Secretary of State

State of Oregon

# DEPARTMENT OF ADMINISTRATIVE SERVICES

## Change of Director

Audits Division

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**DEPARTMENT OF ADMINISTRATIVE SERVICES**

**Change of Director**

Audits Division

No. 2000-28

August 23, 2000

OFFICE OF THE
SECRETARY OF STATE
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Secretary of State
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Deputy Secretary of State

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*Auditing for a Better Oregon*

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Michael Greenfield, Director
Department of Administrative Services
155 Cottage Street NE, U10
Salem, Oregon 97301-3969

This report contains the results of our statutorily-required audit of the Department of Administrative Services' change of director. This audit focused on the custody of state assets and access to state systems as well as reviewed the reimbursement approved by and paid to the outgoing director. We also reviewed the processes and controls over business as conducted by the former director in such areas as personal services contracting, agency travel, and agency timesheet approvals.

Our audit indicated that the former director returned all fixed assets assigned to him and the agency appropriately terminated the former director's access to state computer systems and property. Further, we found the recent reimbursements and travel request for the former director to be minimal and reasonable. However, we did note several exceptions and improvements that the agency could make in timesheet and personal services contract review and approval processes.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
June 1, 2000



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# T A B L E  O F  C O N T E N T S

# EXECUTIVE SUMMARY

# Department of Administrative Services: Change of Director Review

## Background and Purpose

The Audits Division is required by statute 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 further details of procedures performed, see the "Objectives, Scope and Methodology" in the Appendix.

We also conducted a broad-based risk assessment of the agency in order to identify program areas or divisions with unmitigated risks significant enough to warrant the new director's attention. The results of the risk assessment are contained in a Management Letter No. 107-2000-07-01. A copy of the letter can be found in Appendix B of this report.

## Results in Brief

Our audit indicated that the former director returned all fixed assets assigned to him and the agency appropriately terminated the former director's access to state computer systems and property. Further, we found the recent reimbursements and travel request for the former director to be minimal and reasonable. However, our review identified the following practices within the Director's Office that could be improved:

***The Director needs to improve controls for timesheet review and approval.***

The Director needs to improve controls over the timesheets review and approval for division administrators and Director's Office management and staff. Our limited review determined that inadequate control resulted in the following:

- Overpayment of employee wages of $1,668;
- Inaccurate accounting for vacation and sick leave; and

- Undocumented exceptions to the agency's leave without pay and personal business leave rules.

***The Director needs to improve personal services contracting processes.***

The Director needs to improve the process for Personal Services contracting. Our limited review determined that inadequate control resulted in the following:

- The agency paid over $31,000 to contractors for services performed when contracts had not been prepared; and

- Questionable and undocumented use of the "Sole Source" provision for contracts otherwise requiring competitive bidding.

## Agency Response

The Department of Administrative Services generally agreed with the conclusions and recommendations in this report.

# Chapter 1: Department Can Improve Timesheet Review and Approval Practices

Although the department acknowledged a lack of a formal process, its typical controls over employee timekeeping include a supervisory approval of the monthly timesheet prior to Oregon State Payroll System (OSPS) data entry and issuance of the check. For the department's administrators, this supervisory role should have been the responsibility of the former director or his designee.

The department's monthly OSPS timesheets have a supervisory review and approval signature block that, once signed, serves to confirm that the supervisor reviewed the timesheet. The automated timesheet process includes a similar feature called a supervisory lock. Several of the administrators use the automated timesheets.

Our review included a sample of timesheets for which the former director was the review and approval authority. We question the completeness and consistency of the former director's supervisory review and approval practices.

## Timesheet Review and Approval Practices

***We question the completeness of the former director's timesheet reviews.***

We question the completeness and consistency of the former director's supervisory review and approval practices based on the following audit findings:

- The former director (or designee) did not have the appropriate online access to the automated timesheets prepared by three of the department's administrators to review and approve their monthly timesheets.

- Of the approximately 70 manual timesheets reviewed, 12 were submitted to OSPS without a review / authorization signature.

- In several instances, timesheets were approved and then forwarded to OSPS with hours improperly recorded and containing significant math errors. One error resulted in an employee being paid for 42 hours that he did not work ($1,668.24). Other errors resulted in a combined understatement of sick, vacation, and personal business hours used by employees. We have shared the details of these instances with the department for follow up and correction.

