

# Secretary of State **AUDIT REPORT**

Report No. 1999-41 • December 6, 1999

## State Board of Tax Service Examiners Change of Administrator Audit

Bill Bradbury, Secretary of State  
John Lattimer, Director, Audits Division

### Summary

This audit was conducted to comply with *Oregon Revised Statutes* 297.210, which requires the Audits Division to perform an audit or review when the executive head of a state agency leaves that position for any reason.

Joyce L. Thorbeck, who was appointed as the administrator of the State Board of Tax Service Examiners in July 1983, resigned from that position effective August 31, 1998. Rodney L. Pitzer served as interim administrator from September 1998 to May 31, 1999, when Pamela Konstantopoulos was appointed.

#### BACKGROUND

The State Board of Tax Service Examiners (the board) was created in 1973 within the Department of Commerce, was transferred to the Secretary of State in 1987, and became a stand-alone board in July 1997. The board examines and licenses persons who prepare, advise or assist in the preparation of personal income tax returns for a fee.

The board consists of seven members appointed by the Governor, subject to confirmation by the Senate, who serve a 3-year term. The board appoints an administrative officer who, together with additional staff, provides business and support services to the board.

The board has the power to formulate a code of professional conduct; determine the qualifications of applicants for licensing; prepare, conduct, and grade qualification examinations; issue licenses to qualified applicants; suspend, revoke, and restore licenses; prescribe licensing fees; enforce Oregon's tax consultant and tax preparer statutes; and investigate alleged violations of those statutes.

Joyce L. Thorbeck, appointed as the board's administrator in July 1983, resigned her position effective August 31, 1998. Rodney L. Pitzer acted as interim administrator from September 1998 to May 31, 1999, when Pamela Konstantopoulos was appointed. At that time, Mr. Pitzer returned to his full-time investigative duties for the board.

#### SCOPE AND METHODOLOGY

This audit was conducted in order to comply with ORS 297.210, which requires the Audits Division to perform an audit or review when the executive head of an agency leaves for any reason. Our audit objectives were

The State Board of Tax Service Examiners examines and licenses persons who prepare, advise or assist in the preparation of personal income tax returns for a fee.

Our audit was limited to determining that appropriate separation actions were taken for the former and interim administrators. We found that all appropriate actions had been taken, and identified no instances of noncompliance with laws, rules or regulations. We identified a weakness in control over payments, however, as well as other matters for the attention of the board.

to assure appropriate actions were taken to cancel the former administrator's access to state systems and return any state assets in her possession, and to assure recent transactions authorized by both the former and the interim administrators were reasonable and complied with appropriate laws and regulations.

In that regard, we:

- Tested travel expense and payroll transactions that were payable to or directly authorized by the former administrator during her last six months in office;
- Tested travel expense and payroll transactions that were payable to or directly authorized by the interim administrator during his last six months in office;
- Reviewed correspondence and personal service contracts originating in the administrator's office;
- Determined that no check stock was kept by the board;
- Determined that fixed assets assigned to the former administrator had been returned to the board, and her access to state computer systems was canceled; and
- Were alert for signs of potential fraud, abuse and illegal acts for the areas related to the audit objectives.

We conducted this audit according to generally accepted government auditing standards. We limited our review to the areas specified above.

#### AUDIT RESULTS

Although the objectives of the audit were to assure that appropriate actions were taken with regard to the change of administrator, we also performed tests to determine whether account balances and authorized transactions

were reasonable and in compliance with applicable laws and regulations.

### Control Over Payments

Our testing of expenditures disclosed errors in payments to vendors and contractors as follows:

- The board authorized duplicate payments to two contractors.
- The board shares leased equipment costs with the Board of Accountancy. Three lease payments were paid entirely by the board and not reimbursed by the Board of Accountancy.

**We recommend** that the board develop a log of approved payments that includes enough detailed information to track costs to the payments recorded in the SFMS system.

**We also recommend** that each month the administrator compare the approved payments recorded in the log against the payments recorded on the SFMS expenditure reports and investigate any discrepancies.

**Agency Response:** We concur.

### Other Matters

- The administrator is not required to submit Travel Expense Detail Sheets for approval.

**We recommend** that a board member perform an independent review and approval of the administrator's Travel Expense Detail Sheets. Such a review would provide accountability to the board and the administrator.

**Agency Response:** We concur.

- The board does not currently maintain detailed records of its furniture, equipment and other assets such as pagers, cell phones and credit cards. These assets are individually valued at less than \$5,000 but collectively represent a sizable investment by the board.

**We recommend** that the board develop and maintain a written asset inventory that identifies persons assigned responsibility for individual assets.

**Agency Response:** We concur.

- The board is housed in an "open landscape" building with another state agency and other private businesses. Building employees, custodians and other walk-in traffic have unrestricted access to the board's facilities in this environment. It is possible for furniture and equipment to be vandalized or stolen and computerized data corrupted. Regulatory and operational processes might be compromised by the theft or destruction of examination materials or investigation files.

**We recommend** that the board identify ways to secure paper and electronic files and physical assets critical to the board's operations. Some possibilities include the use of cable locks for computer equipment; heavy-duty, fireproof, lockable file cabinets to house critical and confidential paper files; and a large, heavy-duty, fireproof, lockable cabinet to house critical and expensive equipment such as the new file server.

**Agency Response:** We concur.

- The board occasionally receives license and examination fees by mail and in person. Staff forward these receipts to the bank lock-box in Portland. Because no record of dates and amounts are maintained, however, there is no assurance that the payments are received in a timely manner and intact by the bank.

**We recommend** that the board strengthen controls by establishing a receipts log. The log should include the date a payment is received, payor, amount and fee type, and initials of the payor if paid in person. Each month the administrator would reconcile the log to the bank reports of fees paid.

**Agency Response:** We concur.

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*The courtesies and cooperation extended by the officials and staff of the State Board of Tax Service Examiners were commendable and much appreciated.*

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