
Secretary of State

State of Oregon

**DEPARTMENT OF GEOLOGY AND
MINERAL INDUSTRIES**

Change of Director Review



Audits Division

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MINERAL INDUSTRIES
Change of Director Review**



Audits Division

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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
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John D. Beaulieu, Director
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This report presents the results of our change of director review for the Department of Geology and Mineral Industries (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 assure appropriate actions were taken to cancel the former director's access to state systems and return any state assets in his possession, and to assure recent transactions authorized by the former director were reasonable and complied with applicable laws and regulations. In addition, we followed up on previous audit recommendations from our report on the department issued in 1998.

This report includes recommendations for the department to improve its controls related to out-of-state travel authorizations, safeguarding fixed assets, computer system access, and the timeliness of agency deposits. Additionally, this report identifies other matters for the department's consideration.

The department's responses to our findings and recommendations are included within this report.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
January 5, 2000

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SUMMARY

AUDIT PURPOSE

The Audits Division is required by statute to audit or review any state agency when the executive head leaves his or her position.¹ The purpose of the audit is to assure that appropriate actions were taken to cancel the former director's access to state systems and return any state assets in his possession, and to assure that recent transactions authorized by the former director were reasonable and complied with appropriate laws and regulations.

BACKGROUND

The department was created in 1937. It is the state's centralized source of geologic information that can be used by the public and by government to reduce future loss of life and property due to earthquakes, tsunamis, coastal erosion, and other geologic hazards. The department serves as a steward of mineral production, and is the lead regulator for geologic resources.

The department provides geologic data to assist in policy development through publications and through participation in and coordination with federal, state, and local governmental natural resource agencies, as well as with industry and other private sector groups.

Donald A. Hull, who was appointed State Geologist and Director of the department in December 1977, retired from the position effective June 30, 1999. He served as interim director until July 31, 1999, when John D. Beaulieu's appointment took effect.

RESULTS IN BRIEF

The department can improve its controls relating to out-of-state travel authorization, safeguarding fixed assets, and computer system access. Further, the department has not taken corrective action on a prior audit finding regarding the timeliness of deposits. Additionally, we have identified other matters for the attention of the department.

AGENCY'S RESPONSE

The department generally agrees with our recommendations.

¹ Oregon Revised Statute 297.210(2)

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The department operates under *Oregon Revised Statutes* chapters 516, 517, 520 and 522. Oversight responsibility is vested in a three-member governing board appointed to four-year terms by the Governor.

The department is the state's central source of geologic data necessary for public safety, land resource decision-making, and land use. It is responsible for regulating the use of geologic resources and overseeing exploration, production, environmental protection, and reclamation of mined lands. The department prepares a bi-monthly publication titled *Oregon Geology*.

The department's mission is to serve a broad public by providing a cost-effective source of geologic information for Oregonians and to use that information in partnerships to:

- reduce the future loss of life and property due to potentially devastating earthquakes, tsunamis, landslides, floods, and other geologic hazards;
- inventory geologic resources including aggregate, groundwater, and mineral fuels that are needed by a growing population;
- formulate policy based on an improved understanding of the geologic processes and conditions that will affect the use of the lands and waters of the state; and
- guide the responsible development of mineral resources.

FINANCIAL ACTIVITIES

The department is financed by state General Fund appropriations, federal grants, and other funds. Other funds are derived primarily from mining permit fees and sales of maps and publications.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit was conducted to comply with *Oregon Revised Statute 297.210(2)*, which requires the Audits Division to perform an audit or review when the executive head of a state agency leaves his or her position. Donald A. Hull, who was appointed State Geologist and Director of the Department in December 1977, retired from the position effective June 30, 1999. He then served as interim director until July 31, 1999, when John D. Beaulieu's appointment took effect.

The objectives of the audit were to assure appropriate actions were taken to cancel the former director's access to state computer systems and return any state assets in his possession, and to assure recent transactions authorized by the former director were reasonable and in compliance with appropriate laws and regulations.

In order to accomplish our objectives, we performed the following:

- reviewed relevant statutes and laws,
- interviewed accounting and information systems staff to determine if the former director's access to state computer systems and assets were properly terminated,
- reviewed travel expenditures and payroll transactions that were payable to or directly authorized by the former director during his last six months in office,
- reviewed personal service contracts entered into by the department during the last year of the former director's service, and
- followed up on previous audit recommendations by interviewing staff and reviewing deposit documentation for fiscal year 1999.