- In one instance, an administrator's electronic timesheet included an exception to the existing "leave without pay" policy, and was processed without documentation of authorization.[1] Subsequent discussion with the former director's executive assistant confirmed that the former director had approved the exception but had not documented the approval.

## Recommendations

**We recommend** that the department:

1. Review and document the approvals of administrative personnel manual timesheets with an appropriate signature. Electronically submitted timesheets should be locked by an appropriate supervisor after review or printed and manually signed by the Director.

2. Recover the $1,668.24 in overpayments made to an employee for the 42 hours he did not work.

3. Adjust employee vacation, sick, and personal business leave balances for the errors identified by this audit.

4. Resolve the undocumented "leave without pay" exception to policy by either:

   - Documenting the authorization of the exception and including the exception in the employee's payroll file; or

   - Complying with the policy (HRSD 60.005.01), adjusting the employee's vacation accrual balance by 16 hours, and paying the employee for the leave used.

[1] Human Resource Services Division policy 60.005.01 states, "Leave without pay shall not be granted until all appropriate accrued leave is exhausted."

# 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

The Department of Administrative Services prescribes the rules that must be followed by agencies purchasing supplies, materials, equipment and services, including personal services. These state rules provide the guidance to agencies for personal services contract preparation, authorization, competitive bidding, and record retention.

Our review of contracts and payments prepared under the supervision of the Director's Office identified several instances of noncompliance with state personal services contracting rules. These areas of noncompliance include payments to contractors without preparing personal services contracts, and questionable use of the "sole source" provision for contracts otherwise requiring a competitive bidding process.

### Payments to Contractors Without State Contracts

***Our review found the department made payments to contractors when no legal contract was in force.***

Our review included an analysis of vendor payments made by the Director's Office during the year prior to the director's retirement. This analysis identified several payments to two contractors that were made with no legal contract in force.

In the first instance, the department made a total of $16,500 in payments to a vendor that provided facilitation and mediation services. State rules require that agencies prepare written contracts for any amount greater than $1,000 prior to delivery of any services or payments of any amounts under the agreement. A contract for these services was never prepared.

In the second instance, a vendor received payment for quarterly economic reports provided to the state economist. During the period from July 1998 to mid-June 1999, the department made over $15,000 in payments for these services without a contract. The department did have contracts with this vendor to provide the

reports prior to and following this period.
State rules dictate that the department should have prepared a contract for this period as well as have ensured that a valid contract was in force prior to the delivery of vendor services and any payments being made.

## Questionable and Undocumented Use of the Sole Source Provision

***We question the department's use of the "sole source" contract provision.***

The department's internal auditor completed a review in January 2000 that included a review of the Director's Office personal services contracts and payments. This review identified several contracts with questionable and undocumented use of the sole source provision.

A "sole source" contract infers that the selected contractor is the only one that can provide the needed service. Under the state contracting rules, the agency is required to support and document the need for a sole source vendor exception.

Our audit of personal service contracts under the former director's control substantiates the findings of the internal auditor. During our audit period, the Director's Office entered into two separate consultant contracts under the sole source provision. In one instance, the documentation of need was not sufficient to properly justify the sole source provision. In the second instance, the required justification of need did not exist. The incomplete justification of need, combined with the apparent generic nature of the consulting services performed, led us to question the appropriateness of the sole source contract provision's use.

## Recommendations

**We recommend** that the department improve processes relating to the Director's Office compliance with state rules for the preparation and maintenance of documentation for personal services contracts including complete documentation of sole source provision usage.

## Commendation

The courtesies and cooperation extended by the officials and staff at the Department of Administrative Services were commendable and much appreciated.

## Audit Team

Drummond E. Kahn, MS, CGFM, Audit Administrator
Charles A. Hibner, CPA
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Benjamin M. Wilson
Lee Alan Helgerson, MS

# APPENDIX A

## Objectives, Scope and Methodology

We reviewed the Department of Administrative Services in accordance with Oregon Revised Statute 297.210(2), which requires the Secretary of State to review a state agency when the executive head leaves his or her position.

