Secretary of State

State of Oregon

DEPARTMENT OF AGRICULTURE

Change of Director

Audits Division

-

Secretary of State

State of Oregon

DEPARTMENT OF AGRICULTURE

Change of Director

Audits Division

No. 1999-43

December 30, 1999

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State
Suzanne Townsend
Deputy Secretary of State

AUDITS DIVISION
John Lattimer
Director

(503) 986-2255
FAX (503) 378-6767

Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol
Salem, Oregon 97310

Phillip C. Ward, Director
Department of Agriculture
635 Capitol Street NE
Salem, Oregon 97310

This report presents the results of our Change of Director Review for the Department of Agriculture (department). We conducted this review in compliance with *Oregon Revised Statute* 297.210(2), which requires the Secretary of State to audit or review any state agency when the executive head leaves his or her position. Our objectives were to examine transactions and accounts directly under the former director's control for compliance with applicable laws and regulations. In addition, we reviewed the department's procedures as related to the transactions and accounts examined.

During our review we identified some internal control weaknesses which are reported in this document. We also noted instances of possible non-compliance with statutes and state rules that resulted in our recommendation to the department that reimbursement from the former director and from a contractor be pursued.

The department generally agrees with our recommendations and has taken action to improve procedures to address a number of the issues addressed in our report.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
August 10, 1999

255 Capitol Street NE • Suite 500 • Salem, Oregon 97310
INTERNET: Audits.hotline@state.or.us • http://www.sos.state.or.us/audits/audithp.htm

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY VII

CHAPTER 1: DEPARTMENT CAN IMPROVE TRAVEL PRACTICES 1

DEPARTMENT'S COMPLIANCE WITH STATE RULES REGARDING TRAVEL ADVANCES NEEDS IMPROVEMENT 1

FORMER DIRECTOR'S TRAVEL COSTS EXCEEDED ALLOWABLE RATES FOR LODGING AND PREMIUM-CLASS AIRFARE 1

FORMER DIRECTOR WAS REIMBURSED FOR PERSONAL CAR MILEAGE THAT APPEARS INAPPROPRIATE 3

DEPARTMENT'S COMPLIANCE WITH STATE RULES REGARDING TRAVEL ADVANCES NEEDS IMPROVEMENT 4

CHAPTER 2: DEPARTMENT DID NOT ALWAYS COMPLY WITH STATE RULES AND LAWS RELATED TO PERSONAL SERVICES CONTRACTS 7

AWARDING OF PERSONAL SERVICES CONTRACT JUSTIFIED AS "SOLE SOURCE" MAY HAVE BEEN INAPPROPRIATE 7

DEPARTMENT DID NOT COMPLY WITH OTHER STATE LAWS AND RULES 7

DEPARTMENT'S PROCEDURES OVER CONTRACT PAYMENTS COULD BE IMPROVED 9

CHAPTER 3: OTHER MATTERS 13

DEPARTMENT'S MONITORING OF ACCOUNTS RECEIVABLE COULD BE IMPROVED 13

DEPARTMENT'S MAILROOM PROCEDURES OVER CASH RECEIPTS HANDLING DID NOT FOLLOW STATE RULES 14

DEPARTMENT'S PROCEDURES TO SAFEGUARD CERTAIN HIGH-RISK PROPERTY COULD BE IMPROVED 15

COMMENDATION 17

APPENDIX 19

AGENCY'S RESPONSE TO THE AUDIT REPORT 23

EXECUTIVE SUMMARY

Department of Agriculture: Change of Director Review

Background and Purpose

The Audits Division is required by statute[1] to audit state agencies when the executive head leaves his or her position. The purpose of this audit is to examine transactions and accounts directly under the former director's control for compliance with applicable laws and regulations. In addition, we reviewed the department's procedures as related to the transactions and accounts examined. For details of procedures performed, see the "Objectives, Scope and Methodology" in the Appendix.

Results in Brief

Issues that warrant the new director's attention.

Our review of the Department of Agriculture (department) identified the following issues that warrant the new director's attention:

- **The department can improve its practices over travel expense reimbursement claims and travel advances.** (See Chapter 1.)

The department paid for first class air travel, excessive lodging costs, and potentially inappropriate personal car mileage for the former director.