We conducted our audit in accordance with generally accepted government auditing standards. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

ACCESS TO STATE ASSETS

Our review of fixed assets assigned to the former director found the department could improve procedures to safeguard certain high-risk property. Although department staff stated that the former director had returned all state assets, the department did not inventory nor tag computer equipment. As a result, we were unable to identify the laptop computer assigned to the former director and confirm that it was returned. In addition, because of the lack of documentation, we also were unable to confirm that the former director returned office keys assigned to him.

According to the *Oregon Accounting Manual* (01 02 00.IN.119), state agencies are recommended to identify, record, and control inventory items that have a high risk of loss such as computer and electronic equipment, photography equipment, hand tools, and other items management determines to be at a high risk of loss. However, the department does not maintain records of computer and electronic equipment, photography equipment, or other equipment unique to the department that is valued at less than \$5,000. While the costs of these assets are not significant individually, collectively they may represent a sizable investment by the department.

Without documentation to show that assets are returned upon separation from state service, the department cannot provide assurance that state assets all have been accounted for properly. Furthermore, since the department does not inventory and tag computers, it is difficult to track and ensure that any computers are accounted for at any given time.

We recommend that the department:

- Develop procedures to account for assets upon employee separation from state service or upon transfer of assets between divisions and department staff.

- Develop a listing of high-risk assets and periodically perform physical verification of high-risk assets.
- Develop a log of all keys issued to employees and periodically perform an inventory to account for all keys outstanding.

ACCESS TO AGENCY COMPUTER SYSTEM

During our review to ensure that the former director's access to the agency computer system had been properly cancelled upon resignation, we found that the department could improve its system security controls.

According to the state's technology policy, agencies are required to provide adequate protection for information technology resources and develop internal procedures that address security for the agency's stand-alone and shared computing resources.

However, the department does not have adequate controls in place to restrict access to the department's file server. The department's file server is located in the central office and does not currently maintain adequate logical and physical security restrictions.

Without controls in place to restrict access to the department's file server, it is possible for data, programs, and other electronic applications unique to the department to be corrupted or accessed by unauthorized individuals.

We recommend that the department:

- Immediately implement security restrictions for access to the department's file server.
- Develop procedures to set standards and guidelines for the use of the department's system (including data, programs and equipment) according to the duties and functions of each individual or in accordance to position descriptions.

OUT-OF-STATE TRAVEL AUTHORIZATION

Our review of travel expenditures paid to the former director identified instances in which the department did not comply with internal policies and procedures relating to the approval for out-of-state travel. According to the department's internal policies and procedures, all out-of-state travel must be approved in advance.

However, the department did not always obtain out-of-state travel approvals prior to travel. Of the former director's ten out-of-state business trips reviewed, approvals for three were either submitted to the business office after the initial date of travel or were not submitted at all.

We also found that the former director's travel requests were not approved by a sufficient level of authority. The former director's travel requests were approved by an accountant and were not subjected to review by senior management or the board. Although the department has established procedures to be taken in approving out-of-state travel, we determined that the level of authority for approving the director's out-of-state travel is not sufficient.

Although all travel claims reviewed appeared to be reasonable and related to agency operations, advance approval of out-of-state travel by the proper level of authority is important in further reducing the risk of inappropriate travel.

We recommend that the department strengthen controls to ensure that its travel rules are followed. The department should document and justify any exceptions to the travel rules.

The department also should revise its policy to ensure that a proper level of authority approves out-of-state travel requests. For most employees, senior management such as the deputy director should approve out-of-state travel requests. The director's out-of-state travel requests should be reviewed by the board.

PRIOR AUDIT FINDINGS

An audit conducted in March 1998 found the department was not depositing cash receipts in a timely manner. Cash receipts were not deposited on a daily basis in the Portland administrative office, the Albany field office, or the Grants Pass field office.

According to the *Oregon Accounting Manual* (03 01 00.PR.120), all deposits should be made daily. In agencies with small amounts of cash, however, deposits can be less frequent, but they should be made at least once a week.

In the audit report, the Audits Division recommended that the department make daily deposits of cash receipts. The department then filed notice with the Secretary of State to deposit on a weekly basis at the Portland administrative office and Grants Pass field office, due to the low volume of receipts. However, the department did not file a notice for the Albany field office, which collects larger volumes of receipts for mining permits.

Our current audit found that the department still has not been depositing cash receipts in a timely manner at the Portland administrative office and Albany field office. The department has been depositing cash receipts in a timely manner at the Grants Pass field office.