To complete our audit of the department's change of director, we interviewed the department's management and staff, and performed tests related to the following audit areas:

1. To determine if the former director has returned all fixed assets assigned to him;

2. To provide assurance that the former director's access to state computers and systems has been terminated;

3. To determine if the former director's travel claims submitted over the six months prior to retirement had been properly approved and paid, the travel appears appropriate and reasonable, and was in accordance with state travel rules;

4. To determine if reimbursements made to, and approved by, the former director for the months prior to his retirement were appropriate;

5. To determine if the former director's payroll records and checks, as well as those approved by the former director, for the six months prior to retirement were appropriate and free of unusual adjustment;

6. To determine the propriety of contracts entered into by the former director and his immediate staff during the year prior to retirement; and

7. To determine if any authorizations the former director may have made during the "volunteer" period from February 1, 2000 to March 1, 2000 were inappropriate.

In addition to the findings presented in this report, other issues identified as a result of our risk assessment were presented to management in a separate management letter dated July 25, 2000 (see Appendix B).

We conducted our work from March to May 2000 in accordance with generally accepted government auditing standards.

# APPENDIX B

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*Auditing for a Better Oregon*

July 25, 2000

Michael Greenfield, Director
Department of Administrative Services
155 Cottage Street NE, U10
Salem, Oregon 97301-3969

Dear Mr. Greenfield:

We recently completed a broad-based risk assessment of the Department of Administrative Services (DAS). Through this process, we have identified and compiled a list of business risks that we feel warrant your attention as the incoming director (see enclosure).

Our analysis was based on the current business practices of each DAS division. We excluded from this analysis the Information Resource Management Division (IRMD) and the payroll services component of the State Controller's Division (OSPS) because of audit work we are planning or conducting in those divisions.

The risks presented are only those we feel warrant a medium-risk to high-risk rating. We have included paragraphs within each risk section describing our reason for the rating, as well as potential mitigating controls or procedures. This listing is not intended to be all-inclusive or a formal presentation of recommendations by the Audits Division.

We appreciate the time and effort you and your staff have provided to our risk assessment of your agency. If you have any questions, please contact me at (503) 986-2278.

Sincerely,
OREGON AUDITS DIVISION

Cathy Pollino
Deputy Director

CP:bk
enclosure

## State Controller's Division

**1. A risk exists that the Division's SFMS user support is not adequate to assure that the state's financial information (RSTARS) is accurate relative to management information needs.**

Background: Division officials indicated that the user support function is split between SARS and SFMS, and agencies are unclear whom to contact with SFMS accounting issues. Analysts within each section have a different focus that potentially could lead to different responses to similar questions. There are also indications that agencies can and do "opinion shop" among analysts looking for the best answer. Lack of updated or coordinated procedure manuals and online tools add to the risk of inaccurate or untimely data entry.

SARS acknowledges efforts in both agency training and interface projects to correct past and present misreporting problems. These efforts are generally reacting to identified reporting problems. Detection of serious and material misreporting will generally be detected in the CAFR preparation or Audits Division audit. Data integrity problems that are not material have a risk of going undetected, as there is no concerted agency effort to detect them. This will become a bigger problem over time as data from SFMS is used more and more as a management tool.

Potential Mitigating Controls: Update procedure manuals and online tools to reflect the coordinated interests of both SFMS and SARS. Define and communicate to the user agencies the roles of analysts within each section and clarify whom to contact with specific types of issues. Undertake regular operational training and reviews of user agencies' policies, procedures, and data input to see if there is conformance with state financial reporting requirements.

**2. A risk exists that the Division's SFMS system support may not be adequate to maintain, modify, or enhance SFMS as needed.**

Background: Indications are that the technical system support knowledge transfer from the vendor to the SFMS technical support unit is not complete. The vendor is no longer honoring the maintenance agreement and would be on a "pay as you" go basis. There is a risk that timely and accurate SFMS problem identification, planning and resolution will not occur.

Potential Mitigating Controls: No suggestions.

**3. A risk exists that the state is not properly managing Federal grants and not meeting the grant requirements.**

Background: Monitoring of sub-recipients to assure compliance with grant requirements has become a decentralized function. DAS has designated agencies to do this monitoring, which appears to consist of assuring that the recipient has had the required independent audit. Prior Audits Division audit work has indicated that a primary cause of noncompliance with grant requirements is an inadequate oversight function.

Potential Mitigating Controls: Consider centralized oversight that includes periodic expenditure review. Take the lead role in assuring compliance with Federal grant requirements.