We found that the department:

- Reimbursed the former director for lodging that exceeded allowable amounts;
- Paid over $8,000 for first class and business class air travel for the former director, even though coach class was approximately $3,800 less and was required by state rules;
- Reimbursed the former director for personal car mileage when the former director appeared to use a state car for the same trips or submitted duplicate billings;
- Made travel advances to employees which exceeded the amount of actual travel expense; and

[1] Oregon Revised Statutes 297.210(2).

- Needs procedures to monitor reimbursement for travel from outside sources.

- **The department can improve its practices over personal services contracting.** (See Chapter 2.)

The department made advance payments to a contractor who is a former department employee, and may have inappropriately used "sole source" contracting.

We found that the department:

- May have used the "sole source" justification inappropriately for a contract awarded to a former employee of the department;

- Made advance payments to this contractor in excess of costs incurred, in violation of state policy; and

- This contractor charged for mileage and time to borrow a computer from the department, despite the contractor's certification to "furnish the tools or equipment necessary."

- **The department can improve its practices over the monitoring of accounts receivable, cash receipts handling, and safeguarding of certain high-risk property.** (See Chapter 3.)

The department lacks certain controls and safeguards over accounts receivable, receipts, and high-risk property.

We found that the department:

- Lacks a centralized accounts receivable function, and that about 38 percent ($400,000) of its receivables were over 90 days past due;

- Did not implement state rules in its mailroom, where one individual opens mail that includes receipts; and

- Could improve procedures to safeguard certain high-risk property, such as computers.

During our review, we also noted instances of possible non-compliance with statutes and state rules that resulted in our recommendation to the department that reimbursement be pursued.

Agency Response

The Department of Agriculture generally agreed with the conclusions in this report and has taken action to improve procedures to address a number of the issues identified in our

report.

Chapter 1: Department Can Improve Travel Practices

The Department of Agriculture (department) can improve its practices for travel expense reimbursement claims and travel advances. We found that the department paid for or reimbursed excessive or unallowable travel costs.

Former Director's Travel Costs Exceeded Allowable Rates for Lodging and Premium-Class Airfare

The department reimbursed the former director for lodging that exceeded allowable amounts.

- Allowable Rates for Lodging Were Exceeded: During the period reviewed, the department reimbursed the former director for lodging that exceeded allowable amounts without appropriate justification.

  State rules set maximum lodging amounts for many cities. While the rules allow lodging costs to exceed the state allowances under certain circumstances, documentation is required to justify the excess. We reviewed five of the former director's travel claims that included overnight lodging, and found that three claims included instances in which maximum lodging amounts were exceeded without appropriate justification. In the exceptions we noted, no documentation was provided to justify the deviation from state rules or to explain why a higher lodging rate was appropriate.

  For example, state rules set a maximum rate for lodging in Washington, D.C. of $126 per night. In September 1998, the former director charged $209 for one night's lodging in that city, and was reimbursed by the department without additional documentation to justify the excess. The department agreed with our findings and will consider our recommendations.

The department paid for the former director to fly at premium class airfare rates, thus exceeding allowable limits.

- Allowable Rates for Airfare Were Exceeded: The department paid for the former director to fly at premium class airfare rates, thus exceeding allowable limits.

  State rules require that the state pay no more for airline tickets than "coach class" airline accommodations. If travelers choose to use business class or first class accommodations, state rules require that the cost excess above coach class be

paid by the traveler's personal funds.

In October 1998, the former director completed an international trip to Africa and Europe. An agricultural association billed the department over $8,000 for the cost of airfare, which was paid by the department.

The department was aware that at least a majority of this expense was for airfare; however, a copy of the flight itinerary was not filed with the invoice. Furthermore, no documentation was provided to support the exception to the state rules requiring coach class airline travel or to justify the extra expense to the state for first class and business class air travel.

First class and business class air travel cost about $3,800 more than coach class.

For comparison, we obtained a quote for airfare in coach class for the same trip from the state's contract travel agency. The fare quote showed that the same trip could have been completed in coach class at a cost of approximately $4,300. The state therefore appears to have overpaid (for first class and business class airline accommodation) by approximately $3,800.

The former director's travel claims were approved by a subordinate, and were not subjected to a review by an external or internal authority to ensure that documentation supporting the reimbursement was complete.

