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# Secretary of State

State of Oregon

## **DEPARTMENT OF HUMAN SERVICES**

### **Change of Administrator Audits**



**Audits Division**

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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

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*Auditing for a Better Oregon*

The Honorable John Kitshaber, M.D.  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301-4047

Gary Weeks, Director  
Department of Human Services  
500 Summer Street NE, Dept. 15  
Salem, Oregon 97301-1097

This report includes the full results of our change of administrator audits completed at the Department of Human Services (DHS) between January 2000 and May 2000. The divisions included were the Vocational Rehabilitation Division, the State Office for Services to Children and Families, and the Oregon Health Division. This report also includes the results of our expanded review of payments for unused vacation leave.

Many of the findings in this report bring to the surface issues that DHS must address on a department-wide level. Throughout this report we note problems in payroll, contract management, fiscal management, purchasing, and other areas that appear to be systemic in nature. DHS management has taken steps to correct some of the problems. We believe more can be done to promote sound and consistent management practices throughout the agency.

The agency generally agrees with the findings and recommendations in this report.

OREGON AUDITS DIVISION

John N. Lattimer  
Director

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# EXECUTIVE SUMMARY

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***We question approximately \$235,000 in payments to DHS employees.***

## Background

The Audits Division performs an audit when the executive head of a state department, large division of a state department, or institution retires from his or her position. In conducting change of administrator audits at the Department of Human Services's (DHS) Vocational Rehabilitation Division (VRD), State Office for Services to Children and Families (SCF), and the Oregon Health Division (OHD), we found that two former administrators, two former deputy administrators and one assistant administrator received questionable payments for unused vacation leave. We expanded the scope of our work to review payments for unused vacation leave made to DHS executive and management service employees in all divisions and found the problem was widespread. We also identified several other payroll-related exceptions at DHS, including payment for unapproved discretionary leave. In all, we question approximately \$235,000 in payments to DHS employees.

This report includes the full results of the three change of administrator audits and the results of our expanded review of DHS payments for unused vacation leave. The problems we found in payroll, contract management, fiscal management, purchasing, and other areas should be addressed by DHS on a department-wide level.

## Results of Expanded Review of DHS Vacation Leave Payments

According to State Policy 60.000.05, which is also a DHS policy, vacation leave is an accrued benefit that is granted to eligible employees to provide approved paid time off from work for employee-determined purposes. In providing the benefit, the state recognizes that employees need time away from their jobs. The purpose of paid vacation leave, as described in the human resource management literature, is to allow and encourage employees to renew their physical and mental capabilities and remain fully productive. In other words, vacation leave is provided as a "time off" benefit. By allowing employees to easily exchange accrued vacation leave hours for cash, DHS has, in essence, changed the nature of the benefit.

- 182 payments for unused vacation leave made to DHS executive and management service employees over a 26-month period ending February 29, 2000 were not in compliance with state and DHS policy. The total questioned amount is \$174,722.

## **Results of Change of Administrator Audits**

### Vocational Rehabilitation Division

- We question three vacation leave payments to the former administrator totaling \$4,185.
- We question one vacation leave payment to a former deputy administrator for \$1,483.
- There were several instances in which DHS and VRD had not complied with state contracting laws, rules, and policies. Documentation maintained for eight contracts worth \$1.68 million consisted only of copies of the contracts; therefore, we could not determine if the contracted services were obtained impartially and at the best price.
- There were instances in which VRD did not meet state requirements and VRD policy on how imprest funds should be managed and controlled.
- The former administrator's travel expenses, though appearing reasonable, were paid without approval by a higher level authority within DHS.

### State Office for Services to Children and Families

- We question three vacation leave payments to the former administrator totaling \$5,784.
- We question one vacation leave payment to a former deputy administrator for \$3,500.
- DHS had not recorded in the payroll system some leave used by the former administrator and a former deputy administrator. As a result, in one instance, the former administrator was paid \$1,086 for 24 hours of leave taken without pay.
- An employee who did not have the authority to do so authorized 40 hours of discretionary leave for the former

administrator. The value of this time off was \$1,802.

- SCF managers were not consistently following procedures to verify and protect the integrity of employees' reported time data.
- SCF did not have procedures for tracking equipment with a high risk of loss, such as computers, cell phones, and other electronic equipment.
- SCF could improve its contracting procedures. One contract, amended in 1999, had not been competitively awarded since 1985.

#### Oregon Health Division

- After leaving her job, the former administrator was kept on the payroll for four months at full salary with only minimal responsibilities. We question this four-month arrangement providing salary and benefits totaling \$42,000.
- We question DHS's paying a contractor \$6,000 to assist the former administrator in finding other employment.
- We question two vacation leave payments to an assistant administrator totaling \$2,200.
- We question discretionary leave payments made to five OHD managers totaling \$11,600. OHD allowed its managers to award themselves discretionary leave.
- The former administrator never had a timecard properly approved during her five-year tenure with OHD.
- OHD managers were not consistently following procedures to verify and protect the integrity of employees' reported time data.
- Credit cards for state travel were used for personal business.

### **Agency Response**

DHS management generally agreed with the conclusions and recommendations contained in this report.



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# Chapter 1: Expanded Review of Department of Human Services Vacation Leave Payments

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This chapter presents the results of our expanded review of questioned payments for unused vacation leave made to Department of Human Services (DHS) employees in executive and management service. After initially detecting the problem during our change of administrator audits at the Vocational Rehabilitation Division (VRD), State Office for Services to Children and Families (SCF), and the Oregon Health Division (OHD), we expanded the scope of our work and found the problem was widespread at DHS. Over a 26-month period, questioned payments for unused vacation leave to DHS executive and management service employees totaled \$174,722.

## Methodology for Expanded Review

To perform our expanded review, we obtained an Oregon State Payroll System report listing all DHS payments for unused vacation leave from January 1, 1998 to February 29, 2000. We extracted for our review all 191 payments made to DHS employees in executive and management service that were not part of an employee's separation from a DHS division. We reviewed employees' payroll files for documentation that payment was authorized in accordance with state and DHS policy. In some instances, we were able to obtain documentation from the employees' personnel files. Transactions not supported by adequate documentation were provided to DHS internal auditors for review and follow up.

In determining whether payments for unused vacation leave were made in accordance with state and DHS policy, we did the following:

- Assumed that an employee in executive or management service had accrued the maximum number of vacation leave hours if he or she had accrued 350 hours, or would have accrued 350 hours in the month the payment was received.
- Looked for written evidence, such as a memorandum or copy of an e-mail, that the employee had requested to use vacation leave to prevent its loss, or a supervisor had denied the employee's request to use vacation leave, or both.
- Looked for written evidence that an appointing authority within DHS had approved payment. The following persons had

appointing authority status: the DHS director, the administrators of DHS divisions, and any DHS employee that the director or administrator had, in writing, designated as an appointing authority.

## **Questioned Payments for Unused Vacation Leave**

### State Policy on Payments for Unused Vacation Leave

State and DHS policy describes the circumstances under which vacation leave hours may be converted to cash payments.

According to State Policy 60.000.05 (6), which is also a DHS policy, employees in executive and management service shall not accumulate vacation leave in excess of 350 hours. An employee who has accrued the maximum vacation leave hours authorized may request use of vacation leave to prevent its loss. An appointing authority, upon determining that granting vacation leave is not appropriate, may make cash payment for not more than 40 hours. Vacation leave for which payment is made shall be cancelled. Policy 60.000.05 (9) provides that upon separating from service, an employee may receive cash payment for not more than 250 hours of unused vacation leave.