**4. A risk exists that the Division's internal support and client agency accounting procedures may not be adequate to assure that DAS and client agency accounting records are accurate.**

Background: Prior to the reorganization, there was concern expressed about the accuracy of the accounting information coming from the Internal Support Division. The DAS reorganization has moved much of the responsibility for these tasks to the State Controller's Division. The function has been moved and the focus has intensified, but additional resources have not been dedicated to improving this function.

Policies and procedures for operation of this section are incomplete though management continues to develop them. For example, there is no written policy for the receipting and depositing of funds received from client agencies.

Until a complete set of policies are developed and put into practice by DAS and the client agencies, the risk of errors, omissions and misstatements remains at a high level.

Potential Mitigating Controls: Continue to develop policies and procedures. Provide the necessary staff and client agency support and training for proper implementation of the policies and procedures. Periodically audit / review DAS and client agency records for validity and completeness.

## Facilities Division:

**5. A risk exists that the Facilities Division is not using complete or accurate managerial information.**

Background: This division utilizes historical cost information to estimate rent charges and to prepare biennial budget requests for repairs, maintenance and other operational expenditures. Past practices have not allowed the agency to properly assign costs to client agencies. A new system is in place that is designed to collect this data and allow the agency to assemble useful managerial reports not available in the past.

Potential Mitigating Controls: Experience with the new system will be the true test of whether or not it will meet the Facilities Division's management information needs. Closely monitor the system's performance, and periodically audit the data until assurance of reliability is obtained.

6. **A risk exists that the Facilities Division's control over collection of parking meter revenue is not adequate.**

Background: The division has experienced theft of revenue from parking meters for a period of time. Common thought is that keys were stolen and duplicated and the thieves are using these duplicate keys to gain access to the parking meter cash boxes.

Potential Mitigating Controls: Improve basic key controls. This would be the least expensive way to provide increased cash control. Consider replacing meters that have a high risk of theft with either theft-resistant meters or new key locks.

## Risk Management Division:

**7. A risk exists that the RMD established maximum coverage for property damage is not appropriate and the state may be underinsured in the case of catastrophic loss.**

Background: It has been stated that the $300-million-insured level for property damage was established in the early 1990's, based on the replacement value of OHSU. If the methodology still holds true, then the state would be underinsured.

Potential Mitigating Controls: Use a risk-based analysis to establish the maximum insurance level.

**8. A risk exists that RMD's management of receivables is not adequate to assure that state accounts receivable requirements for collecting money owed the state are being met.**

Background: RMD procedures do not provide for the central oversight and management control over debts owed to RMD. Our limited review of claim files identified one instance in which no collection action had been taken on a debt for a period of more than a year.

Potential Mitigating Controls: Modify RMD policies to require regular reporting and management monitoring of receivable status including, but not limited to, a regular aging report. Ensure that collection of these debts is consistent with OAM policies and procedures.

**9. A risk exists that client agencies' risk mitigation activities are not adequate to avoid unnecessary risks and prevent unnecessary losses.**

Background: A major part of the division's mission is to assist agencies in avoiding unnecessary risk and preventing losses. Our review determined that the client agencies' Risk Coordinators are most likely not properly trained to undertake these responsibilities. Complete reliance on agency Risk Coordinators for risk avoidance and loss prevention activities does not appear justified.

Potential Mitigating Controls:

- Provide a mandatory training program for agency risk coordinators with a focus on loss prevention and risk avoidance.

- Conduct periodic analyses of agencies' operations to help identify potential risk mitigation efforts that could be employed when agencies are unwilling or unable to complete these tasks. This analysis should include periodic follow up.

**10. A risk exists that RMD's fast-track claims are not adequately reviewed to assure that claim payouts are appropriate.**

Background: RMD's fast-track claim form instructions include a note that the claims may be subject to audit. Due to RMD's reliance on the documentation provided by the agency to process these claim types, periodic audits of fast-track claims appears to be a good control. We were advised, however, that these audits were rarely done.

Potential Mitigating Controls: Schedule periodic audits of a random sample of fast-track claims.

## Human Resource Services Division:

**11. A risk exists that agencies are not compliant with state, federal, and collective bargaining rules, regulations and agreements.**

Background: HRSD historically performed audits to ensure that policies were being followed. In discussion, it appears that these audits have not been done in the last two years. Follow up on the previous audits appears to be lacking as well. Since these audits consistently found violations of policy, follow up and continuation of the audits appears necessary.