Recommendations

We recommend that the department:

- Follow state travel rules completely. Document and justify any exceptions to the travel rules.
- Require the director's travel expenditures to be approved by the department's fiscal manager and reviewed by the State Board of Agriculture at its regularly scheduled meetings.
- Request reimbursement of approximately $3,800 from the former director for travel in excess of coach class airfare.

Agency Response

The department agreed with our finding and will consider our

recommendations.

Former Director was Reimbursed for Personal Car Mileage That Appears Inappropriate

We identified reimbursement for three personal vehicle trips that appear inappropriate because the former director recorded use of a state vehicle for the same trips or submitted duplicate billings.

For the period January 1997 through November 1998, we compared the state car usage information submitted by the former director to personal car mileage included on the former director's travel reimbursement claims.

For two trips, the former director received reimbursement for personal car mileage that was included on the state car usage form.

We found two trips for which the former director received reimbursement for personal car mileage that was included on the state car usage form.

- On the December 1997 State Vehicle Mileage Report, a trip on December 2 was reported to "PDX" (the airport code for the Portland International Airport), with a return trip from "PDX Salem" on December 4.

  On his December 1997 Travel Expense Detail Sheet, the former director requested and received $36.00 in reimbursement for 120 miles of personal car usage. The description on the sheet showed the trip was on December 2 and December 4, 1997, and was from "Salem to Portland airport vic[inity] and return."

- The Monthly State Vehicle Mileage Report for December 1997 also shows a trip on December 15, with a destination of "Corvallis/Salem." Total miles for the trip were 77 miles. The start time was 7:00 a.m. and the ending time was 8:00 p.m.

  On his December 1997 Travel Expense Detail Sheet, the former director requested and received $25.80 in reimbursement for 86 miles of personal car usage. The description on the sheet showed the trip was on December 15, and was from "Salem-Corvallis vic[inity] and return."

Another trip was claimed twice on

- We also noted that another trip was claimed twice on separate travel expense detail sheets. The former director claimed and received reimbursement of $26.25 for an August

separate travel expense detail sheets.

27, 1997 round trip from Salem to Portland.

The former director was able to make these claims because the department did not compare the travel claims to state car mileage records to determine whether duplication existed. In addition, the duplicate trip submitted for reimbursement was not detected because the department did not detect that trips were submitted on different expense detail sheets in different months.

Recommendations

We recommend that the department:

- Routinely compare state car mileage records to travel expense detail sheets for employees claiming personal car mileage reimbursement whom also regularly use a state car.
- Compare the detailed sheet to the prior month's expense detailed sheet when a travel expense detailed sheet includes travel for a prior month.
- Initiate appropriate action to recover any amounts inappropriately paid to the former director.

Agency Response

The department agreed with our finding and will consider our recommendations.

Department's Compliance With State Rules Regarding Travel Advances Needs Improvement

The department did not follow state rules in the issuance and management of travel advances.

During our review, we noted that the department did not follow state rules in the issuance and management of travel advances. State rules require documented justification before travel advances can be made. Agencies are allowed to define criteria to grant exceptions to state rules. The department's travel advance policy requires all requests for exceptions to be submitted in writing before receipt of an advance.

State rules also require employees who have received a state

travel advance to submit a completed travel expense detail sheet justifying the expenditures of the travel advance the following month.

During our review of travel advances we noted the following:

- The former director did not provide documentation explaining the necessity for two travel advances; one for $300 and one for $1,500.

- Four other travel advances provided to department staff totaling $3,552 exceeded the amount of actual travel expense. One travel advance that exceeded actual travel expense was a $2,000 advance made on August 31, 1997 that was not fully recovered until July 13, 1998.

The department is not fully implementing state and department rules.

Recommendations

We recommend that the department's administration enforce state rules and the department's internal travel advance policy by providing advances only upon appropriate documentation and in amounts not greater than allowed by policy.

Agency Response

The department agreed with our finding and will consider our recommendations.

Chapter 2: Department Can Improve Internal Practices Over Personal Services Contracting

Department Did Not Always Comply With State Rules and Laws Related to Personal Services Contracts

Oregon law states that the Department of Administrative Services (DAS) may authorize any state agency to directly purchase supplies, materials, equipment, and services, including personal services. The state agency must follow rules, however, as prescribed by DAS.