### Vacation Leave is a "Time Off" Benefit

Under State Policy 60.000.05, vacation leave is an accrued benefit that is granted to eligible employees to provide approved paid time off from work for employee-determined purposes. In providing the benefit, the state recognizes that employees need time away from their jobs. The purpose of paid vacation leave, as described in the human resource management literature, is to allow and encourage employees to renew their physical and mental capabilities and remain fully productive. In other words, paid vacation leave is provided as a "time off" benefit. By allowing employees to easily exchange accrued vacation leave hours for cash, DHS has, in essence, changed the nature of the benefit.

A payment for unused vacation leave is in addition to the employee's regular pay. For example, if a manager uses 40 hours of accrued vacation leave for approved time off work, DHS pays the manager's salary for the week and deducts 40 hours from his or her leave balance. On the other hand, if the manager obtains cash payment for 40 hours of unused vacation leave, the money is added to the manager's regular salary. If the payment does not comply with state and DHS policy, the manager's gross pay for a

**Questioned DHS  
vacation leave  
payments totaled  
\$174,722.**

40-hour work week is improperly doubled.

Summary of Results

We reviewed 191 payments for unused vacation leave that were not part of DHS employees' separation from service. These payments were made over a 26-month period ending February 29, 2000. Of these payments, 182 (95 percent) were not in compliance with state and DHS policy. The total questioned amount is \$174,722.

The payments did not comply with state and DHS policy in one or more of the areas described below.

Payments Made Before Maximum Leave Hours Earned

The policy provides for a vacation leave payment only if an employee has accrued the maximum number of leave hours. Executive and management service employees may accrue a maximum of 350 hours of vacation leave. Almost half of the payments reviewed were made even though the employees had not accrued at least 350 hours of vacation leave, and would not have accrued 350 hours in the month payment was received.

No Documentation of Request and/or Denial to Use Vacation Leave to Prevent its Loss

The policy states that an employee may request to use vacation leave to prevent its loss and, in order to receive payment, the appointing authority must make a determination that granting vacation leave is not appropriate. Only 12 of the 191 payments were supported by evidence that the employees had requested to use vacation leave to prevent its loss and that the request was denied. In 24 cases, no evidence related to a request or denial could be located.

For almost one-third of the questioned payments, the documentation showed that the employees had simply asked to exchange unused vacation leave hours for cash.

Lack of Appointing Authority Approval

According to the policy, payment must be made by an appointing authority. Someone other than an appointing authority approved 40 percent of the 191 payments.

Payments for More than 40 Hours of Vacation Leave

According to the policy, in cases in which a request to use vacation leave has been denied, the cash payment may not exceed 40

## Expanded Review of Department of Human Services Vacation Leave Payments

hours. In 28 instances, payments were in excess of the 40-hour maximum. One employee received three 80-hour vacation leave payments in a six-month period.

### Employees Paid for Lost Leave Hours

State executive and management service employees accrue 10 to 17.34 hours of vacation leave per month, depending on their length of service. If an employee who has accrued 350 hours of vacation leave does not use leave, no further additions are made to his or her leave balance. As part of 10 vacation leave payments, a total of 119.99 hours of vacation leave that employees had lost in prior months were improperly restored. These hours were no longer available and should not have been converted into cash payments.

### Payment to an Employee Who Accrued 500 Vacation Leave Hours

In one case, an employee was working half-time in two different positions. Because of the way the jobs were set up in the payroll system, he accrued 350 vacation hours in one position and 150 vacation hours in the other. There was no control to prevent him from accruing over 350 hours in total as set by state and DHS policy. DHS staff identified this error, but nevertheless paid him for all 150 hours accrued over the 350-hour limit.

### Vacation Leave Payments Just Prior to Separation from Service

According to the policy, an executive or management service employee may accrue 350 hours of vacation leave; however, he or she may receive cash payment for no more than 250 unused hours upon separating from service. The evidence suggests that some employees nearing retirement, transfer, or layoff, were depleting their vacation leave balances down toward 250 hours, not only by using vacation leave, but by obtaining one or more cash payments.

In 15 instances, DHS employees received one or more vacation leave payments within two months of their separation from service. None of these payments were in compliance with state and DHS policy. Upon separation from service, these employees also received payment for 250 hours of unused vacation leave. For example, one of these employees received a 40-hour vacation leave payment in each of the two months before separating from service with a 250-hour leave payment.

Some departing employees received both a 40-hour payment and a 250-hour payment. In one case, an employee received a 98.78-hour payment and a 250-hour payment.

## Recommendations

**We recommend** that the Department of Human Services:

- Work with the Department of Administrative Services and the Department of Justice to determine the proper recourse for the questioned payments made to current and former employees.
- Instruct appointing authorities and payroll personnel to follow the requirements of state and DHS policy covering payments for unused vacation leave.
- Instruct appointing authorities and payroll personnel to obtain and retain documentation to support payments for unused vacation leave, including written employee requests and written appointing authority determinations.
- Perform regular follow up to ensure compliance with state and DHS policy.



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## Chapter 2: Vocational Rehabilitation Division Change of Administrator Audit

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### Separation Procedures Were Adequate, but DHS Should Improve Its Payroll Procedures

***Separation  
procedures were  
adequate.***

Our review showed that the Department of Human Services (DHS) took appropriate action to cancel the former Vocational Rehabilitation Division (VRD) administrator's access to state systems, to discontinue payroll, and to ensure that state assigned property was returned. However, we found that DHS should improve its payroll procedures.

### Questioned Payments for Unused Vacation Leave

***We question three  
vacation leave  
payments to the  
former  
administrator  
totaling \$4,185.***

We identified three instances in which the former VRD administrator received payment for unused vacation leave that did not comply with state and DHS policy (see Chapter 1). The three questioned payments amounted to \$4,185. We also question one instance in which a former deputy administrator was paid \$1,483 for 40 hours of unused vacation leave.

- ◆ For August 1998, a DHS human resources manager allowed the former administrator to receive payment for 40 hours of unused vacation leave totaling \$1,634. The former administrator had not accrued the maximum vacation leave balance of 350 hours and was not eligible to receive payment. DHS lacked evidence that the former administrator had requested vacation leave to prevent its loss, and that his request was denied. As he took 40 hours of vacation leave during August 1998, we concluded that no such request had been denied.
- ◆ For December 1998, the same DHS human resources manager allowed the former administrator to receive payment for 40 hours of unused vacation leave totaling \$1,634. The former administrator had not accrued the maximum leave balance of 350 hours and was not eligible to receive payment. DHS could not provide documentation showing that this payment was properly authorized.

***We question one vacation leave payment to a former deputy administrator for \$1,483.***

- ◆ For December 1998, a former VRD deputy administrator received payment for 40 hours of unused vacation leave totaling \$1,483. The former deputy administrator had not accrued 350 hours of vacation leave and was not eligible to receive payment. DHS lacked evidence that the former deputy administrator had requested to use vacation leave to prevent its loss, and that his request was denied.
- ◆ For February 1999, during the former administrator's last month of state service, the same DHS human resources manager allowed him to receive payment for 22 hours of unused vacation leave totaling \$916.74. The former administrator had not accrued the maximum vacation leave balance of 350 hours and was not eligible to receive payment. DHS could not provide documentation showing that this payment was properly authorized.

## **Recommendations**

**We recommend** that DHS management:

- Work with the Department of Administrative Services and the Department of Justice to determine proper recourse for the questioned payments identified by this audit.
- Ensure that leave and payroll policies are clearly understood by DHS management and DHS personnel and payroll officers.

