
Secretary of State

State of Oregon

DEPARTMENT OF ADMINISTRATIVE SERVICES

State Controller's Division

Special Investigation



Audits Division

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Audits Division

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This report contains the results of our investigation of alleged purchasing irregularities involving a single employee working at the Department of Administrative Services (DAS), State Controller's Division (SCD). The purpose of our review was to determine the loss to the state resulting from those transactions and to evaluate internal controls intended to prevent or timely detect such incidents.

We found that the employee made unauthorized and inappropriate purchases totaling approximately \$8,798 during the period from March through September 1998. The majority of those purchases were made using a Small Purchase Order Transaction System (SPOTS) credit card. The employee also made invalid payroll claims on her timesheet, costing the state approximately \$283. On October 20, 1998, the state terminated the employee's employment. In addition, the Oregon State Police conducted a criminal investigation and referred the matter to the Marion County District Attorney for possible prosecution.

Our report includes recommendations that improve DAS's procedures to ensure credit card purchases are authorized and appropriate. It further recommends that the department pursue recovery of the losses due to the employee's actions.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
November 7, 1998

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BACKGROUND

As a result of alleged purchasing irregularities perpetrated by a single Department of Administrative Services (DAS) employee, we conducted a special investigation to determine the extent of loss to the state resulting from those transactions. We also reviewed policies and procedures intended to prevent or timely detect such losses. The reported incidents involved inappropriate purchases made by an Office Support Specialist II working in the Statewide Financial Management System (SFMS) section of the State Controller's Division (SCD). The purchases included transactions made between March and September 1998. We conducted additional audit work to determine the potential loss to the state resulting from certain payroll transactions for the same employee.

The employee was hired in September 1997 to provide office support for the SFMS implementation. Her duties included secretarial tasks such as filing and answering the phone for the section. In addition, the employee occasionally ordered training materials or other supplies for members of the team. To facilitate her duties, her supervisor authorized her to generate purchase orders. In addition, management issued her a state credit card through the Small Purchase Order Transaction System (SPOTS) program. At this time, the employee reported to the SFMS project director. During April 1998 SCD reassigned her to another section within the division.

After a management meeting in September 1998, SCD's Operations Officer mentioned to the employee's manager that she recently approved two purchase orders for training at a local college. The amounts and terms of the purchase orders seemed unusual to both managers. The employee's manager returned to her office and reviewed the transactions and concluded that they were inappropriate. During her review of SFMS records, she discovered that the employee also used a SPOTS credit card to make other unexplained purchases. The manager indicated that she was not previously aware that her employee had a state credit card.

On September 15, 1998, the department placed the employee on administrative leave pending further investigation of her unauthorized purchases. Then, through its assistant attorney general, the department notified the Audits Division of the unauthorized transactions. Subsequently, the Oregon State Police were notified and simultaneous personnel, audit and criminal investigations were conducted. On October 20, 1998, the state terminated the employee. The Oregon State Police referred the matter to the Marion County District Attorney for possible prosecution.

AUDIT RESULTS

INAPPROPRIATE CREDIT CARD PURCHASES

During our investigation, we examined credit card receipts and statements relating to the employee's purchases. We also reviewed DAS policies and procedures relating to purchases using the SPOTS program. In addition, we consulted with the SFMS manager to determine whether the employee's purchases were justified and authorized.

We found that the employee used the state's credit card to make purchases for her own benefit and gain. Our analysis of those purchases indicates that unauthorized and inappropriate purchases made by the employee from March 1998 through September 1998 totaled approximately \$7,673.¹ In addition, we concluded that she was aware of credit card purchasing policies and procedures but chose to disregard those rules.

When the employee was issued a state credit card, she signed a letter of agreement indicating she understood the laws, rules, and responsibilities associated with its use. The agreement specifically prohibited use of the card for other than state business and required cardholders to provide adequate receipts documenting purchases. The employee complied with these credit card purchasing policies and procedures during the first few months of her credit card use. She used the card for state purchases, kept detailed receipts, and forwarded her monthly credit card statements with attached receipts to her supervisor for his review and approval.

During April 1998, the employee began circumventing credit card purchasing procedures. She no longer provided detailed receipts for all transactions and she began forwarding her credit card statements directly to accounting rather than to her new manager. Since DAS accounting was assuming the manager had reviewed the statements to detect unauthorized purchases, the employee's inappropriate charges went undetected. The

¹ For detail see APPENDIX A.

amount of inappropriate charges quickly increased from about \$300 in March 1998 to more than \$700 in May 1998. This pattern continued until she was discovered in September 1998. The employee's inappropriate charges included such items as college tuition, a personal computer, exerciser, radar detector, and a car alarm. Some of those items were shipped to the employee at work. Other staff members did not realize that the items were inappropriate purchases made with a state credit card.