Awarding of Personal Services Contract Justified as "Sole Source" May Have Been Inappropriate

For a contractor to be justified as a sole source under state rules, documentation of current market research is required. State rules also require that all personal services contracts include a provision that payments will be made for completed work, unless other payment provisions are approved by the Department of Administrative Services (DAS). The Contractor's Certification signed by the contractor requires the contractor to furnish the tools or equipment necessary to perform under the contract. Since this contract was funded by a federal grant, provisions of the grant also apply to this contract.

The following details the results of this review:

The contract file did not contain required current market research documentation.

- In September 1998, the department entered into a personal services contract in the amount of $10,710 with a former employee on the basis that the contractor was a single, or "sole source", provider. The contract file did not contain required current market research documentation. We noted that for a similar contract executed one year earlier the informal selection method was used, rather than a "sole source" provider. The informal selection method requires proposals from at least three qualified contractors.

- The contract terms provided for an advance payment of $5,355 without the approval of the Department of Administrative Services (DAS). According to progress reports submitted by the contractor, as of March 16, 1999, the contractor had incurred expenses of approximately $1,000 since the contract was executed in September 1998.

The contractor charged the department $150 for travel time and mileage to acquire a state-owned laptop computer.

- The contractor charged the department $150 for travel time and mileage to acquire a state-owned laptop computer. The department was unable to provide documentation identifying the computer and software on loan to the contractor.

Entering into this contract may subject the state to the following financial risks:

- Inadequate documentation to support "sole source" justification may subject the state to possible litigation for unfair awarding of state business to contractors.

- Advance payments made on contracts before the deliverable has been received increases liability to the state in the event of contractor default. The state could be held accountable for the interest and principal advanced to the contractor.

- The $150 charged to the contract to acquire a department-owned computer for completing the project does not appear justified. In addition, the department may be at risk of violating licensing agreements for any software on the computer.

The department does not appear to have followed state contracting rules.

Recommendations

We recommend that the department:

- Implement state contracting rules immediately.

- Initiate collection of:

  - The $150 paid to contractor for contractor's travel time and mileage to obtain a department computer on loan.

  - The unused advance given to contractor plus interest on advanced funds. Interest should be returned to the appropriate federal agency in accordance with federal requirements.

- Obtain documentation evidencing the department's computer in the possession of the contractor with a provision for its return to the state. Determine whether software on the computer violates any licensing agreements and take appropriate action.

Department Did Not Comply With Other State Laws and Rules

Examples of instances in which the department did not follow state contracting laws and rules include:

Documentation to support the contract selection method was inadequate in all three contracts we reviewed that required documentation.

No written amendments were in the file as required by state rules for three contracts we reviewed.

- Documentation to support the contract selection method was inadequate in all three contracts we reviewed that required documentation.
- Evidence of notification to the Office of Women, Minority and Emerging Small Business was lacking in three of the four contracts we reviewed that required notification.
- Evidence of certification of corporation status was not in the contract file for all three contracts we reviewed that required certification.
- No written amendments were in the file as required by state rules for three contracts we reviewed. Two contracts needed amendments because the contract expiration dates had passed. For the third contract, the contract amount was increased from $5,000 to $8,500 without a written amendment.
- Of the eleven contracts requiring insurance coverage other than Worker's Compensation, nine did not have evidence of insurance coverage to comply with contract terms. We selected fifteen additional personal services contracts to review for evidence of insurance for the time period June 24, 1996 through October 9, 1997. Twelve of the fourteen requiring insurance did not have evidence of insurance to comply with contract terms.

By not following state contracting laws and rules the department exposes the state to risks, such as:

- Possible litigation for unfair awarding of state business to contractors.
- Corporations, if not in good standing in Oregon, may affect the

enforceability of the contract.

- Lack of written amendments may not provide the state with enforceable legal recourse for changes made to original personal services contracts.

- Potential liability if contractor insurance not in force and loss occurs.

The department's contract administrators may not be aware of their responsibility with regards to contract administration as defined in state laws and rules. Further, at the time these contracts were entered into, the department did not have an effective central control with contract expertise to review and ensure that contracts complied with applicable laws and rules.

Recommendations

We recommend that the department:

- Implement state contracting laws and rules immediately.

- Consider maintaining central control with contract expertise to review contracts and ensure compliance with applicable laws and rules.

- Provide training to contract administrators on personal services contract administration.

- Obtain required personal services contract documentation on all existing contracts.