## **DHS and VRD Should Improve Contract Management Procedures**

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. As a state agency so authorized, DHS must follow rules prescribed by DAS.

The DHS Director's office provides central support services to the agency's six divisions. Accounting and contracting are among the services provided. VRD is one of the DHS divisions that use the services.

Our review of VRD personal service contracts disclosed several instances in which DHS had not complied with state contracting laws, rules, and policies. To improve compliance, DHS should work to improve its communication; ensure that contracting staff

members are adequately trained; and define, adopt, and consistently put into practice a common set of contract management procedures. These actions could help avoid the kinds of problems described in the following sections of this chapter.

### **Written Contracting Procedures are Necessary**

Written procedures, clearly understood by staff members, are needed to provide for timely and appropriate contract activities. At the time of our audit, DHS's central contract unit had no written procedures for developing contracts or making contract payments. The DHS central accounting unit had compiled a draft set of policies and procedures; however, some of the accounting staff members were not using the draft.

We asked DHS and VRD staff members to show us any documentation they had concerning internal processes used in contracting, such as workflow diagrams. Neither DHS central contract unit staff nor VRD staff could provide us with any. VRD management responded that they were waiting for the DHS Director's Office to provide guidance before developing procedures. The DHS central accounting unit had developed a draft workflow diagram for processing contract payments, but not all staff members we contacted were using it.

We concluded that, due to the lack of written procedures and documented processes, DHS and VRD staff members may not have had a clear understanding of their responsibilities in processing contracts.

### **Systems to Control Contract Payments Should Be Improved**

DHS's central accounting unit did not monitor all VRD personal service contracts to prevent contract payments from exceeding the contract total. As a result, DHS risked making overpayments on individual contracts. Good business practice dictates that all contracts be monitored to ensure that contract requirements are met.

***DHS's automated system prevents accurate and timely review of payments on contracts.***

VRD enters into contracts with medical organizations and licensed specialists for a variety of services such as medical examinations and reports at specific rates. While the number of exams and records to be ordered is not specified, the contracts identify a total dollar amount that is not to be exceeded during the contract

period.

For the contracts in our sample, DHS could not provide us with the amount paid under individual contracts. The contract accounting data is compiled for each contractor and not for each contract. This system of accounting for payments prevents accurate and timely comparisons of contract terms and actual payments.

VRD staff told us that they rely on the DHS central accounting unit to monitor contracts for the "not to exceed" contract amount. According to a DHS employee, because of high workload demands in the central accounting unit, a decision was made not to centrally monitor payments on certain types of VRD contracts. VRD managers reported they were not made aware of this decision.

At the conclusion of our fieldwork, DHS management reported on areas of progress in improving contract oversight. With improved monitoring of contract payments, and adequate financial systems to support that work, DHS will lower its risk of making contract overpayments.

### **VRD Needs to Separate Contracting Duties Among Its Staff Members and Designate Contract Administrators**

The Oregon Accounting Manual provides that key contracting duties be separated among individuals. Different persons should perform the following duties: authorizing contracts, approving contract payments, and processing and recording contract payments. Separation of duties reduces the risk of making improper payments.

Six of the 39 VRD personal service contracts we reviewed did not provide for adequate separation of duties. The same individuals who had authorized the contract also approved payments on those same contracts. VRD staff members said that they had not been made aware of the need to separate these duties.

State rules require the contracting agency, in each contract, to designate a contract administrator to represent the agency. The contract administrator is responsible for monitoring contractor performance and progress, approving payments and, if necessary, properly executing contract amendments.

We found that VRD often did not designate a contract administrator in its personal service agreements with state agencies and other governmental entities. To clearly assign accountability for contracting decisions, and to assure adequate

***The same individuals who authorized contracts also approved payments on the same contracts.***

contract monitoring, VRD should identify a contract administrator in all personal service contracts and agreements.

***The reliability of DAS's annual report on contracting activity depends on complete and accurate data from state agencies.***

## **DHS Did Not Submit Contract Information to the Department of Administrative Services as Required**

DAS maintains an electronic file of personal service contracts and related information. OAR 125-020-0700 requires state agencies to provide DAS with information on each of these contracts. The contracting agency is to submit a form describing the purpose and amount of each personal service contract, the duration of the contract, and other items. DAS uses the information to provide the Legislative Assembly with an annual report of state contracting activity. DHS's central contract unit is responsible for submitting the forms to DAS on behalf of all DHS divisions.

To test compliance with the reporting requirement, we reviewed ten of VRD's largest (dollar amount) personal service contracts. In eight of the 10 cases, DHS had not submitted the required forms to DAS. The amounts of the eight contracts ranged from \$180,000 to \$1,360,000, for a total of \$4,543,200. The reliability of DAS's annual report of contracting activity is compromised when state agencies do not provide complete and accurate information.

According to DHS management, the exceptions we discovered occurred during a period when, at DAS's request, regular contract reporting procedures were suspended. When informed of this matter, DHS management took action to report the eight identified contracts to DAS. Further, DHS stated that they will apply sampling procedures to determine whether other contracts were not reported to DAS.

## **Recommendations**

**We recommend** the following to improve VRD contracting activities:

- VRD should initiate communication with DHS Director's Office to identify areas for improving contracting procedures.
- VRD should work with the DHS Director's Office in assigning contracting responsibilities to appropriate units and positions, and in developing procedures that clearly describe these responsibilities.

DHS and VRD should review contracting policies and procedures with staff members to ensure that all are aware of the

requirements.

## **DHS Should Improve Imprest Fund Accounting Procedures**

VRD uses an imprest fund for making purchases in emergency situations or when state purchasing procedures cannot be used. The fund consists of 28 separate checking and petty cash accounts. Each field office is allotted a specific amount, ranging from \$300 to \$1,938, for a total of \$20,000. This fund is maintained on an imprest basis, meaning that it is replenished for the exact amount of expenditures. DHS's central accounting unit is responsible for completing a monthly reconciliation of the fund, and for replenishing the fund for each office to its original (imprest) amount.

***DHS had not adopted procedures for imprest funds.***

Our review of transaction activity in the VRD imprest fund revealed several exceptions to state requirements and VRD policy. The problems indicated a need to establish procedures and improve communication between staffs at VRD headquarters and its field offices, and between headquarters staff and staff in DHS's central accounting unit. At the time of our audit, a draft set of policies and procedures, developed by the DHS central accounting unit, was available but not used by all staff members.

## **VRD Signed Imprest Fund Checks That Did Not Designate An Amount and a Payee**

***The state makes no allowances to justify the pre-signing of checks.***

During our review of the petty cash reconciliations, we found five voided checks that contained only an authorized signature. The signed checks did not show an amount or a payee. This practice of signing checks in advance of their use escalates the risk of theft and improper use of state funds. We found these checks originated from the same VRD office and were signed by two different individuals.

The Oregon Accounting Manual makes no allowances to justify the pre-signing of checks. The manual provides steps to be taken to ensure that checks are properly drawn. Supporting vouchers and documents should always accompany checks submitted for signature. The individual with signature authority should carefully examine the support before affixing a signature.

## **Voided Checks Were Not Returned to DHS for Proper Disposition**

***Voided checks are needed to reconcile accounts.***

VRD staff was not returning voided imprest fund checks to the DHS central accounting unit, as is required for properly managing the VRD imprest fund. The Oregon Accounting Manual states that when it is necessary to void a check, the check should be marked "VOID" and the signature space crossed out. The manual also states that all voided checks should be filed numerically with the paid checks returned by the bank.

