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Secretary of State

State of Oregon

**DEPARTMENT OF LAND CONSERVATION  
AND DEVELOPMENT  
Special Review**



Audits Division

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Audits Division

*Auditing for a Better Oregon*

The Honorable John Kitzhaber  
Governor of Oregon  
State Capitol Building  
Salem, Oregon 97310

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Department of Land Conservation and Development  
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Salem, Oregon 97310

This audit encompasses a review of the Department of Land Conservation and Development for the period July 1, 1995, to June 30, 1996. The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit.

Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Don Waggoner, CPA  
State Auditor

Fieldwork Completion Date:  
October 11, 1996



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## SUMMARY

The Department of Land Conservation and Development (DLCD) was created in 1973 with jurisdiction to review city and county land use plans for compliance with Oregon's planning goals, coordinate certain state and federal programs that affect land use, and administer special programs for coastal zone management, ocean planning, flood plain management, and transportation and growth management. DLCD staff is responsible for administering city and county land use planning grants, providing technical assistance to grantees, and developing policies as directed by the legislature, governor, and the Land Conservation and Development Commission.

The activities of DLCD are primarily financed by an appropriation from the state general fund, federal revenues, and lottery fund transfers. Limited revenues and transfer amounts are received from miscellaneous publication sales and parking fees. For the period July 1, 1995, to June 30, 1996, DLCD had total expenditures of almost \$3.6 million. These expenditures were financed by approximately \$2.1 million from the state general fund, \$976,000 from federal revenues, \$421,000 from lottery fund transfers, and \$35,000 from miscellaneous revenues and transfers.

The audit was conducted for the purpose of reporting on DLCD's internal control structure and compliance with applicable laws and regulations for the period July 1, 1995 through June 30, 1996. During the audit, we identified needed improvements in cash receipting, service and supplies expenditures, overtime and vacation leave approvals, and travel claim reimbursements. We also identified issues related to grant agreements and capital lease accounting. Comments regarding our follow up on prior audit findings are also included in this report.



## INTRODUCTION

### ORGANIZATION AND FUNCTIONS

The Department of Land Conservation and Development (DLCD) was created in 1973 to administer Oregon's statewide land use planning program, coordinate local, state, and federal land use planning activities, reduce public costs related to poorly planned development, and provide professional support for the Land Conservation and Development Commission (LCDC). DLCD operates under the provisions of *Oregon Revised Statutes* (ORS) Chapter 197 with jurisdiction to review city and county land use plans for compliance with Oregon's planning goals, coordinate certain state and federal programs that affect land use, and administer special programs for coastal zone management, ocean planning, flood plain management, and transportation and growth management.

DLCD's director is appointed by the Land Conservation and Development Commission. He oversees a staff of approximately 50 individuals who are involved in administering land use planning grants to cities and counties, providing technical assistance to grantees, and developing policies as directed by the legislature, governor, and LCDC. The current director was appointed in November of 1991.

### FINANCIAL ACTIVITIES

DLCD's budget for the 1995-1997 biennium includes \$5,300,322 for personal services, \$3,260,507 for services and supplies, and \$3,391,662 for special payments. These expenditures will be paid predominantly from a General Fund appropriation of \$7,232,623 and federal funding of \$3,688,188. Other funds revenue for the 1995-1997 biennium has been budgeted at \$281,543, and DLCD is scheduled to receive \$750,137 in lottery funds.

For the period July 1, 1995, through June 30, 1996, DLCD had total expenditures of \$2,371,082 for personal services, \$843,886 for services and supplies,

and \$382,290 for special payments. Major expenditure categories included payroll, professional service contracts, and payments to other state agencies for services. These expenditures were financed in the amount of \$2,163,537 from the state general fund, \$976,266 from federal revenues, \$421,824 from lottery fund transfers, and \$35,631 from miscellaneous revenues and transfers.

## **SCOPE AND METHODOLOGY**

We reviewed internal controls at the Department of Land Conservation and Development (DLCD) and transactions for the period July 1, 1995, to June 30, 1996. Transactions were tested to evaluate the effectiveness of internal controls and compliance with laws and regulations. The types of accounts included revenues, receipts, fixed assets, personal service expenditures, service and supplies expenditures, personal service contracts, and grant contracts.