Agency Response

The department agreed with our finding and will consider our recommendations. Further, the department has assigned an employee responsibility to review contracts and ensure their compliance with applicable laws and rules.

Department's Procedures Over Contract Payments Could Be Improved

In our review of contract payments, we found that controls over payments can be improved in the areas of payment approval,

documentation of contract deliverables, and the tracking and reconciling of payments to the accounting records.

State rules require that a contract administrator be appointed and given responsibility for administration of the contract. This includes approval of payments made under the contract and ensuring that contract deliverables were received prior to payment. Strong controls also require that procedures exist to mitigate the risk of overpayments.

Our review of contract payments disclosed the following:

- Payments made without the approval of the contract administrator.
- Inadequate documentation to support that contract payments were made only after deliverables, as specified in the contracts, were received.
- An overpayment of $5,000 on a contract that had four scheduled payments of $5,000 each.

An overpayment of $5,000 was made on a contract.

Contract deliverables are important in order to reduce the risk of inappropriate payments and to provide assurance that payments were made for work satisfactorily completed according to the terms of the contract. Other procedures, such as reconciling of contract payments to the accounting records, reduce the risk of overpayments.

Although the department has appointed contract administrators, contract administrators may not be fully aware of their responsibility to approve contract payments and ensure that acceptable contract deliverables are received. There is no formalized list of department employees with delegated authority to approve contract payments. Further, the department has a database that it uses to track contract payments. It appears that the duplicate payment was made because it was not entered correctly into the database. In addition, payments recorded in the database are not reconciled to payments recorded in the official accounting records. If reconciliation had been performed, the overpayment could have been identified.

Recommendations

We recommend that the department:

- Provide training to contract administrators in their responsibilities as provided in state rules.
- Officially delegate written authorization to department employees for contract payment approval in the absence of the contract administrator. These employees should have no contract approval authority.
- Improve edit controls on the contract database to ensure duplicate payments are identified. In addition, perform periodic reconciliation of the department's contract database to contract payments as recorded in the department's official accounting records.
- Initiate action to collect the $5,000 overpayment from the contractor.

Chapter 3: Other Matters

During our audit, we identified other matters that warrant the attention of the department. These issues include the department's monitoring of accounts receivable, procedures over handling of cash receipts, and procedures to safeguard certain high-risk property.

Department's Monitoring of Accounts Receivable Could Be Improved

State rules require agencies to have a written, structured collection process specifying the formal collection process for receivables.

Thirty-eight percent of the department's $1.05 million accounts receivable balance was over 90 days old.

We noted that almost $400,000 (38 percent) of the department's $1.05 million accounts receivable balance as of May 31, 1999 was over 90 days old and approximately $111,000 was delinquent during one year. One delinquent account of approximately $116,000 included in the delinquent balance was subsequently paid off in June and July 1999. This account was for a November 30, 1998 receivable from the Bureau of Land Management (BLM). In addition, it appeared that interest is not charged on any of the delinquent accounts.

Without implemented collection procedures, opportunities to collect delinquent amounts due and interest could be lost.

We determined that there were no written procedures being used by the divisions reviewed. We also determined that there is no centralization of the delinquent accounts receivable monitoring and collection efforts. Each division within the department is responsible for monitoring the delinquent accounts of their respective division. Department staff told us that the $116,000 delinquent receivable paid off in June and July 1999 was delinquent because the department had not provided a progress report due to the BLM and the BLM withheld full payment until the report was received. Timely submission of the report may have resulted in the department collecting this receivable earlier.

Recommendations

We recommend that the department:

- Implement state laws and rules including the development of written collection procedures.
- Consider centralizing accounts receivable monitoring and collection efforts.
- Submit reports due to other entities that owe a receivable in a timely manner.
- Provide for the accrual of interest, penalties and the costs of collections to be charged to the debtor, as allowable by statute.
- Charge off uncollectible accounts receivable.

Department's Mailroom Procedures Over Cash Receipts Handling Did Not Follow State Rules

State rules require that two designated persons open mail receipts and restrictively endorse all checks as they are received. Rules also state that remittances received should be listed on a cash report.

As explained in the state rules, it is important that cash receipts be recorded as soon as they come within the agency's control. In addition, recording of the cash receipts by someone in the mailroom establishes accountability and provides a basis for comparison with amounts actually deposited, since mailroom employees do not have further access to cash handling or accounting.