In the three months reviewed, deposits at the Portland administrative office were made only monthly or bi-weekly. A review of five deposits in four different months at the Albany field office found that deposits were generally made weekly or even less frequently. These deposits, which contained several days' receipts, ranged from about \$12,000 to more than \$33,000. This volume of receipts justifies the Albany field office's depositing daily.

We recommend that the department implement a policy to deposit all receipts in a timely manner. The Albany field office should deposit receipts daily and the Portland administrative office should be depositing at least weekly.

OTHER MATTERS

During our audit, we identified another matter warranting the attention of the department regarding contract authorizations.

Our review of contracts identified instances in which the department did not comply with internal policies and procedures relating to the authorization of contracts. According to the department's policies and procedures, contracts can be signed by only the State Geologist (the Management Assistant may sign for the State Geologist) or Deputy State Geologist.

A review of three contracts entered into by the department found that neither the former director nor deputy director provided the proper authorization. In two of the three contracts reviewed, the department's fiscal manager provided the authorization.

The third contract reviewed was approved by a field manager. The director, deputy director, or any other management personnel responsible for the accountability of the agency did not authorize the contract. In addition, the contract had also been amended and did not include a signature by an authority described above.

The department stated that contract authorization has been delegated to field managers. Each field manager is responsible for monitoring a budget allocated to the programs and activities that he or she administers.

A lack of controls over the proper authorization of contracts may result in inappropriate or unauthorized expenditures. The authorization of contracts by appropriate personnel provides assurance to the department that contract terms and payments are consistent with applicable laws and regulations. Furthermore, the authorization of contracts by appropriate personnel helps to ensure that the department receives services in the most cost-efficient manner.

We recommend that the department review its policy to ensure that contracts are authorized by the appropriate level of management. Procedures should be revised to properly reflect the department's policy.

COMMENDATION

The courtesies and cooperation extended by officials and employees of the Department of Geology and Mineral Industries during the course of this review were commendable and sincerely appreciated.

AUDIT TEAM

Joel E. Leming, CPA, Audit Administrator
Jason M. Stanley, CPA
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AGENCY'S RESPONSE TO THE AUDIT REPORT



Oregon

John A. Kitzhaber, M.D., Governor

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March 27, 2000

John N. Lattimer
Director
Division of Audits
Secretary of State

Dear Mr. Lattimer:

Attached is our response to the audit points made by your office covering our former Agency Director's retirement, and follow up on audit points made during our previous audit in 1998.

We thank the Division for their thoroughness and cordiality and appreciate the efforts of your team to keep us informed on the progress of the audit as it unfolded.

Sincerely,

John Beaulieu
State Geologist





Oregon

John A. Kitzhaber, M.D., Governor

Department of Geology & Mineral Industries

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Response to Audit Comments

General: We appreciate the courtesy and professionalism of the audit team and the insights they have provided the agency. Our last audit was in 1998; this particular audit was an audit arising from legislation as it applies to the departure (retirement) of a Director. Since the agency had the same Director for 23 years, it was interesting and instructive to have the agency books examined from a slightly different point of view than is usually the case.

Access to State Assets:

Verification of small expensive items:

Specifically: Even though we did not maintain an inventory system for laptops and other high risk items, we were assured that the director's computer had been returned. When he left on his last day there was a laptop computer left connected to the network on his desk with files on it only the director could have made. By that evidence we were assured that the director had not taken his computer with him. We now understand the desirability of a tracking system to ideally provide an opportunity for a third party to provide confirmation of the return of state assets.

Generally: We have now implemented an inventory list of small valuable items both in the Portland Office and the field offices. We are tagging and listing each item by location and user. We intend to verify this list on not less than an annual basis to account for the physical location and to verify existence. Items tagged and listed include cell phones, laptops, and camera equipment.

In addition, the Business Office will be alerted by purchase order or invoice to the existence of certain small expensive equipment such as laptop computers, cameras, and cell phones as they are procured. We will then be able to mark immediately the items purchased and add them to the physical inventory.

Keys:

Specifically: It could not be verified that the Director had turned in his office keys.

Response: All extra keys are kept in a fireproof safe, which can only be opened by the accountant and Business Manager. As you suggested, we can start a list of everybody who has keys and check them in and out as they are needed. This extra layer may help secure the building office. This practice will not keep keys from being passed around, reproduced without authorization, or given to someone unauthorized since only the first person in the morning really needs a key to get in. Even though the auditors do not expect this practice, to be totally secure, we would need to do a physical key inventory daily; we view this as unrealistic.