Potential Mitigating Controls: Routinely audit agencies and provide recommendations for any areas in which they are not compliant with state policies. Follow up with agencies to ensure that problems are resolved.

**12. Position classifications are not appropriate.**

Background: The time it takes to develop or approve a position classification or reclassification is a significant factor. Indications are that agencies tend to use work-arounds to handle compensation issues when a classification or compensation change is in order. The number of approved exceptions to the standard classification structure adds risk to this assessment.

Potential Mitigating Controls: Conduct regular HRSD audits of agencies focused on position classification compliance.

**13. A risk exists that current level of the benefits packages is not fundable, adaptable, or sustainable into future biennia.**

Background: One of the state's main advantages in recruitment and retention is the benefits that the state offers. With rising health care costs, there is a greater difficulty of keeping benefits funded.

Potential Mitigating Controls: Conduct a comprehensive analysis to determine what level of benefits the state will be able to sustain.

**14. A risk exists that state employees are not receiving adequate core training.**

Background: Lack of participation in required training by state management level employees is evident. The agencies' cost was cited by DAS as the biggest deterrent to agencies' participating in the required training.

Potential Mitigating Controls: Determine the need for the required core training. If it is determined to be beneficial and necessary, attendance should be mandatory. If it is not beneficial and necessary to the state's managers, the program should be optional.

**15. A risk exists that all state employees are not included in the Human Resources' database (PPDB).**

Background: A recent Audits Division audit indicated "state employees" who are being paid as QRF temporary labor for extended time periods. No controls are in place to assure that agencies are following HRSD policies and standards for temporary employees.

Potential Mitigating Controls: Schedule periodic audits of a random sample of agencies to determine if they are following HRSD policies relating to temporary employees.

## Transportation, Purchasing and Print Services Division

**16. Motor Pool / Fleet Administration: A risk exists that DAS and other state agencies are not replacing vehicles at the optimal replacement point.**

Background: The motor pool fleet management system shows that of 4,000 total DAS vehicles, at least 728 DAS vehicles exceed 85,000 miles and at least 250 vehicles exceed 100,000 miles. The system does not track other state agency vehicles, but Motor Pool management said that DAS and other state agency fleets are not in compliance with the DAS established vehicle replacement schedule.

Additionally, Motor Pool is proposing a program whereby they sell cars after 2 years or 20,000 miles of service to generate a higher resale value and reduce vehicle maintenance expense. This program would bring into play a new business aspect (risk) of the state's being in the used car business and moving vehicles in higher volumes and at higher prices than done previously.

Potential Mitigating Controls:

- Establish methodology to capture vehicle data necessary for the development of flexible and comprehensive vehicle replacement standards. This methodology should include regular review procedures for model updating based on current vehicle data.

- Develop and implement a comprehensive vehicle replacement program for both the existing DAS fleet and those targeted for absorption from other state agencies. The program should identify specific goals, objectives, milestones and sources of funding.

- Investigate the economic and political impact of a 2-year / 20,000-mile vehicle replacement schedule and DAS's ability to cost-effectively manage the resulting increased volume in vehicle acquisition and disposal operations.

**17. Motor Pool / Fleet Administration: A risk exists that state agencies' vehicle fleet size and composition is not appropriate.**

Background: DAS motor pool has a periodic independent review prepared to assess the economy and efficiency of the state fleet operations. No such study is prepared for the non-DAS fleet. Motor Pool management said that this is an area requiring increased DAS attention. The current system requires agency management to submit a request / justification for permanently assigned vehicles to DAS. Motor Pool management acknowledged that agencies do not always submit these requests and that DAS does not always respond to the agencies in a timely manner.

Potential Mitigating Controls:

- Monitor DAS and non-DAS motor pool user agencies to evaluate low-mileage vehicles and follow up on agency justifications for permanently-assigned and low-mileage vehicles. Work with agency staffs to meet their needs while identifying vehicles that can be eliminated or used more efficiently.

**18. Motor Pool / Fleet Administration: A risk exists that DAS and state agencies do not have in place an appropriate vehicle maintenance and repair program and do not obtain the most cost-effective parts, repairs and maintenance services available.**

Background: Motor Pool management acknowledges that the decentralized and permanently assigned fleet maintenance requires more attention. Their system appears to provide more effective monitoring of centralized repair than for the offsite vehicles. The fleet information system tracks vehicle maintenance requirements based on months, and not miles. The operators choose the maintenance vendor for the decentralized services. Even if the timing of the maintenance is appropriate, there is limited assurance that the quality of the maintenance meets state standards or the maintenance was received at least cost.