The department has not established immediate control over receipts.

The department's standard mailroom operating procedures allow for the opening of incoming mail in single custody, contrary to state rules. In addition, checks are not restrictively endorsed in the mailroom, and a listing of checks received is not prepared. The department has not established immediate control over receipts.

Recommendations

We recommend that the department implement state rules. These rules include the opening of mail in dual custody, restrictive endorsement of checks in the mailroom, and the preparation of a listing of cash receipts.

Department's Procedures to Safeguard Certain High-Risk Property Could be Improved

The department could improve procedures to safeguard certain high-risk property.

We found that the department could improve procedures to safeguard certain high-risk property. We also found that the department does not have a written method to estimate the quantity and replacement cost of its expendable assets. Expendable assets are assets costing less than $5,000.

State rules recommend that inventory items that have a high risk of loss, such as computers and electronic equipment, be identified, recorded, and controlled. In addition, a written method to estimate the quantity and replacement cost of expendable assets is a reporting requirement defined by the Department of Administrative Services, Risk Management Division.

Although department staff stated that the former director had returned all state assets, because of the lack of documentation, we were unable to confirm that either the cell phone or laptop computer was returned.

Of the seven laptop computers assigned to administration, only one had accurate information recorded in the inventory records.

In an attempt to verify the return of the laptop computer, we performed additional procedures. We reviewed the department's inventory records and noted that seven laptop computers had been assigned to Administration. Of the seven laptop computers assigned, only one had accurate information recorded in the inventory records reflecting who had possession of the laptop computer.

Without documentation to ensure that assets are surrendered to the state upon separation from state service, the department cannot provide assurance that state assets all have been returned and accounted for. Inaccurate documentation on the location of inventory items, such as computers, may make it

difficult to recover on insurance claims if assets are stolen. Furthermore, it may be difficult to promptly provide police with serial numbers of stolen property to assist in the recovery of assets stolen.

The department did not have written procedures to account for assets upon employee separation from state service or for the transfer of assets between division and department staff.

Recommendations

We recommend that the department:

- Develop procedures to account for assets upon employee separation from state service or upon the transfer of assets between divisions and department staff.
- Develop a listing of high-risk assets.
- Periodically perform physical verification of high-risk assets.
- Develop a formalized method to reasonably estimate the quantity and replacement cost of expendable assets.

Commendation

The courtesies and cooperation extended by officials and staff of the Department of Agriculture were commendable and sincerely appreciated.

Audit Team

Drummond E. Kahn, MS, CGFM, Audit Administrator
Sandra Horst, CPA
Donna Ross

APPENDIX:

OBJECTIVES, SCOPE AND METHODOLOGY

Appendix

Objectives, Scope and Methodology

We reviewed the Department of Agriculture (department) in accordance with Oregon law[2] that requires the Secretary of State to review a state agency when the executive head leaves his or her position.

We performed the following procedures:

- Interviewed the department's fiscal manager and other fiscal staff responsible for recording transactions. We determined whether recent transactions authorized by the previous director were reasonable and in compliance with laws and regulations. We also determined whether financial controls could be improved over areas related to our review. We reviewed these records to determine if any unusual transactions occurred. We performed tests in the following areas:

    1. Travel and payroll either payable to or directly authorized by the former director within the last six months of office. There were five monthly travel reimbursement claims reviewed.

    2. Personal services contracts entered into by the former director between September 1997 and November 1998. In addition, for fifteen of the contracts we performed some payment testing. We also performed additional limited testing of contracts from June 24, 1996 through October 9, 1997.

    3. Personal car mileage reimbursement claimed by the former director for the period January 1997 through November 1998.

    4. Fixed assets returned, and computer access, credit cards, and similar items assigned to the former director were canceled.

Due to issues raised in conjunction with our Change of Director review, we:

- Performed a limited review of the department's travel advances with effective dates between January 1, 1998 and April 30, 1999.

- Reviewed the department's monitoring of accounts receivable.

- Evaluated the department's procedures for handling cash receipts.

[2] Oregon Revised Statutes 297.210(2).

- Reviewed the department's system for monitoring travel reimbursements, for out-of-state travel, from outside sources.

- Reviewed employee usage of personal credit cards in lieu of the state credit card while on state business.