Access to Agency Computer System:

Agency does not have adequate physical and logical security of file server.



Comment: There are no sensitive payroll, personnel, or accounting records housed on the server. We work in a technical PC environment. We back up our system every night. This server seems like an extremely unlikely concern as a hacker vandalism target since all data is backed up on tape on a regular basis. In a sense the backup is part of a security system.

As a consequence of DAS space management philosophy our agency is largely open-office in design. With that as a starting point we have located the server in a manner than minimizes exposure to unauthorized use. The server is located in a position where an outsider would have to go past two receptionists to be able to get physical access. The server is physically observable from the receptionist desk and is in close proximity to other staff persons. Because of our space limitations and the cost of establishing a locked room to house the server, it is doubtful that such a decision would be cost beneficial.

Only three people have access to the administrative functions of the server--our computer consultant, our business manager, and our in house computer archiver. We have strengthened our security by requiring that each administrator must log off when finished with server tasks. Also as part of the backup duties, we are removing any separated employee when they leave. Administrative functions are restricted. According to our computer consultant, further restrictions would be costly.

This agency has a limited budget and has never had authorization or budget authority for a network administrator or data base manager. Recently we have reorganized within existing resources at considerable sacrifice to the program to try to meet part of this need. We are anticipating recruiting a digital data specialist who would have more insight to security measures. This new hire may be able to establish procedures to set standards and guidelines for use of the department's system (including data, programs and equipment) according to the duties and functions of each individual or in accordance to position descriptions.

Out of State Travel Authorizations.

Former Director did not always get prior approval to travel out of state. Authorization he did have was not of sufficient level of authority.

The only level of authority over the director is the Governing Board; this is a three member geographically dispersed panel (who resided in Enterprise, Lincoln City, and Portland at the time of the prior Director's employment). They meet in session about once every three months. To have a quorum to do business, two of the three must be present or else they cannot conduct business.

Management did review travel authorization for the Director's travel when forms were turned in for reimbursement. If the function of an out-of-state travel *authorization*, as the name implies, is to give permission to travel, clearly only the Board could say "no" to the director's out-of-state travel plans. To implement this on a case-by-case basis is impractical given the nature and location of our Board. The agency is sensitive to the concerns of the audit, however. It will review the practice of peer agencies with regard to this issue and will use information from that effort to help guide policy changes.

The current Director does discuss out-of-state travel plans with the Chair in advance of any out-of-state trips, however.

The audit report states that regarding the prior director “all travel claims appeared to be reasonable”, and we question what further controls could be applied on a day-to-day basis internally to the Director prior to the travel. We acknowledge that out-of-state authorization forms should be completed in advance. The new Director adheres to this practice.

We will amend the Policies and Procedures to require Deputy Director’s signatures on all Director’s out-of-state travel authorizations.

Prior Audit Findings:

Deposits not made in a timely manner

The Oregon Accounting manual (03 01 00, PR 101) also says these guidelines provide basic guidance to consider when establishing internal controls over cash and cash related transactions. They are not minimal standards, nor are they the maximum standards, nor are they all-inclusive. *They are merely guidelines to consider when evaluating business needs, risk, and control priorities.* (italics added)

Portland Business office handled a very small amount of cash. Total cash receipts for the entire month of January, 2000 were \$9.00 and the entire month of February 2000 were \$8.00. Deposits were made three times a month in January and February of 2000. We will encourage weekly deposits. We will adopt a policy that deposits will be made whenever cash holdings exceed \$100.

We have encouraged the Albany office to make daily deposits. They are hindered by the limitations inherent in a two-person office isolated from convenient banks. There are often times no receipts or very few receipts. We would expect possibly ten or fifteen deposits a month. Right now we are getting 5 or 6. We will continue to encourage the Albany field office to make deposits more often. In addition the staff is considering re-location within the community; we will place bank access on the list of criteria. Finally, we will place bank deposit actions on the office internal two-week meeting agenda so that actions will be routinely tracked.

Other Matters

Signature Authority on Contracts

Since the re-organization of the Business Office the procedures have been for the Fiscal Manager, Deputy Director, or the Director to sign off on all contracts. This policy has now been updated in the Policies and Procedures Manual.

The signature on the third contract was a technical error, and the Department wishes to thank the Division of Audits for its discovery. The policy manual is being reviewed for other possible out-of-date statements and it is being brought into line with current authorities arising from sequential reorganizations that have been underway for about a year.

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Deputy Director

Deputy Director

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