about 15 percent of the total payout for charitable contributions. Mid-size and smaller foundations might be expected to have somewhat higher administrative expenses as a percentage of total payout.

**Technical Assistance for Community Service, Helpline.**

TACS reports no hard and fast rules about acceptable administrative costs. According to TACS, funders generally look for a range of 10-25% for administration. Other information from TACS:

- Smaller organizations often have lower administrative costs because they do not have to pay for audits and because they rely on volunteers to do all or most of the work.

- In times of transition an organization may have higher administrative costs.

- Reporting requirements can impact the amount spent on administration, although this is rarely acknowledged by the funder.

- Different funders have different guidelines. A maximum acceptable percentage for administration is rarely noted by funders, however Federal sources may limit the percentage they will pay for administration (often 8%, sometimes up to 15%).