In addition to her unauthorized purchases, the employee also benefited from manufacturer's rebates associated with some purchases. Documents obtained from the employee's bank show that she deposited a \$100 rebate resulting from a purchase that she made using the state's credit card. In addition, DAS management intercepted another \$100 rebate check issued to her for a purchase she made in September 1998.

UNAUTHORIZED TRAINING EXPENDITURES

In addition to her invalid credit card charge for college tuition, the employee initiated two purchase orders (PO's) through the state's accounting and purchasing system to pay tuition. Those PO's totaled an additional \$2,025, of which \$1,125 was actually paid to the college. The remaining \$900 remittance was in process when the employee's actions were discovered, giving DAS management the opportunity to intercept and cancel the payment.

It was apparent that she knew that the PO's she generated for the tuition did not meet the criteria for valid training expenditures. In March 1998, the employee obtained a copy of SCD's policy for such reimbursements and presented a highlighted copy to her supervisor. At that time she inquired whether she could obtain an advance to pay her upcoming college application fee. After the discussion with her supervisor, she did not submit an advance request for the \$100 fee and the matter was dropped. Subsequent review of the employee's purchasing records showed that she inappropriately paid the fee using the state's credit card.

The employee initiated the inappropriate purchase orders during August 1998. SCD's operations officer initially approved them for payment even though they did not meet the criteria for reimbursement. The division's policy for training expenditures states that such expenditures must be approved in writing by the supervisor and must directly relate to the individual's work. The employee's supervisor indicated that the expenditures met neither of those conditions.

Shortly after her supervisor discovered that the employee made inappropriate payments, she inquired of the local college regarding the payments. An employee at the college provided documentation showing that the state payments were applied toward the state employee's tuition account. The college indicated that the employee requested that the college immediately bill the state so that it would be paid before she received her financial aid. The college employee also stated that the state employee requested this arrangement so that the resulting overpayment to her tuition account would be refunded to her (the state employee). Documents obtained from the college and the employee's bank indicate that in July 1998 she received a refund from the college for \$960.96 just days after she paid \$990 to her tuition account using the state's credit card. In addition, she received another refund from her tuition account in September 1998 for \$1,000 shortly after the college received the \$1,125 payment she initiated through a state purchase order. Furthermore, an additional refund would have been due to the employee, but her supervisor discovered and intercepted her purchase order payment for \$900.

INVALID PAYROLL CLAIMS

On June 8th and 9th, the employee was scheduled to attend job-related training classes in Portland. As anticipated, she was absent from the office on those days. She recorded on her timesheet that she attended the training and thus was paid for the hours that she was absent. However, credit card records and subsequent calls to the training facility verify that the employee did not attend the 16 hours of training as she reported; thus, those timesheet claims were invalid.

We also noted that the employee misreported sick leave on her May and June 1998 monthly timesheets. In both instances, she used two hours sick leave to drive to McMinnville, Oregon, and purchase personal items from a bookstore using the state's credit card. Further, using the time of purchase recorded on credit card receipts, we determined that the employee made several personal purchases using the state's credit card during normal scheduled work time. Considering the location of the vendors and the time of the purchases, it appears unlikely that the employee could have made them and returned to work during her scheduled break time. However, because the office staff are given the latitude of flexing their lunch and break times, we could not estimate the actual time lost.

Such absences would normally be charged to the employee's vacation accrual or, if sufficient leave was not available, leave without pay would be charged. The state's cost of 20 hours of lost time (16 hours training and 4 hours sick leave) was approximately \$195 plus \$88 of associated other payroll expense such as payroll tax and retirement costs.

ALTERED PAYROLL DOCUMENTS

During August 1998, the employee requested a \$483 payroll advance for a personal emergency. Her supervisor approved and signed the request and gave it back to her. The employee forwarded the request to payroll to process the check. However, before she sent the request she increased the amount to \$531. During September she again requested a payroll advance. On this occasion, she entirely circumvented procedures by altering a photocopy of her previously signed request and faxed it to payroll to obtain an advance for \$461. The employee's supervisor was unaware that such a request was made until she was notified by the personnel office. These altered requests do not represent a loss to the state because they were subsequently deducted from the employee's wages. However, the employee's conduct in obtaining them demonstrates her disregard for observing known regulations.

RECOMMENDATION

We recommend that the Department of Administrative Services pursue recovery of the losses incurred due to the employee's alleged actions. Those losses include the \$7,673 in invalid credit card purchases, \$1,125 unauthorized tuition payment, and the \$283 loss from various inappropriate payroll transactions.