- Interviewed the department's Year 2000 (Y2K) coordinator and reviewed the department's efforts towards Y2K preparedness.

  (Our review was not designed to detect whether the department's systems are year 2000 compliant. Because many computerized systems use only two digits to record the year in the date fields (for example, the year 1999 is recorded as 99), such systems may not be able to process transactions in the year 2000 and after. The effects of this problem will vary from system to system and may adversely affect an entity's operations as well as its ability to prepare financial statements. We have no responsibility with regard to the department's efforts to make its systems or any other systems, such as those of vendors, service providers, or any other third parties, year 2000 compliant or provide assurance on whether the department has addressed or will be able to address any affected systems in a timely manner. These are the responsibilities of department management.)

- Interviewed the Information Systems manager to determine that procedures were followed to remove the former director's access to the computer systems.

- Interviewed staff from agency divisions to determine procedures performed on delinquent accounts receivables.

- Interviewed staff in Administration to determine procedures in place to monitor state assets.

- Inquired at Legislative Fiscal Office to determine whether there were issues of concern related to this department.

In addition to the findings presented in this report, other issues were identified and brought to the attention of management, including the need for proper controls over cash, negotiable instruments and other high-risk assets.

We conducted our work from January to August 1999 in accordance with generally accepted government auditing standards.

AGENCY’S RESPONSE TO THE AUDIT REPORT

Oregon
John A. Kitzhaber, M.D., Governor

Department of Agriculture
Office of the Director
635 Capitol Street NE
Salem, OR 97301-2532
(503) 986-4552
FAX (503) 986-4750

December 8, 1999

Mr. Drummond E. Kahn
Audit Administrator
Secretary of State Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Dear Mr. Kahn:

Thank you for the opportunity to respond to the audit recommendations made as a result of the Department of Agriculture's Change of Director and Special Review Audit.

In general we agree with the recommendations in the draft report. We have reviewed your findings and recommendations and are in the process of implementing or developing processes to increase the effectiveness of our controls. New or revised internal policies will be consistent with those in the ORS statutes, OAR's and the Oregon Accounting Manual.

The following are actions already in the process of implementation:

RECOMMENDATION

The Department can improve Travel Practices.

AGENCY RESPONSE

- ◇ The department will develop training opportunities for department managers to increase their understanding of and adherence to the state travel rules. Exceptions will be carefully documented, reviewed and approved by the Director or his/her designee.

- ◇ The Director's travel expenses will be reviewed by the department's fiscal manager.

- ◇ The department will develop procedures to review state car mileage records and employee personal car mileage reimbursement requests for irregularities and inconsistencies.

- ◇ The department believes its internal travel advance policy is generally adequate. However, to strengthen the policy the department will implement more stringent control methods for providing cash advances.

- ◇ The department has referred the matter of the former Director's travel expenses to the Department of Administrative Services for resolution.

RECOMMENDATION

The department can improve its practices over personal services contracting.

AGENCY RESPONSE

- ◇ The department has centralized the approval of personal services contracts and has assigned a department manager with contracting experience to provide oversight. The role of the contracts manager includes providing contract development and management expertise as well as central oversight and control.

- ◇ The contracts manager will review all personal services contracts for adherence to state contracting laws, policies, and rules, and will ensure that all required documentation is obtained.

- ◇ The department will develop training modules to adequately train division staff in contracting and contract administration.

- ◇ The department is in the process of revising its contract database to provide tracking information for all contracts, provide uniformity in the development of contracts, and provide up to date reporting and payment information.

- ◇ The department resolved the $5,000 contractor overpayment by withholding the scheduled payment for June 1999 from the contractor.

- ◇ The department will initiate action to recover the $150.00 paid to a contractor for travel time and mileage to obtain a department computer on loan and to recover the states computer by January 15, 2000. The department will also initiate action to recover the unused portion of the advanced funds.

RECOMMENDATION

The department can improve its practices over the monitoring of accounts receivable, cash receipts handling, and safeguarding of certain high-risk property.

AGENCY RESPONSE

◇ A centralized accounts receivable function does exist within the Administrative Services Division. The department does however allow the individual divisions to monitor late receivables for their respective programs and the collection of those overdue accounts. The department agrees that the monitoring of late receivables would be better performed by the accounts receivable unit within Administrative Services, and will implement procedures immediately to centrally monitor outstanding receivable balances and will continue to work towards effective and timely collection procedures.