Our review also pointed to several factors that elevated this risk. These factors include indications that the existing agency monitoring to ensure that work charged by outside vendors is accomplished is ineffective. Our limited review of 10 maintenance and repair histories showed that (a) the reports often provided so few details that a review would not be possible, (b) costs of similar vendor services vary significantly, and (c) in 2 of 10 instances vendors appear to have performed unnecessary work. Further, the primary responsibility for monitoring is assigned to the driver / operator.

Potential Mitigating Controls:

- Improve coordination, availability, and use of state vehicle repair facilities for decentralized vehicles.
- Where appropriate, identify non-state maintenance facilities that are cost effective and those that are not cost effective.
- Where appropriate, consider alternatives to state vehicle repair facilities such as establishment of contracts for outsourcing maintenance services.
- Evaluate the cost-effectiveness of vehicle repair and maintenance services and ensure that industry time standards and hourly billing rates are appropriate for both state vehicle repair facilities and non-state vehicle repair services.
- Develop a system to monitor agencies' compliance with preventive maintenance standards.

**19. Motor Pool / Fleet Administration: A risk exists that controls over state gas credit card fuel purchases are not adequate.**

Background: Several factors increase this risk area. The Motor Pool does not physically inventory fuel credit cards. Its system produces reports that have the potential to identify discrepancies and inappropriate usage. However, these reports have a high transaction error rate and require operator intervention and review for appropriateness. Further, error message reports may not be reviewed for 6 months or more after the transaction date. The agency acknowledges that there have been fraudulent purchases on Voyager fuel credit cards.

Potential Mitigating Controls:

- Conduct periodic inventory or spot check of credit cards.
- Perform timely review and follow up on error message reports, identified purchase discrepancies and reports of inappropriate usage.

**20. Purchasing: A risk exists that DAS's oversight of state agency purchasing is not adequate to assure compliance with purchasing rules and regulations.**

Background: DAS delegates much of the purchasing and contracting authority to agencies. Division management acknowledges that they have no process in place to track, monitor and audit agency purchases and contracts, especially those under $75K / $1 million thresholds. The Purchasing Division is experiencing high turnover, and the training / certification program is not yet complete. DAS Purchasing management believes that those agencies' purchasing staffs often are not adequately trained in procurement practices.

Prior audit work at agencies has consistently found exceptions related to purchasing and contract management issues.  We also found issues with the utilization of services from QRFs.

Potential Mitigating Controls:

- Establish the policies and procedures, training, and monitoring necessary to ensure that DAS is delegating purchasing authority only to those agencies willing and able to comply with state purchasing laws, policies and procedures.

- Establish the policies and procedures, training and monitoring necessary to ensure that DAS's central purchasing is providing the most cost-effective and competitive system of price agreements and contract procedures and processes.

**21.  Surplus Property:  A risk exists that the surplus process is not free from favoritism, bias, and conflicts of interest.**

Background:  Customer complaints of unfairness have been received and investigated by DAS's internal auditor.  Other complaints include allegations of improper vehicle pricing.  To further enhance the risk, surplus's internal controls over price changes do not appear adequate (inadequate documentation of price changes).  Further, we witnessed distribution employees making use of surplus property.  For example, stereo equipment in the offices and Federal surplus coffee were procured at no cost to employees.

Potential Mitigating Controls:

- Regularly review surplus pricing and sales procedures to ensure that competitive practices are in place throughout the surplus sales process.  This provides assurance that sales are free of favoritism, bias, and conflicts of interest in fact and appearance.

- Establish policies and procedures, and provide employee training related to employee use of surplus material.

**22.  Surplus Property:  A risk exists that surplus property is not priced appropriately.**

Background:  Our review was unable to determine if the recommended price list for fixed price items was used or not.  We were told that the program supervisor or property specialist prices items, unless a minimum price is indicated by the owning agency.  These prices are a blend of market value, current price list, the property specialist's knowledge of market value, etc.  Documentation does not exist that shows deviations from the standard price list, pricing increases or decreases, or the general condition of the state asset being sold.  Auditors working on a previous Audits Division audit that utilized state vehicle sale data were of the opinion that vehicle prices looked out of line and very low.