AGENCY RESPONSE:

We concur. The State Controller's Division (SCD) has filed a claim with Risk Management for \$8,798 (credit card purchases and unauthorized tuition payment). SCD received payment of \$8,298 in November 1998 from Risk Management. Risk Management has a \$500 deductible. DAS may recover any amount not provided through insurance from U.S. Bank, the SPOTS provider. A request to recover the \$500 deductible has been filed with U.S. Bank. It will be credited to DAS' VISA card statement in January or February 1999.

On December 28, 1998, a claim was submitted by State Controller's Division for the inappropriate payroll transactions and related other payroll expenses.

Risk Management will continue to monitor legal proceedings. Risk Management will seek to recover our losses in the event of a judgment against the employee.

**INTERNAL CONTROL
REVIEW**Intended Controls

All charges made to SPOTS credit cards issued to DAS employees are paid each month from a combined statement sent to the agency by the bank. The DAS Internal Support Division (ISD) is responsible for paying those charges within 14 days of receipt of the statement, and for properly recording the purchases in the state's accounting system, SFMS. To facilitate this, ISD enters each item into SFMS using default account codes. Later, ISD reclassifies the SFMS transactions according to instructions provided by the cardholders making the purchases.

Each month, cardholders receive individual statements from the bank listing the transactions to his/her account. The cardholders are responsible for attaching receipts to the statement, providing a list of SFMS account information, and obtaining a manager's approving

signature before sending it to ISD so that the transactions can be properly reclassified.

Identified Weaknesses

During our investigation, we evaluated these policies and procedures and found weakness that inhibited the agency from preventing or detecting the unauthorized and inappropriate purchases. We found that ISD did not sufficiently monitor credit card purchases. First, ISD processed the employee's credit card application, even though it lacked the required written authorization of her manager. ISD also processed the employee's monthly credit card statements even though they routinely lacked receipts and her manager's approving signature. The bank mails monthly statements directly to cardholders. ISD allowed cardholders to forward their individual statements for processing, even without their managers' written approval of the charges. ISD also continued paying the employee's credit card charges even though she did not file receipts for some purchases.

We also found that the internal control environment at DAS did not support a sufficient level of skepticism. For example, ISD's accounting section did not question transactions from obviously unusual vendors. In addition, the employee's manager did not routinely review expenditures for her department to ensure that they were appropriate. Furthermore, SCD's Operations Officer approved her purchase orders without sufficient knowledge that they fulfilled requirements for valid training expenditures. Her subsequent questioning of the transactions after approval, however, was key to discovery of the employee's inappropriate use of state funds.

RECOMMENDATIONS

We recommend that the Department of Administrative Services (DAS) Internal Support Division (ISD) establish and implement policies and procedures to ensure managerial review of purchases made through the SPOTS program. These procedures should require that credit card statements be signed by the employee and the supervising manager. In addition, ISD should establish procedures to ensure that transactions are adequately

documented, authorized, and that unusual transactions are reported to Internal Audit for further review.

AGENCY RESPONSE:

We concur. ISD Accounting is in the process of finalizing a policy and procedure for use of procurement cards within the Department. On September 28, 1998, ISD sent information to all cardholders and managers of cardholders outlining the following procedures:

- 1. Cardholders must submit original statements and original receipts to ISD Accounting. They must be submitted within 15 days of receipt or the card may be cancelled.*
- 2. The cardholder and the cardholder's supervisor must sign the statement. Because U.S. Bank issues the credit cards in the employee's name, they are unable to send the statements to the supervisor directly. DAS ISD has instituted a practice so that if a supervisor does not sign the statement, ISD Accounting sends it back to the supervisor. If the SPOTS coordinator does not receive a statement from a cardholder, she will follow up with the employee's manager to determine why one was not received.*
- 3. If a charge receipt is missing, the cardholder must provide specific information about the charge:*
 - (a.) vendor,*
 - (b.) item(s) purchased,*
 - (c.) purpose of the purchase,*
 - (d.) date of the purchase,*
 - (e.) account coding,*
 - (f.) a statement that the original charge receipt was lost,*
 - (g.) cardholder's signature to certify the information is correct.*

If a cardholder is missing original charge receipts on a regular basis, the card will be cancelled. If the cardholder disregards the guidelines for using the card, the cardholder's supervisor will be notified and sanctions taken.

The SPOTS coordinator is also reviewing each statement for reasonableness. That is the companies purchased from, are ones you would expect the cardholder to purchase goods from for DAS use.

In December 1998, ISD sent out another memo strongly encouraging cardholders and managers to set single transaction limits for each card. We will not be mandating a DAS-wide transaction limit because each program within DAS has different needs for the procurement cards. The intent is to protect both the employee and DAS by setting transaction limits less than the card limit.

ISD has also initiated a training program for all new cardholders. These sessions outline the cardholder's responsibilities, the manager's responsibilities, and allow cardholders to ask questions about the cards. Our intent is to also provide training in the spring of 1999 for those that held cards previously.