The DHS central accounting unit is responsible for performing a monthly reconciliation of the VRD imprest fund. The Oregon Accounting Manual provides that for an effective reconciliation of bank statements all voided checks are to be examined along with paid checks returned by the bank. The voided checks are particularly needed to ensure accurate reporting of VRD expenditures.

DHS staff members reported that they have made verbal requests to VRD to return the voided checks, but compliance with the request was not consistent.

### **The VRD Signature Authorization File Was Not Current**

The Oregon Accounting Manual states that a limited number of persons should be authorized to sign checks and their signatures should be on file. The manual also provides that an employee who reconciles bank statements should not have the authority to sign checks on the same account.

We reviewed two VRD imprest fund account signature authorization forms. For one of the accounts, we found the form was not current. A former VRD employee who, several months earlier, had separated from the agency, was still listed as an authorized signer. Another employee who has been reassigned to perform VRD's internal reconciliation of the imprest fund was still listed as an authorized signer.

Staff in the DHS central accounting unit are to use the signature list to monitor the validity of paid imprest fund checks returned from the bank. Signatures on file are to be compared against signatures appearing on cancelled checks.

VRD management reported they were not aware that the signature list was not current. DHS did not have procedures for updating and communicating changes in signature authority.

## Recommendations

**We recommend** that DHS management:

- Finalize its draft written procedures for properly managing imprest funds. The final procedures should define mandatory and prohibited procedures.
- Provide training to management and staff to clarify roles and responsibilities in managing the imprest fund.
- Develop procedures for updating signature authority forms.

## Other Matters

### Reimbursements Were Not Properly Authorized

Travel expenses were reimbursed to the former administrator without being reviewed and approved by a higher level authority within DHS. Review by a higher level authority is needed to ensure the reasonableness of the items and amounts claimed for reimbursement.

***Travel reimbursements, while allowable, lacked proper review and approval.***

The former administrator submitted four travel reimbursement claims between September 1998 and February 1999. The claims were reviewed by another VRD employee who did not have approval authority. DHS's central accounting unit made payment on the claims for a total of \$1,300. The amounts and stated reasons for the reimbursements appeared reasonable.

The Oregon Accounting Manual states that travel claims should be reviewed by an approving officer. For division administrators, department approval should be sought from another authority within the department. In this case, approval should have been sought from the DHS Director's Office. Additionally, the DHS central accounting unit should not have made payment on the claims without evidence of review and approval by the Director's Office.

## Recommendations

**We recommend** that DHS management:

- Ensure that the DHS division administrators' travel claims are

approved by the DHS Director's Office before being submitted for payment.

- Require DHS accounting, personnel, and payroll officers to obtain evidence of employee eligibility, and appropriate authorizations before processing any reimbursements or special payments.

***Required documentation was missing for eight contracts worth a total of \$1.68 million.***

### **DHS Did Not Retain Required Contract Documentation**

We reviewed 39 personal service contracts that VRD entered into between March 1998 and March 1999. The files for eight (21 percent) contained only a copy of the contract. DHS could not provide us with additional documentation. The total amount of all eight contracts was approximately \$1.68 million; the individual amounts ranged from \$20,000 to \$624,000.

State law requires each contracting agency to maintain a contract file that includes an executed contract and a record of actions taken to develop and administer the contract. Examples of state-required actions to be documented include public solicitation procedures, the identities of prospective bidders contacted by the agency, contractor selection procedures, any and all contract amendments, and a record of state contract monitoring activities. Contract files, including all documentation, are to be maintained for at least six years.

VRD staff told us that they relied on DHS's central contract unit to retain and maintain contract documentation. The staff could not identify a reason why the documentation was missing from the contract files.

Because the eight files were not complete, we were unable to determine if the contracts were awarded and administered in compliance with state laws and rules. In particular, we could not determine if the contracted services were obtained impartially and at the best price. By not documenting that required actions were taken, DHS may have exposed state to increased risks in the event of contract litigation.

### **State Rules Not Followed in Increasing a Contract By \$1,000**

VRD increased the amount of one personal services contract from \$4,600 to \$5,600 without following state rules. Under OAR 125-020-0335, if a contract's scope of services is revised so that

the estimated cost of services is more than \$5,000, the contracting agency must solicit for a new contractor using applicable selection procedures. OAR 125-020-0540 allows an amendment for cost overrun, when justified. The contract file contained no documentation that VRD had complied with either of the state rules. VRD staff could not provide an explanation for the increase.

If the increase resulted from a revision to the contract, VRD should have solicited for a new contractor and retained the evidence. Compliance with state competitive procurement requirements is necessary to ensure fair treatment of vendors and to protect the state in the event of contract litigation.

## **Recommendation**

**We recommend** that DHS management:

- Develop a process (e.g. a checklist) to ensure that all required contract documentation is maintained.
- Follow state requirements and make every effort to competitively award contracts.

## **Objectives, Scope and Methodology**

The Audits Division performs an audit when the executive head of a state department, large division, or institution resigns from his or her position. The former Vocational Rehabilitation Division (VRD) Administrator headed the agency from December 1981 to February 1999.

This review of procedures concerning the former VRD administrator's separation from the agency included a compliance review of transactions and accounts directly under the former administrator's control.

The objectives of our audit were to:

- Determine whether assets assigned to the former administrator, including keys, were returned.
- Determine whether state credit cards assigned to the former administrator were canceled.
- Determine whether the former administrator's access to state information systems was terminated.
- Review state payroll records to determine the appropriateness

of amounts paid to the former administrator and his immediate staff in his last six months of state service.

- Review state payroll records to identify payments for unused vacation leave that the former administrator requested and received in his final two years of state service.
- Review transactions authorized by the former administrator in his last six months of state service, including travel reimbursement claims.
- Review personal service contracts and agreements entered into by the former administrator and his immediate staff for the period March 1998 through March 1999. We reviewed the contracts and agreements for compliance with applicable state requirements and performed payment testing from judgmentally selected samples.

In addition to the change of administrator audit procedures, we performed a risk assessment of DHS and VRD operations. For this part of this audit, we:

- Interviewed management and staff members in the DHS central accounting and contract support units who were responsible for providing accounting and contract related services to VRD. The objective was to obtain an understanding of central operations and controls over those services.
- Interviewed VRD management and staff members who were responsible for developing and administering VRD contracts, and who were users of DHS's central accounting and contract related services. The objective was to obtain an understanding of internal operations and key controls.
- Reviewed available written accounting and contracting procedures maintained by VRD and the DHS central accounting and contract units.
- Reviewed and tested procedures, payments, and transactions from personal service contracts and agreements executed between March 1998 and March 1999.
- Reviewed and tested procedures, transactions, and bank reconciliations in the VRD imprest fund account.
- Interviewed staff and performed a limited review of procedures in place to monitor fixed assets.

We conducted our work from April 1999 to January 2000 in

| accordance with generally accepted government auditing standards.



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## Chapter 3: State Office for Services to Children and Families Change of Administrator Audit

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### Separation Procedures Were Adequate, but DHS Should Improve Its Payroll Procedures

***Separation procedures were adequate.***

Our review at the State Office for Services to Children and Families (SCF) showed that the Department of Human Services (DHS) took appropriate action to cancel the former administrator's access to state systems, to discontinue payroll, and to ensure that state assigned property was returned.

***All travel claims reviewed appeared to be reasonable and accurate.***

We reviewed all travel reimbursement claims that the former director submitted between September 1998 and May 1999. All claims appeared to be reasonable, accurate, and in compliance with applicable laws and regulations. However, we found that DHS should improve its payroll procedures.