Specifically, we:

- Tested a sample of cash receipts to ensure that amounts agreed to supporting documentation, receipts were correctly recorded in the accounting records, cash receipting duties were adequately segregated, and deposits were made in a timely manner.
- Tested a sample of revenues to ensure that amounts were supported by adequate documentation and correctly recorded in the accounting records.
- Reviewed a sample of cash reconciliations performed during the audit period for accuracy and timely correction of reconciling items.
- Tested the September 1995 payroll to assure that all time reports were properly signed and approved, leave time was documented, and the payroll register agreed to time sheets.
- Reviewed documentation for all overtime granted during the audit period for proper authorization and

compliance with union contracts and state personnel policy.

- Reviewed all payroll exception reports for the audit period to assure that exceptions were properly authorized.
- Tested a sample of non-payroll, non-travel expenditures for authorization, compliance with purchasing rules, agreement with supporting documentation, and proper accounting.
- Tested a sample of travel reimbursement requests for appropriate authorization, compliance with state travel rules, and proper accounting.
- Tested a sample of personal service contracts for proper execution and authorization of contract payments, compliance with state regulations and agency policy, and accurate accounting.
- Tested a sample of grant contracts for proper execution and authorization of contract payments, compliance with federal regulations and agency policy, and accurate accounting.
- Verified the existence of DLCD's recorded assets, reviewed the original purchase documentation, and reviewed items in the office and expenditure records to search for unrecorded assets.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.



## AUDIT RESULTS

### REPORT ON THE INTERNAL CONTROL STRUCTURE

The management of the Department of Land Conservation and Development is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our

judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data. The matters we consider to be reportable conditions are included in the FINDINGS AND RECOMMENDATIONS section of the report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions noted in the FINDINGS AND RECOMMENDATIONS section are material weaknesses.

**REPORT ON  
COMPLIANCE WITH  
LAWS AND  
REGULATIONS**

Compliance with laws and regulations applicable to the Department of Land Conservation and Development (DLCD) is the responsibility of management. As part of our audit, we performed tests of the DLCD's compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. Instances of noncompliance are reported in the FINDINGS AND RECOMMENDATIONS section of the report.

## FINDINGS AND RECOMMENDATIONS

### CASH RECEIPTING PROCESS

Our review of the cash receipting process identified the following internal control weaknesses:

- The mailroom check log, which lists checks received by DLCD, was not accurate. A check received from the Land Use Board of Appeals was listed as a receipt from the Department of Administrative Services.
- Checks were not restrictively endorsed when received to prevent misappropriation.
- Deposits were not always recorded in the accounting records in a timely manner.
- Cash receipting duties are not disbursed between DLCD staff. The same staff member receives cash and checks from the mailroom, prepares the deposit, takes the deposit to the bank, and enters the deposit into the accounting records.

**We recommend** DLCD strengthen controls over the cash receipting process. Checks should be recorded correctly when received and restrictively endorsed. Deposits should be processed and recorded in the accounting system in a timely manner, and cash receipting duties should be assigned to different staff members to maintain an adequate segregation of duties.

#### *AGENCY'S RESPONSE:*

*We concur with the findings and recommendations.*

*Resolution? Actions taken include:*

- 1. Checks are recorded and endorsed immediately upon receipt in mail room.*
- 2. Deposits are picked up by armored car once a week, and recorded in the accounting system.*
- 3. Different staff has been assigned to receipting, recording and depositing of cash.*
- 4. Procedures and desk manual have been updated to address findings and recommendations.*

## **SERVICE AND SUPPLIES EXPENDITURES**

Our review of service and supplies expenditures identified the following internal control weaknesses:

- The employee who orders office supplies for DLCD also receives supply orders, has physical custody of supplies, and takes the annual physical inventory of supplies. Purchasing, receiving, and conducting physical inventories of supplies should be assigned to different employees to maintain an adequate segregation of duties in this area.
- We also noted two exceptions during a review of 15 services and supplies expenditures paid during the period July 1, 1995, to June 30, 1996. In the first exception, airfare costs of \$1,714 were not supported by documentation stating that travel was approved by the employee's supervisor. In the second exception, a supervisor authorized \$350 to pay for his own attendance and his staff's attendance at a conference.
- During a review of travel claims, we also noted one claim where an employee was reimbursed for \$100 in membership dues and a \$40 workshop entrance fee. Neither of these expenditures was approved in advance by his supervisor.

DLCD policy 92-5 requires that all purchases, except those specifically exempted in the policy, be supported by prior written approval from an employee's supervisor. These purchases were not exempted under the policy.

**We recommend** DLCD employees obtain supervisory approval prior to making purchases and that duties related to purchasing, receiving, and maintaining physical custody of supply items be assigned to different employees.