When a transaction has been identified by ISD Accounting as inappropriate, Internal Audit will be notified. They will assist in further investigation.

We also recommend that DAS Internal Audit provide on-going audit coverage of credit card purchases. This coverage may include identifying and validating transactions from unusual vendors and performing tests to verify that controls are adequate and functioning as intended.

AGENCY RESPONSE:

DAS Internal Audit (IA) agrees with the suggestion. Its 1999 Audit Plan includes a project to create a system of continuous control monitoring. Irregular credit card charges will be flagged using data extraction and analysis software. IA will examine the charges through a review of supporting documentation. Tests for regular monitoring of credit card transactions will be developed and implemented no later than March 31, 1999.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the management of the Department of Administrative Services, 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 Administrative Services during the course of our investigation were very commendable and are sincerely appreciated.

AUDIT TEAM

Sharron E. Walker, CPA, CFE
Neal E. Weatherspoon, CPA

**Summary Of Invalid Credit Card Charges
March — September 1998**

<u>Date</u>	<u>Vendor Type</u>	<u>Amount</u>	<u>Description</u>
3/5/98	Office supply retailer	\$5.59	Office supplies
3/30/98	Local/regional college	\$100.00	Application fee
3/31/98	Career training	\$12.95	Seminar
Subtotal – March Invalid Charges		\$118.54	
4/30/98	Software vendor	\$20.95	PC software
Subtotal – April Invalid Charges		\$20.95	
5/1/98	Software vendor	\$59.90	PC software – see credit
5/2/98	Software vendor	\$6.95	Software – shipping and handling
5/5/98	USPS	\$32.35	Postage
5/6/98	Office supply retailer	\$117.74	****
5/7/98	Office supply retailer	\$27.42	****
5/12/98	Department store	\$26.37	****
5/18/98	Department store	\$101.52	****
5/26/98	Local/regional college book store	\$228.89	Books and supplies
5/26/98	Department store	\$55.14	****
5/30/98	Book store	\$78.15	Books
Subtotal – May Invalid Charges		\$734.43	
6/4/98	Software vendor	\$(59.90)	Credit for return of software
6/6/98	Computer retailer	\$796.00	Personal computer
6/8/98	Direct market retailer	\$115.87	Exercise unit
6/9/98	Department store	\$132.86	****
6/15/98	Office supply retailer	\$151.20	****
6/15/98	Office supply retailer	\$277.17	Office supplies
6/17/98	Local/regional college	\$37.83	****
6/18/98	Local/regional college book store	\$(22.80)	Credit for book returned
6/19/98	Career training	\$159.00	Audio cassettes/books
6/22/98	Film processor	\$32.85	Develop pictures
6/24/98	Office supply retailer	\$257.72	Misc. office supplies
6/26/98	USPS	\$42.75	Postage
6/30/98	Office supply retailer	\$63.95	****
6/30/98	Direct market retailer	\$108.20	Software
Subtotal – June Invalid Charges		\$2,092.70	
7/1/98	Department store	\$152.48	****
7/1/98	Department store	\$9.57	****

**** Detail not readily available. This transaction was determined to be invalid by DAS management.

<u>Date</u>	<u>Vendor Type</u>	<u>Amount</u>	<u>Description</u>
7/1/98	Cell phone provider	\$97.98	****
7/6/98	Local/regional college	\$990.00	Tuition
7/8/98	Office supply – mail order	\$27.21	Office supplies
7/10/98	Software vendor	\$127.14	Software
7/14/98	Office supply – mail order	\$189.61	Office supplies
7/14/98	Career training provider	\$194.11	Self-help books
7/27/98	Telephone company	\$235.67	****
7/28/98	Office supply – mail order	\$32.83	Software
7/28/98	Telephone company	\$140.00	****
7/31/98	Office supply – mail order	\$309.54	Rewritable CD drive
Subtotal – July Invalid Charges		\$2,506.14	
8/24/98	Office supply retailer	\$48.38	****
8/24/98	Office supply retailer	\$14.99	****
8/25/98	Office supply – mail order	\$201.28	Office supplies
8/26/98	Office supply – mail order	\$101.34	Office supplies
8/27/98	Direct market retailer	\$49.01	Radar detector
8/27/98	Office supply – mail order	\$49.98	Office supplies
8/28/98	Direct market retailer	\$53.01	Car alarm
Subtotal – August Invalid Charges		\$517.99	
9/3/98	Local/regional college book store	\$91.34	Books
9/3/98	Local college	\$1,350.00	Tuition
9/11/98	Local/regional college book store	\$241.05	Books, other supplies
Subtotal – September Invalid Charges		\$1,682.39	
Total Invalid Visa Charges		<u>\$7,673.14</u>	

**** Detail not readily available. This transaction was determined to be invalid by DAS management.

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