### Questioned Payments For Unused Vacation Leave

***We question three vacation leave payments to the former administrator totaling \$5,784.***

During our review of separation procedures, we identified three instances in which the former SCF administrator received payment for unused vacation leave that did not comply with state and DHS policy (see Chapter 1). The three questioned payments totaled \$5,784. We also question one instance in which a former deputy administrator was paid \$3,500 for 80 hours of unused vacation leave.

- In May 1998, a DHS human resources manager allowed the former administrator to receive payment for 47.36 hours of unused vacation leave totaling \$1,972 for April 1998. As part of this transaction, the human resources manager allowed cash payment for 30.02 hours of unused vacation leave that were in excess of the 350-hour limit, and had been lost in prior months and were no longer available to the former administrator. DHS lacked evidence that the former administrator had requested vacation leave to prevent its loss, that her request had been denied, and that payment was

***We question one vacation leave payment made to a former deputy administrator for \$3,500.***

properly authorized. As the former administrator took 48 hours of vacation leave during April 1998, we concluded that no such request had been denied.

- In May 1998, the same DHS human resources manager allowed the former administrator to receive payment for 40 hours of unused vacation leave totaling \$1,666. The former administrator had not accrued the maximum vacation leave balance of 350 hours and was not eligible to receive payment. DHS could not provide documentation showing that this payment was properly authorized.
- In January 1999, the same DHS human resources manager allowed the former administrator to receive payment for 46.72 hours of unused vacation leave totaling \$2,146. The former administrator had not accrued the maximum vacation leave balance of 350 hours and was not eligible to receive payment. Neither DHS nor SCF could provide documentation authorizing this payment.
- In July 1999, after the former administrator had separated from service, a former SCF deputy administrator received payment for 80 hours of unused vacation leave totaling \$3,500 when he went on a job rotation to another state agency. DHS was unable to provide documentation authorizing this payment. The former deputy administrator had not accrued 350 hours of vacation leave and was not eligible to receive payment.

### **Improper Payments Resulted When Timesheet Corrections Were Not Recorded**

SCF employees enter their time online to the Oregon State Payroll System (OSPS). The payroll system is programmed to credit a fulltime state employee with 40 regular hours worked per week, unless the employee enters time otherwise. At the close of a month, the system calculates employee payroll and updates employee leave balances. The system then prints timesheets for the month just ended showing the hours worked and the leave hours used. The timesheets are sent to employees and supervisors for review and signature. If an employee or supervisor discovers an error in the time reporting, a correcting adjustment is written on the timesheet, and the timesheet is sent to DHS payroll for recording in the payroll system.

We reviewed 48 signed timesheets submitted by the former administrator and six employees who reported to her. Of the 11

***Leave usage was not always recorded in the payroll system.***

***The former administrator received payment for 24 hours of leave taken without pay.***

timesheets that had corrections, four had leave hour adjustments that were not subsequently recorded in the payroll system. One corrected timesheet was not recorded in the payroll system until four months later. Each of the four exceptions resulted in either improper payments or overages in leave balances.

- In February 1998, the former administrator's timesheet was adjusted to show that 12 hours of vacation leave were taken. Payroll records show that DHS did not deduct the 12 hours from her vacation leave balance.<sup>1</sup>
- According to state policy, a state employee is entitled to 16 hours of personal business leave in a fiscal year. During fiscal year 1998-1999 the former director took 24 hours of personal business leave. Her corrected timesheet for August 1998 showed that eight hours of personal business leave were taken; however, DHS did not record the eight hours in the payroll system. In October 1998, she took another 16 hours of personal business leave.<sup>1</sup>
- In December 1998, a former deputy administrator's timesheet was corrected to show that 24 hours of vacation leave were taken. Payroll records show that DHS did not record this use of leave. As a result, the former deputy's vacation leave balance is overstated by 24 hours.
- The former administrator's April 1999 timesheet was corrected to show that she had taken 24 hours of leave without pay. At that time, she was working as a temporary state employee. DHS did not record this correction in the payroll system and she was paid \$1,086 for the time off.
- The former administrator's time record showed 8 hours worked on Monday, May 31, 1999, which was a holiday. At that time, she was working as a temporary state employee and temporary employees are not eligible to receive holiday pay. In addition, her last day of work, according to personnel records, was Friday, May 28. Therefore, the former administrator was paid approximately \$198, after deductions,

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<sup>1</sup> Upon separating from state service, employees may receive payment for no more than 250 hours of unused vacation leave. At the end of her state service, the former administrator had accrued 276 hours of unused vacation leave. She left a balance of 26 hours of unpaid vacation leave. Because of the 26-hour balance, we concluded that no overpayment would occur as a result of the instances (described above) in which DHS did not properly deduct 12 hours of vacation leave and eight hours of personal business leave.

for a day not worked. DHS payroll staff identified this payment; however, DHS had not collected this amount from the former administrator.

## **Questioned Payments for Discretionary Leave**

According to State Policy 60.000.10 (1) (c), an agency head may award an employee up to 40 hours of paid leave (discretionary leave) in recognition of outstanding achievement or performance. This leave must be taken in the current fiscal year, and may not be carried over to the next fiscal year.

***We question payments for discretionary leave totaling \$2,916.***

We found that the state's payroll system had a processing error that allowed discretionary leave balances to be carried over from one fiscal year to the next. This error may have contributed to two of the exceptions described below.

***The payroll system carried discretionary leave balances over from one fiscal year to the next.***

- In December 1998, a DHS human resources manager, who did not have the authority to do so, authorized 40 hours of discretionary leave that the former administrator had taken in August 1998. The value of this time off was \$1,802. The leave should have been authorized by a higher level authority within DHS prior to the former administrator's taking it.<sup>2</sup>
- In December 1998, the former administrator took 16 hours of unused discretionary leave that had been carried over from a prior fiscal year and was no longer available. The value of this time off was \$721.<sup>2</sup>
- Two employees in the former administrator's office were paid for taking a total of 12 hours of unused discretionary leave that had been carried over from a prior fiscal year and were no longer available. The value of this time off totaled \$393.<sup>3</sup>

## **Additional Payroll Issues Needing Attention**

SCF managers were not consistently following procedures to verify and protect the integrity of employees' reported time data.

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<sup>2</sup> If inappropriate payments to the former administrator (for the 134 hours of unused vacation leave described in this report) were recovered, DHS would restore the 134 hours to the former administrator. By restoring 134 hours, the 40 hours of unapproved discretionary leave and the 16 hours of expired discretionary leave (described above) could be deducted from the vacation leave balance.

<sup>3</sup> The 12 hours of expired discretionary leave could be deducted from the two employees' vacation leave balances.

***Employee time records were not always retained.***

According to state rules, employee time sheets, leave requests, and related documentation should be retained for four years. We attempted to review 66 signed timesheets from an 18-month period, but SCF could produce only 48. SCF does not centrally maintain time records. Instead, SCF managers are individually responsible for keeping records for the employees they supervise. Our audit shows that this practice results in time records being lost or discarded.

***Employees' time reports were not always reviewed in a timely manner.***

Under DHS procedures, designated supervisors are to review the accuracy of monthly online time information submitted by their employees. Supervisors are expected to approve online reports by the third working day following the end of a month. Approval is accomplished by "locking" the employees' online time record to prevent unauthorized changes from being made. Each month a report is produced showing whose time was not locked. We reviewed SCF's December 1999 report for all of the supervisors in the central office. The December report showed that none of the supervisors in the central administrative office had locked every employee's time by the cutoff date. This could indicate that the time had not been reviewed and approved for accuracy and that it was vulnerable to improper data entry.