**AGENCY'S RESPONSE:**

*We concur with the findings and recommendations.*

*Resolution? Actions taken include:*

- 1. Reemphasized department policy that supervisory approval is obtained prior to purchases and the purchasing policy is scheduled for revision by 6/30/97.*
- 2. Corrected all travel claim findings for necessary approval.*
- 3. Reassigned duties relating to annual physical inventory of supply items and ordering.*

**OVERTIME AND  
VACATION LEAVE  
APPROVALS NOT  
DOCUMENTED**

During our review of employee timesheets submitted for September 1995, we identified 25 employees who utilized vacation leave during the month. For 15 of these employees (60 percent), there was no documentation that vacation leave was approved in advance by the employees' supervisors.

We also reviewed timesheets for all 79 employees who received overtime pay during the period of July 1, 1995, to June 30, 1996. In 60 of these cases (76 percent), there was no written documentation that approval to work overtime was received from the employees' supervisors prior to the work being completed.

The Department of Administrative Services' (DAS) Human Resource Management policy 60.000.05 (7) requires management and executive service employees to obtain prior approval for vacation leave from a supervisor. The union contract between DAS, DLCD, and the American Federation of State, County and Municipal Employees (AFSCME) requires advance written approval of overtime and vacation leave by the employee's supervisor.

**We recommend** that all vacation leave and overtime be supported by advance written approval from an employee's supervisor. Such approval should be documented in the payroll files.

**AGENCY'S RESPONSE:**

*We concur with the findings and recommendation.*

*Resolution? Actions taken include:*

- 1. Letter of understanding reached between DLCD and AFSCME to clarify interpretation of union contract.*
- 2. Revised timesheet instructions and performed all staff training of timesheet/overtime rules.*
- 3. Monitor monthly timesheet completion and report to managers timesheet findings which are then reviewed at managers meetings.*

**TRAVEL CLAIMS NOT IN COMPLIANCE WITH STATE TRAVEL POLICY**

We noted the following exceptions during a review of travel claims for 4 employees who regularly submitted reimbursement requests during the audit period:

- One travel claim totaling \$233.50 was paid prior to approval being given by the employee's supervisor.
- Travel claims for one of the four employees were not supported by adequate documentation. A total of \$291.78 was reimbursed to this employee for claims that did not include departure and arrival times for trips, travel destinations, or receipts for hotel stays. This individual was, subsequent to our audit, able to provide adequate documentation for \$285.28 of the questioned claims, and repaid \$6.50.
- The employee noted above was also reimbursed for claims that exceeded allowable reimbursement rates. The overpayments to this employee equaled \$17.77 and, subsequent to our audit, were recovered by DLCD.

Oregon Accounting Manual (OAM) policy 06 01 00.PO requires all travel claims to be approved by the employee's supervisor prior to payment. Travel must be adequately documented and supported by receipts and mileage logs. Employees may not be reimbursed for claims that exceed maximum allowable reimbursement amounts.

**We recommend** that DLCD staff comply with the requirements of OAM policy 06 01 00.PO for travel claims.

*AGENCY'S RESPONSE:*

*We concur with the findings and recommendation.*

*Resolution? Actions taken include:*

- 1. Reassigned duties of Travel Claims review to Accountant 1 position.*
- 2. Performed extensive training and monthly reporting of travel claim findings.*
- 3. Recovered all exceeded travel payments made to employee.*
- 4. Set up travel news E-Mail notices to all employees on targeted travel claim areas where errors occur.*

**COMPLIANCE WITH  
GRANT AGREEMENTS**

The Regional Problem Solving (RPS) Grant Program is a new pilot project authorized by the Oregon legislature in Chapter 442 of the 1995 Oregon Laws. Activity under this project began during May of 1996. The purpose of this project is to involve cities, counties, and state agencies in joint efforts to resolve regional land use planning issues, such as water use, transportation, and wildlife habitats. The following examples are ways the new program's operation can be improved:

- The work plan contained in the RPS grant agreement between DLCD and Josephine County did not include preliminary deadlines for product delivery. DLCD's grant policy 93-3 requires work plan deadlines to be included as part of the grant agreement.
- The RPS Grant Program Manager for DLCD authorized all grant recipients to begin work on their projects before grant agreements had been signed. Grant agreements for all RPS projects stated that the period of grant work would be the grantee's signature date through June 30, 1997. Formal communication between DLCD management and Regional Problem Solving grantees should not contradict the conditions of the grant agreements signed by both parties.