Potential Mitigating Controls:

- Regularly evaluate surplus price lists and compare to market prices.

- Increase agency attention to documentation of asset condition, rationale for setting prices and subsequent price changes.

**23. Surplus Property: A risk exists that procedures to protect surplus property and property records are not adequate.**

Background: During our limited review of the property management system, we observed a number of data errors. We noted duplicate property disposition requests both in the system and in hard copy files. Management indicated that they have not been able to clean up the duplicates in the system.

Further considerations for the higher-risk rating include:

- State surplus does not conduct periodic inventory or cycle counts.
- The primary person responsible for managing the inventory control process cannot keep up with the reconciliation process for the PDR's.
- Our limited review indicated that there may be a significant number of unreconciled PDRs, agency reimbursement discrepancies, and unaccounted for donated property.
- Segregation of duties appears limited. For example, the state property manager receives, accounts for, sets prices for, and sells vehicles. Also of note is that the Office Coordinator can change any field in the State Surplus database inventory system.
- The division did not respond to prior audit recommendations that include conducting periodic inventories, better segregation of duties, better access controls for division sales and inventory system, improvement in cash handling procedures and safe access. Further, an Audits Division auditor observed cash in an unattended cashier's drawer after close of General Store sales, and customer checks and money orders were left unlocked and unattended in an employee's desk drawer.
- Our review noted instances in which (1) PDR reconciliations were not performed in a timely manner, (2) agencies were not reimbursed for the items sold, and (3) agencies were not reimbursed for the proper dollar amount.
- Regarding e-bay sales, (1) checks are not always deposited in a timely manner, (2) e-bay invoices are assumed to be correct (no verification of e-bay charges is done), (3) limited security exists over credit card number given to the state for purchases, and (4) there are limited cash controls and segregation of duties. E-commerce is generally accepted as an inherently high-risk business seeing rapid growth with a significant potential for scams and illegal activity.

Potential Mitigating Controls:

- Implement periodic material inventories.
- Review and modify internal control procedures for property and cash receipting, disbursing, timely recording and reconciliation as well as to ensure adequate separation of duties.
- Identify information system upgrades or enhancements that could augment or automate internal controls and could provide better asset tracking, accounting, or useful management information.

# AGENCY'S RESPONSE TO THE AUDIT REPORT

Oregon
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August 10, 2000

Cathy Pollino, Deputy Director
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Salem, Oregon 97310

Dear Ms. Pollino:

We have received your audit report on the Department of Administrative Services (DAS) change of director audit. We have also received Management Letter No. 107-2000-07-01, which describes the results of your broad-based risk assessment of DAS. The results of this audit and risk assessment are very important to me, as the new DAS Director. I appreciate your professional insight and objectivity. My staff and I plan to use the report as a tool to improve the management and operations of DAS.

Our response to each specific audit recommendation is as follows:

Recommendation:

**Improve the Directors Office processes for timesheet review and approval. Recover overpayments made to an employee. Adjust leave balances for errors identified in the audit. Resolve the undocumented leave without pay exception.**

Response:

We agree. The following actions either have been or will be taken:

- Directors Office staff now use electronic timesheets. Manual timesheets are no longer used. Procedures are in place to ensure electronically submitted timesheets are reviewed and locked by the appropriate supervisor.
- Overpayments to a DAS employee will be repaid, beginning September 1, in six equal installments.
- Employee vacation, sick and personal business leave balances have been adjusted for errors identified in the audit.
- Documentation authorizing the use of leave without pay will be placed in the employee's file. This will be done no later than September 1, 2000.

Recommendation:

**Improve processes over personal services contracting. Ensure compliance with state rules for preparing and maintaining contract documentation, including sole source provisions.**

Response:

We agree. The Directors Office has revised its process to centralize the development and maintenance of its personal services contracts. One employee within the Budget and Management Division is responsible for this function. She and her back up have been provided with contract training. Future plans include the establishment of a personal services contracting unit within the newly developed Business Administration Division. This unit will handle all personal services contracting for DAS.

Thank you for your comments on matters noted during your change of director audit. If you have any questions or need additional information, please call our internal auditor, Valerie Wicklund, at 378-3742.

Mike Greenfield, Director
Department of Administrative Services

c: Valerie Wicklund
Audit Committee

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DIRECTORY OF KEY OFFICIALS

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

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