We reviewed 48 signed timesheets and found that SCF supervisors had not always reviewed and approved them (as indicated by signature) in a timely manner. We found that half (24) were approved one or more weeks after they had been received for review. Because the timesheets may contain correcting entries that are to be forwarded on for recording in the payroll system, timely review is important.

## **Recommendations**

**We recommend** that DHS management:

- Work with the Department of Administrative Services and the Department of Justice to determine the proper recourse for the questioned payments identified by this audit.
- Ensure that leave and payroll policies are clearly understood by DHS management and DHS personnel and payroll officers.
- Require the DHS personnel and payroll officers to obtain evidence of employee eligibility, and appropriate authorizations, before processing any special payments.

- Remind managers and supervisors to "lock" their employees' online time reports within the time allowed, and promptly review and forward timesheet corrections to personnel officers. Monitor compliance with these requirements.
- Develop procedures for maintaining complete and accessible employee time records. Remind managers of their responsibility to retain time records for four years.

**We recommend** that DAS management:

- Reprogram the state payroll system to prevent discretionary leave balances from carrying over from one fiscal year to the next.

## **SCF's Procedures to Safeguard Property Should Be Improved**

***Equipment assigned to the former administrator was returned.***

Our audit included tests to determine whether the former administrator had returned all assigned state property (a fax machine and cellular phone). Because SCF did not have procedures for tracking equipment, there was no documentation that the items were returned. However, we determined that the equipment was returned by comparing identifying numbers (e.g. model numbers and serial numbers) affixed to equipment against SCF's procurement records.

SCF should establish agency-wide procedures for tracking state equipment assigned to employees. The procedures are particularly needed to safeguard property that has high risk of loss, such as computers, cell phones, and other electronic equipment. State rules recommend that these items be identified and controlled.

During the course of our review, SCF management was developing a method for tracking equipment assigned to employees in the agency's central administrative unit.

## **Recommendation**

**We recommend** that SCF develop an agency-wide process to account for state property assigned to employees.

## DHS and SCF Should Improve Contract Management Procedures

***For most areas tested, the 14 contracts reviewed were in compliance with applicable laws and regulations.***

***A contract amended in 1999 had not been competitively awarded since 1985.***

Oregon law provides that the Department of Administrative Services (DAS) may authorize any state agency to directly procure supplies, materials, equipment, and services, including personal services. As a state agency so authorized, DHS and its divisions must follow procurement rules prescribed by DAS.

To test compliance with DAS's procurement rules, we reviewed 14 personal service contracts that originated in SCF's central administrative office. Five of the contract files did not contain all required documentation. The five contracts did not contain a statement justifying SCF's selection of the contractor. According to the DAS rules, all contract files are to include this statement. At the completion of our audit, we were told that DHS's central contract had begun implementing the rule.

In 1999, DHS and SCF amended one contract to increase the contract amount from \$61,647 to \$131,979 and extend the contract period by almost three years. The contract had not been competitively awarded since 1985.

DHS staff said that it was an agency-wide goal to competitively solicit contracts every five years. We were told that competitive solicitation procedures were not used in this contract amendment because SCF had not provided them with timely notice that the existing contract amendment would require the contract to be competitively solicited. We were told that the contract is scheduled for competitive solicitation and award in 2001.

### Recommendation

**We recommend** that DHS management:

- Develop a process (e.g. a checklist) to ensure that all required contract documentation is maintained as required.
- Follow state requirements and make every effort to competitively award contracts.

## Objectives, Scope and Methodology

The Audits Division performs an audit when the executive head of a state department, large division, or institution resigns from his or her position. The former administrator of SCF was appointed administrator in May 1994 and served as administrator until she retired in February 1999. She continued with SCF, as a temporary employee, in the capacity of administrator, until May 28, 1999. The objectives of our audit were to:

- Determine whether the former administrator's access to state information systems was terminated.
- Determine whether state assets assigned to the former administrator were returned to the state.
- Determine whether travel claims and other reimbursement claims submitted by the former administrator were accurate, reasonable and in compliance with applicable laws and regulations.
- Determine whether the former administrator and the staff, whose time she was responsible for reviewing, were paid at the proper salary level, and whether leave was recorded and paid in compliance with applicable laws and regulations, and
- Review a sample of SCF contracts that originated in the former administrator's office for compliance with appropriate laws and regulations.

To accomplish these objectives, we interviewed department and division management and staff. We also reviewed and tested appropriate documentation related to the audit objectives. Some of the records we reviewed covered the period September 1998 through May 1999. We reviewed payroll records for the former administrator for the period January 1998 through May 1999, and we reviewed payroll records for the former deputy administrator for the period September 1998 through October 1999.

We conducted our audit from November 1999 to February 2000 in accordance with generally accepted government auditing standards.

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## Chapter 4: Oregon Health Division Change of Administrator Audit

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### DHS Should Improve Its Payroll Procedures

***Most separation procedures were adequate.***

Our review showed that the Department of Human Services (DHS) and the Oregon Health Division (OHD) took appropriate action to cancel the former administrator's access to state systems. We found that assigned property was returned. We also reviewed the former administrator's travel reimbursement claims from March 1999 through February 2000. All travel claims submitted appeared to be reasonable, accurate, and in accordance with state travel rules. However, we found that DHS should improve its payroll procedures.

***The former administrator was kept on the payroll for four months after leaving her job.***

### Questioned Payment of Salary and Benefits

On October 7, 1999 the former OHD administrator submitted her resignation to the DHS director to become effective no later than February 29, 2000. She ceased to perform the duties of her position effective October 31, 1999. DHS management allowed her to maintain her administrator title, salary, and benefits through February 29, 2000. During the four-month period, DHS paid a consultant to assist the former administrator in finding other employment.

According to an October 5, 1999 e-mail from a DHS deputy director to the former administrator, she would leave the administrator's office and the associated duties on October 31, but would remain on the payroll until February 28, or until she found other employment. The former administrator responded in writing that she agreed with the proposed arrangement. She wrote that she would be available to assist with special projects but her primary goal was to find new employment.

According to a memorandum we received from the DHS director, the former administrator verbally received six general assignments. None required her to provide evidence that work was performed. A copy of this memorandum is found in Appendix A.

***We question paying the former administrator salary and benefits totaling approximately \$42,000.***

The state defines salary as payment to employees and officers of a state agency for services rendered. DHS allowed the former administrator to continue receiving full salary and benefits for four months although she no longer was responsible for performing the duties of the OHD administrator. In a June 2000 e-mail to DHS management, the former administrator listed activities performed during the four months. These mostly were meetings with individuals to discuss opportunities for work, and attendance at DHS-related meetings. The state may have received benefit from some of the activities, such as her attendance at DHS-related meetings, but we question whether the number and kind of verbally assigned and reported activities warranted the amount paid. State law does not provide for payment for services that are not delivered. During the four months, DHS paid for, but did not require or receive, the services of a second division administrator.

The former administrator received nearly \$31,000 in salary during the four months that she was no longer responsible for performing the duties of her former position. The total cost to the state for these salary payments, plus vacation time, retirement contributions, and employer payroll expenses, totaled approximately \$42,000.

***We question paying a contractor \$6,000 for employment assistance services.***

DHS paid a contractor \$6,000 to assist the former administrator in finding other employment. We question the entire amount of the contract because it did not directly benefit DHS or advance DHS's mission and purpose.

DHS hired an acting OHD administrator and was, in effect, paying for two administrators during the four-month period.

## Recommendations

**We recommend** that DHS management:

- Work with the Department of Administrative Services (DAS) and the Department of Justice to determine the proper recourse for the questioned payments made to the former administrator.