- The approval process for RPS grant agreement amendments is not consistent with DLCD grant policy. RPS grant agreements allow DLCD project coordinators to amend grantee work programs and task budgets, both of which are part of the grant agreement. DLCD's grant policy 93-3 requires amendments be approved by the RPS Program Grant Manager and the grantee.

**We recommend** that DLCD take steps to correct the deficiencies noted above. All Regional Problem Solving workplans should include preliminary deadlines for product delivery, communication with grantees should not contradict formal grant agreements, and amendments to grant agreements should be authorized in compliance with DLCD's grant policy.

*AGENCY'S RESPONSE:*

*We concur with the findings and recommendations.*

*Resolution? Action taken includes:*

1. *Amend various grant agreements to:*
  - *Add deadlines for product delivery*
  - *Require amendments be approved by Program Grant Manager.*
2. *Revised grant administration policy to clearly define responsibility and action.*

**CAPITAL LEASE  
ACCOUNTING ISSUE**

On July 31, 1995, the DLCD entered into an agreement with Xerox Corporation to lease a high-speed copier for a period of five years. This agreement contains an option which allows DLCD to purchase the copier at the end of the lease period for \$1,000. This option appears to fit the description of a bargain purchase option, as described in the Oregon Accounting Manual (policy 01 03 00.IN).

DLCD has recorded payments made under this agreement as services and supplies expenditures, which is consistent with accounting for operating leases. However, the Oregon Accounting Manual (policy 01 03 00.PO and procedure 01 03 00.PR) states that a lease which contains a bargain purchase option should be reported in the agency's accounting records as a

capital lease. Items purchased under a capital lease should be recorded as assets in the General Fixed Asset Account Group, and lease payments should be recorded as capital outlay expenditures in the accounting records.

**We recommend** that DLCD consult the Department of Administrative Services and the vendor concerning this purchase option. If the option is determined to be a bargain purchase option, DLCD should record the high-speed copier, valued at \$108,628, as an asset in the General Fixed Asset Account Group. Lease payments should be reclassified from services and supplies expenditures to capital outlay expenditures in the accounting records.

*AGENCY'S RESPONSE:*

*We concur with the finding and recommendation.*

*Resolution? The bid was for an operating lease. We have requested verification from Xerox that the signed lease given to the agency is an operating lease and the criteria for capital lease does not apply.*



## FOLLOW UP ON PRIOR AUDIT FINDINGS

This section reports follow-up action taken by the Department of Land Conservation and Development's management on the findings presented in the Comments and Findings section of an audit covering the period January 1, 1990, to June 30, 1992.

Prior Audit Findings	Disposition
<p>Several weaknesses in internal controls over cash receipts were noted. There was no reconciliation between the mailroom receipt log and actual deposits, there was inadequate segregation of duties during cash receipting, a record of returned checks was not kept by fiscal services, and deposits were not made in a timely manner. We recommended that the department improve controls related to cash receipting.</p>	<p>Partially Resolved - There is still an inadequate segregation of duties during the cash receipting process. This continuing issue is addressed in the FINDINGS AND RECOMMENDATIONS section of this report.</p>
<p>Several weaknesses in internal controls over grants were noted. Grant agreements were modified by grantees without agency protest, funds were paid to grantees before required work was completed, financial reports and products were not provided to DLCD as required in grant agreements, and grants were not closely monitored. We recommended that DLCD strengthen controls over grants.</p>	<p>Resolved</p>
<p>Parking lot fee revenues were not being received from the Department of Administrative Services (DAS) in a timely manner. We recommended that DLCD work with DAS to improve the timeliness of fee remittance.</p>	<p>Unresolved</p> <p><i>AGENCY'S RESPONSE: We concur. We have sent a memo to DAS to address the time lines of fee remittance.</i></p>
<p>Three training contracts totaling \$10,500 were misclassified as other special payments instead of services and supplies. We recommended that DLCD review expenditures more closely to ensure proper classification of expenses.</p>	<p>Resolved</p>

## **REPORT DISTRIBUTION**

This report is a public record and is intended for the information of the Department of Land Conservation and Development and its management, the Department of Administrative Services' management, the Governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

## **COMMENDATION**

The courtesies and cooperation extended by the officials and employees of the Department of Land Conservation and Development during the course of our audit were very commendable and sincerely appreciated.

## **AUDIT TEAM**

Loyd Kaufman, CPA, Audit Administrator  
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