Accounts receivable as of June 30, 1999 stated as a percentage of assets:

1. Accounts receivable were 3.81% of assets.
2. Accounts receivable over 90 days were 0.99% of assets.

Accounts receivable stated as a percentage of revenues:

1. Accounts receivable were 4.41% of revenues.
2. Accounts receivable over 90 days were 1.15% of revenues.

The department's accounts receivable over 90 days has dropped from 38% as cited in the review to 15% as of November 15, 1999. This is a reduction of 60% from the audit report.

◇ Written collection procedures will be developed in accordance with state rules and policies for the handling of collections. This policy will address the issues of accrual of interest, penalties, cost of collections and a method to charge off uncollectible accounts receivable.

◇ The mail room is staffed by one individual who handles a variety of functions for the department including mail. The department will look at alternatives for handling the receipts of the department that may include the use of a bank lock box service for the deposit and recording of fees and applications mailed to the department.

◇ The Department has chosen, in accordance with State of Oregon Risk Management and Accounting policies to record reusable items purchased for under $5,000 or that have less than two years of useful life as expendable property. Expendable property will be videotaped to document the inventory baseline. The videotape documentation will be updated as needed. The department will center its efforts on preventing and managing risk of theft. Because of their uniqueness, individual divisions will assess their own risk and provide ways to protect those items determined to be high risk items. A variety of methods will be used including but not limited to; equipment tie downs, blatant and unremovable markings, internal labeling, locked storage areas, keeping property in sight of users, and checking items into employees personal custody and control.

◇ The Department has chosen to report expendable property values using the following two methods. The two methods will be used together to produce accurate expendable property values over time. These methods are in accordance with State of Oregon Accounting methods.

Baseline Method-

1. The Department has established December 31, 1999 as the point in time for the Expendable Property baseline value.
2. Each year on or around January 1 the Department will make an adjustment to the baseline for the following reasons:
a. The baseline will be adjusted upward to add the value of items which have been purchased or added during the previous period.
b. The baseline will be adjusted downward to decrease the value of items which have been deleted or disposed of during the previous period.
c. The baseline will be increased or decreased to reflect the changes in the CPI indices for replacement costs.

Average or Sampling Method

1. The Department has developed a list of typical expendable property units. They include offices, cubicles, laboratories,etc.
2. An average sample of each type of unit was evaluated and itemized. A list representing each significant item found in the sample unit and a replacement value assigned to each. Items were grouped when necessary. All items were added together to form the replacement cost for a particular unit and then multiplied by the total number of units for that particular type. The Department will periodically reevaluate the sample units for accuracy and replacement cost.
3. The Department has contracted with an outside service provider to produce a videotape of all offices and location areas. The contractor will also provide an electronic version in a CD format. The CD's will become part of the data in the computer system and a backup(s) will be stored off site. The computer system is also backed up at a remote location on a frequent basis.

- ◇ We currently have two different databases that track high risk items. We will continue to enhance the use of these databases to account for high risk assets.

- ◇ An employee separation checklist will be developed to account for assets which have been issued to the employee during the course of their employment.

I appreciate your bringing these matters to our attention. I am confident our current and proposed improvements will alleviate the issues raised in this review.

Please let me know if can provide further information.

Sincerely,

Phillip C. Ward
Director

cc: Chuck Craig, Asst. Director, ODA
Lorna Youngs, Asst. Director, ODA
John McGinn, Administrator, ODA Admin. Services
Jon Yunker, Director, DAS
Theresa McHugh, Deputy Director, DAS

AUDITING TO PROTECT THE PUBLIC INTEREST AND IMPROVE OREGON GOVERNMENT

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

DIRECTORY OF KEY OFFICIALS

Director	John N. Lattimer
Deputy Director	Catherine E. Pollino, CGFM
Deputy Director	Sharron E. Walker, CPA, CFE

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit report and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation helps us save on printing costs.

Oregon Audits Division
Public Service Building
255 Capitol Street NE • Suite 500
Salem, Oregon 97310

We invite comments on our reports through our Hotline or Internet address.

Ph. 503-986-2255
Hotline: 800-336-8218
Internet: Audits.Hotline@state.or.us

http://www.sos.state.or.us/audits/audithp.htm

STATE OF OREGON
THE UNION
1859