**We recommend** that DAS management:

- Consider working with the state's department directors to develop procedures for providing reemployment assistance to employees separating from state service.

## **Questioned Payments for Unused Vacation Leave**

We reviewed the former administrator's use of leave between January 1998 and February 2000. At the time that the former administrator was removed from the state's payroll, she received payment for 119 hours of unused vacation leave as is provided for by state and DHS policy (see Chapter 1).

We reviewed nine other OHD managers' use of leave between January 1998 and February 2000. One manager was twice improperly paid for unused vacation leave. The other eight managers were not paid for any unused vacation leave.

***We question two vacation leave payments to an assistant administrator totaling \$2,200.***

On separate occasions, an assistant administrator who had accrued the maximum allowed number of vacation leave hours (350) requested to be paid for 40 hours of vacation leave in order to avoid losing those hours. Both of her requests were approved by the former administrator and processed by DHS payroll. State and DHS policy specifies that the employee must request to use the leave to prevent its loss, and an appointing authority must determine that it would not be appropriate to approve the request. On both occasions, the assistant administrator did not request to use vacation leave, but requested to receive payment for the hours. Consequently, the payments, totaling approximately \$2,200, were not made in compliance with state and DHS policy.

## **Unallowable Use of Discretionary Leave**

According to State Policy 60.000.10 (1) (c), an agency head may award an employee up to 40 hours of paid leave (discretionary leave) in recognition of the employee's outstanding achievement or performance. This leave must be taken in the current fiscal year, and may not be carried over to the next fiscal year.

The former administrator did not use any discretionary leave during our review period (January 1998 to February 2000). However, we found several instances in which OHD employees took discretionary leave, but there was no record that the former administrator or other supervisor had awarded the leave.

***We question payments for discretionary leave made to five OHD managers totaling \$11,600.***

Five out of the nine OHD managers in our review used a total of 299 hours of discretionary leave. We reviewed the payroll files for each of these managers and found no instances in which the leave had been approved by the former administrator or other supervisor in recognition of the managers' outstanding performance or achievement. The value of this unapproved time off was approximately \$11,600.

***OHD allowed its managers to award themselves discretionary leave.***

OHD had an unwritten policy, which did not agree with the state's policy, that allowed managerial-level employees to take up to 40 hours discretionary leave without having it first awarded by an agency head. Supervisors approved the self-authorized time off after the employee had claimed it on the time system. During our audit, we were told that OHD had begun revising its discretionary leave policies.

We identified a weakness in the state's payroll system whereby an employee can claim discretionary leave hours (and be paid for the time off) before the leave has been approved, accrued, and recorded on the system.

***An assistant administrator claimed 17 hours more discretionary leave during fiscal year 1998 than is allowable under state policy.***

Another weakness in the state payroll system allows employees to be paid for using more than 40 hours of discretionary leave in a fiscal year. We found that an assistant administrator used 40 hours of discretionary leave in March 1998, then used an additional 17 hours of discretionary leave in June 1998. DHS's internal auditor reported that this exception, and two similar exceptions at OHD, were discovered in a previous internal review. DHS was correcting the problems by deducting hours from the employees' vacation leave balances.

## **Lack of Timecard Approval**

Employees in OHD's Office of the Administrator enter their time online to the state's payroll system. The payroll system is programmed to credit a full-time state employee with 40 regular hours worked per week, unless the employee enters time otherwise. At the close of a month, the system calculates employee payroll and updates employee leave balances.

***The former administrator never had a timecard properly approved during her tenure with OHD.***

According to DHS procedures, supervisors are to review the monthly online timecards submitted by their employees. Supervisors are expected to approve the online reports by the third working day following the end of the month. Approval is accomplished by "locking" the employees' online timecards to prevent unauthorized changes from being made.

We found that no one had been designated to review and approve the former administrator's timecards. In her five-year tenure with OHD, none of her timecards were reviewed. Since she was the highest level employee at OHD, a manager from the DHS Director's Office should have been reviewing her time.

DHS management reported that since October 1999 all division administrators have been required to send a printed copy of their timecards to the Director's Office for review.

Additionally, we found that not all supervisors at OHD were locking employees' timecards by the third working day of the following month. Each month a report is produced listing the employees whose time was not locked. We reviewed OHD's March 2000 report and found that several employees had not had their time locked by a supervisor. This could indicate that the time had not been reviewed and approved for accuracy, and that it was vulnerable to improper data entry.

## **Recommendations**

**We recommend** that DHS management:

- Work with the Department of Administrative Services and the Department of Justice to determine the proper recourse for the questioned payments identified by this audit.
- Ensure that leave and payroll policies are clearly understood by DHS management and DHS personnel and payroll officers.
- Implement the state's policy on awarding paid leave for outstanding performance or achievement. Documentation of awards should be maintained in DHS's payroll files.

- Remind managers and supervisors to "lock" their employees' online time reports before the cutoff date. DHS should monitor compliance with these requirements by reviewing the monthly reports listing employees whose time was not locked.
- Ensure that division administrators submit their timecards to the Director's Office, and that the timecards are properly reviewed.

**We recommend** that DAS management reprogram the state payroll system to:

- Allow payments for discretionary leave hours only if the hours have been previously recorded on the system.
- Prevent employees from being paid more than 40 hours of discretionary leave in a fiscal year.

## **DHS Should Improve Its Monitoring of Travel Card Use**

To reduce the need for travel advances for state employees who travel frequently on state business, the state contracts with a credit card company to provide state travel cards. These cards are issued directly to individual employees. Purchases made on a card are the responsibility of the employee, not the state. The employee is not charged interest on his or her balance for 60 days. According to state policy, the cards are to be used only for travel purposes while on official state travel status.<sup>4</sup> Both the employee and the state agency receive copies of the billing statement.

As part of our audit, we reviewed travel card purchases made by five DHS employees who had made questionable transactions.

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<sup>4</sup> Under state policy, after incurring allowable expenses related to state travel, such as hotel and meal costs, an employee submits a form requesting reimbursement. After reviewing the form for accuracy, the agency reimburses the employee for those costs eligible under state travel rules.

***Travel cards were used for personal business.***

In several instances, the employees withdrew money from ATM machines using a travel card even though they were not on travel status. One employee withdrew \$900 from ATMs during February 2000, even though his state-related business travel was limited to his office's local service area. Another employee used a travel card to purchase nearly \$675 worth of items from a home shopping television network.

None of the questioned transactions resulted in a financial loss to the state. However, the employees were using the cards for their personal benefit, and the opportunity was available only because of their employment with the state. This use of credit cards for personal gain is unallowable under state policy.

## **Recommendation**

- Review monthly credit card statements for personal use and take appropriate disciplinary action, such as revoking cards, if employees continue to use them improperly.

## **Other Matters**

In addition to reviewing the former administrator's separation from state service, we assessed several OHD programs for audit risks.

### **Oversight of County Food Protection Programs Operated Under Delegated Authority**

In the area of environmental health, state law requires OHD to delegate the administration and enforcement of food service facility laws to any county board of commissioners who requests it and whom the OHD determines can carry out those functions. Twenty-four of Oregon's 36 counties have requested and been granted this delegated authority.

OHD is responsible for assuring the quality of delegated programs, but it does not always take timely action after it becomes aware that a county is not meeting its service obligations.

OHD's Food Protection Program exists to assure that licensed food service facilities, such as restaurants and cafeterias, meet state sanitation standards. Licensed food service facilities are to receive periodic onsite compliance inspections. Restaurants, for example, are to be inspected at least once every six months.

Every three years OHD reviews counties' compliance with program regulations. As part of a review, OHD staff members are to report on deficiencies and suggest improvements. If a county is out of compliance, OHD may set a deadline for returning to compliance. If a county fails to comply within the time allowed, the state may rescind the county's authority and administer the program itself.

To assess OHD's enforcement of delegated responsibilities, we reviewed Food Protection Program files for three counties operating under delegated authority that were not in compliance with OHD regulations. Each county had not conducted all required inspections during 1998, and had received low marks in previous OHD compliance reviews.

OHD took formal action against one of the three counties, but took five years to do so after it became aware that the county was not in compliance. For the other two counties we reviewed, OHD had not taken formal action.

- OHD placed one of the counties on probation in 1999 for failing to conduct the required number of inspections, a problem OHD had known about for five years. Under the terms of the probation, OHD was to conduct a review of the program every six months. After two six-month reviews showed that the county made the necessary improvements to the program, OHD took the county off probation.
- OHD was prepared to revoke another county's delegated authority in 1999. Instead, OHD decided to wait until it could appraise a new county program administrator's performance. As of April 2000, OHD had performed no additional reviews.
- Another county received low marks in a 1994 compliance review. OHD performed some follow-up work shortly afterwards and found the county had made significant improvements. However, at the next review in 1997, OHD found that the county's restaurant inspection rate had again fallen to unacceptable levels. OHD has performed no follow-up reviews since 1997.

In counties where inspections of food service facilities are not being performed as required, the public faces an increased risk of contracting foodborne illnesses.

## Recommendations

**We recommend** that OHD management:

- Consider revising its policies to more quickly invoke formal actions, such as probation, at the time it becomes aware that a county is not able to meet its service obligations.
- Consider performing follow-up reviews more frequently for counties that have received low marks on compliance rather than waiting until the next regularly scheduled review.

## Objectives, Scope and Methodology

The Audits Division performs an audit when the executive head of a state department, large division, or institution resigns from his or her position. The former OHD administrator vacated her position effective October 31, 1999 and was removed from the state's payroll system effective February 29, 2000. The objectives of our audit were to:

- Determine whether the former administrator's access to state systems was terminated.
- Determine whether state assets assigned to the former administrator were returned to the state.
- Determine whether travel claims and other reimbursement claims submitted by the former administrator between were accurate, reasonable and in compliance with applicable laws and regulations.
- Determine whether the former administrator's use of the state travel cards was appropriate.
- Determine whether the former administrator and the staff, whose time she was responsible for reviewing, were paid at the proper salary level, and whether leave was recorded and paid in compliance with applicable laws and regulations.

- Review a sample of OHD contracts for compliance with appropriate laws and regulations.

To accomplish these objectives, we interviewed department and division management and staff. We also reviewed and tested appropriate documentation related the audit objectives. Many of the records we reviewed covered the period May 1999 through February 2000. We reviewed employee leave records for the former administrator and other administrative staff for the period January 1998 through February 2000.

In addition to the change of administrator audit procedures, we performed a risk assessment of OHD programs. To accomplish this, we interviewed management and staff and reviewed appropriate documentation to identify potential issues for future audits. The results of the risk assessment are addressed in the Other Matters section of this report.

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

## **Commendation**

The courtesies and cooperation extended by the officials and staff at the Department of Human Services, Vocational Rehabilitation Division, State Office for Services to Children and Families, and Oregon Health Division were commendable and much appreciated.

## **Audit Team**

James D. Pitts, Audit Administrator  
Mary Nickelson-Hill, CPA  
Kelly L. Olson, CPA  
Jason Stanley, CPA  
Darrin Hotrum  
Tim Magee  
Robert Martinez  
Michelle O'Brien  
Farrah Taylor  
Raul Veliz, Jr.  
Margaret Wert



**Department of Human Services  
Response to the Audit Report**





# Oregon

John A. Kitzhaber, M.D., Governor

## Department of Human Services

*Office of the Director*  
500 Summer Street, NE  
Salem, OR 97310-1012  
(503) 945-5944  
FAX: (503) 378-2897  
TTY: (503) 945-5928

October 4, 2000

John Lattimer, Director  
Audits Division  
Office of Secretary of State  
255 Capitol Street NE., Suite 500  
Salem, OR 97301

We have received your draft report on the change of administrator audits relating to the Vocational Rehabilitation Division, Office of Services to Children and Families, and the Oregon Health Division.

The report describes some critical shortcomings in the management in some areas of payroll and contracting services. We have already made or are in the process of making most of the improvements recommended in the report. We expect the changes that have been completed or are underway will improve the public accountability of the agency.

Concerning the findings around vacation leave payments, the department will aggressively pursue full recovery of any vacation payoff that is not permitted under existing rules to the extent that such recovery is reasonable and legal.

Concerning findings about payments to the former Health Division Administrator, the department will work with the Department of Administrative Services and the Department of Justice to determine the extent of questioned payments and if further action is required.

We appreciate your work to identify areas of fiscal accountability within the department where improvement can be made.

Sincerely,

*Bobby S. Weeks, Deputy Director*  
for Gary K. Weeks  
Director

c: Bill Wyatt, Chief of Staff, Governor's Office  
Mark Gibson, Governor's Healthcare, Human Services & Labor Policy Advisor  
Mike Greenfield, Director, DAS  
Julie Jackson, Internal Auditor, DHS

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**Department of Administrative Services  
Response to the Audit Report**





# Oregon

John A. Kitzhaber, M.D., Governor

## Department of Administrative Services

Office of the Director  
155 Cottage Street NE  
Salem, OR 97310-0310  
(503) 378-3104  
FAX (503) 373-7643

October 5, 2000

John Lattimer, Director  
Secretary of State Audits Division  
255 Capitol Street NE Suite 500  
Salem OR 97310

Dear Mr. Lattimer:

This letter is in response to the Division of Audits Change of Department of Human Services Division Administrator's audit.

The audit demonstrated deficiencies in Department of Administrative Services rules related to payment for vacation time. The Department is correcting those deficiencies in line with audit recommendations.

We will continue to monitor Secretary of State audits with a general view to strengthening rules and management across all state agencies.

Sincerely,

Mike Greenfield  
Director

c: Gary Weeks, DHS Director

mg.wc.dhsaudit1000





## **Appendix A**





# Oregon

John A. Kitzhaber, M.D., Governor

## Department of Human Services

*Office of the Director*  
500 Summer Street, NE  
Salem, OR 97310-1012  
(503) 945-5944  
FAX: (503) 378-2897  
TTY: (503) 945-5928

September 1, 2000

Jim Pitts  
Cathy Pollino  
Secretary Of State, Audit Division  
255 Capitol St NE, Suite 500  
Salem, OR 97310

Dear Mr. Pitts and Ms. Pollino:

As requested here is a summary of the verbal assignments we gave to Ms. Hall as she transitioned out of the Health Division. We instructed her to do the following:

- find ways to establish a stronger public health partnership with the OHSU
- complete her ongoing work with the Conference of Local Health Officers (CLHO) and the Association of State and Territorial Health Officers (ASTHO)
- consult as needed with the new acting administrator of the division
- work with CLHO and the local health staff to advance our public health initiative for the 2001-2003 biennium
- help the Health Division staff transition to new leadership in a positive way
- contribute to our work with Multnomah County around the current community mental health crisis

Ms. Hall is now employed by Multnomah County and is working on solutions to the county's community mental health needs.

Sincerely,

Gary K. Weeks  
Director

*Assisting People to Become Independent, Healthy and Safe*  
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